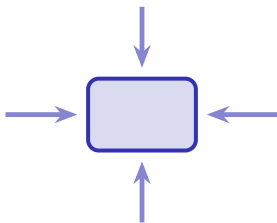


External Influences on Business

IGCSE Business Studies ■ Topic 6

IGCSE Business Studies

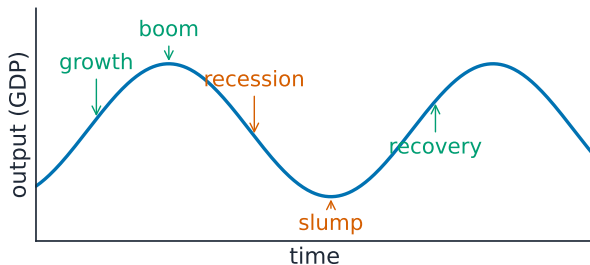


What we will cover

- 1 The business cycle
- 2 Economic factors
- 3 Exchange rates
- 4 External costs & benefits
- 5 Globalisation & sustainability



The business cycle



growth → boom → recession → slump → recovery

- **external costs** are costs paid by other people or by society, not by the business – for example **pollution**, noise and heavy traffic.
- **external benefits** are gains for others – for example new jobs and better roads.

The four stages of the business cycle

growth

spending rises, firms expand, unemployment falls

boom

spending is **very high**; prices and wages rise, and shortages appear

recession

spending falls, output shrinks, firms cut back

slump

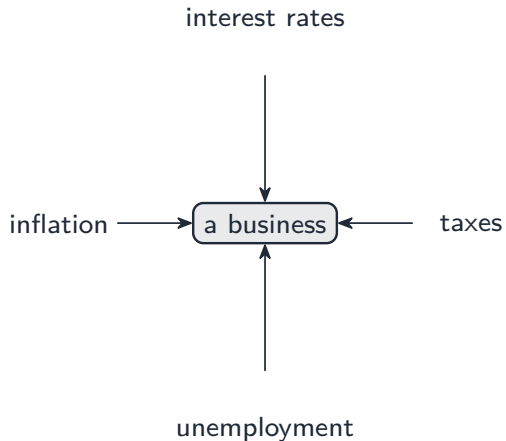
a deep, long recession – many firms close, and **unemployment** is high

the point

the economy does **not** grow at a steady pace; it moves in a repeating pattern

In hard times a business may **cut costs, lower prices, or sell cheaper products**. Naming which of those fits the firm in the case study is the answer.

Economic factors



Government and laws shape every firm: tax, interest rates and regulation are external influences

Interest rates, taxes, unemployment and inflation all affect business

The government's aims, and what each does to a business

low inflation

a general rise in prices raises costs; if wages chase prices, the country's goods become **too dear to export**

low unemployment

high unemployment **lowers sales** – but makes workers easier and cheaper to hire

economic growth

more spending, so more sales – and more competition for staff and materials

a balance of payments

exports at least matching imports; a weak currency helps exporters and hurts importers

the tools

taxes, government spending, and **interest rates**

Every government aim has **two** effects on a business, one helpful and one not. An answer giving only one caps the mark.

Exchange rates

stronger
currency
(rises in value)

imports **cheaper**
exports **dearer**

weaker
currency
(falls in value)

exports **cheaper**
imports **dearer**

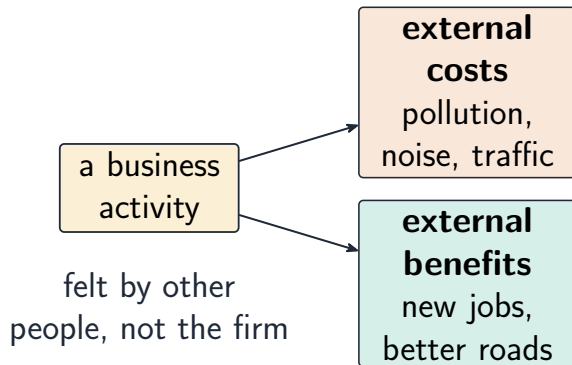
SPICED: Strong Pound $\Rightarrow$ Imports Cheaper, Exports Dearer

The **exchange rate** is the price of one currency in another.

A **stronger** currency makes **imports** cheaper but **exports** dearer; a weaker one does the reverse.



External costs and benefits



Business activity affects others:

- **external costs** – pollution , noise, traffic
- **external benefits** – new jobs, better roads

External costs and external benefits

the idea

when a business acts, **other people** can gain or lose – people who were not part of the decision

external cost

a cost paid by others: pollution, noise, traffic, damaged health

external benefit

a gain to others: new roads, trained workers who later move on, a revived town centre

social cost

private cost **plus** external cost – the true cost to everyone

why it matters

a firm that counts only its *private* costs will do things whose **social** cost exceeds their benefit

This is the whole case for regulation, taxes on pollution, and pressure groups: someone has to put the external cost back on the decision.

Pressure groups

A **pressure group** is a group that tries to influence businesses and governments, for example to cut pollution.

Pressure groups use the media, protests and boycotts.

Ethics and profit

Ethical behaviour means doing what is morally right, even when no law forces it – for example fair pay, safe products, and no child labour.

Acting ethically can cost more in the short term, so it may **conflict** with profit.

Globalisation and sustainability



Globalisation lets businesses trade worldwide (more markets, more competition).

Sustainable development meets today's needs without harming the future.

Multinational companies

A **multinational company** has operations – factories, branches, or offices – in more than one country.

(Simply exporting to other countries is not enough; the firm must actually operate there.)

What a multinational brings, and what it costs

new jobs and training

but profits may be sent out of the country

investment and new technology

but local firms may be forced out of business

more choice and lower prices

but resources may be used up, or the area polluted

tax revenue

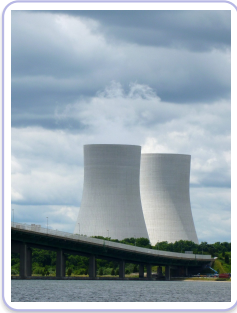
but a multinational can move profits to wherever tax is lowest

globalisation

the growing trade and movement of goods, money and people, so the world acts more like one single market

Every row is a genuine two-sided trade. That is why these questions ask you to **evaluate**, and why a one-sided answer never reaches the top band.

Environmental and ethical issues



Business activity can harm the environment, raising ethical questions for firms and governments.

External influences



Government and laws shape every firm: tax, interest rates and regulation are external influences

Exam tips

- Learn the **business cycle** (growth, boom, recession, slump, recovery) and how each stage changes sales, profit and jobs.
- Trace each economic factor to the business: higher **interest rates** → dearer loans, so less borrowing and spending; higher **tax** → people have less to spend; **inflation** → higher costs.
- **External costs** (pollution, noise) fall on other people, not the business; **external benefits** (new jobs, better roads) help others.
- Use **SPICED** for exchange rates: **S**trong **P**ound → **I**mports **C**heaper, **E**xports **D**earer.
- **Ethical behaviour** can cost more in the short term (so it may conflict with profit), but it can win loyal customers and a good name that raise profit later.



Worked example – rising interest rates

Interest rates rise. Explain two effects on a firm that sells furniture on credit.

- Customers' borrowing is **dearer** $\Rightarrow$ fewer buy on credit $\Rightarrow$ **sales fall**.
- Furniture is a **luxury** that can be postponed, so the fall is large.
- The firm's own **loan repayments** rise $\Rightarrow$ costs up, profit down.
- It may **delay expansion**, since projects must now beat a **higher return**.

Interest rates hit **demand** and **costs** at once. The damage is worst for firms selling **credit-bought luxuries** – exactly like furniture or cars.

Topic 6 – key takeaways

1

Cycle

growth, boom, recession, slump,
recovery

2

Economy

tax, interest rates, inflation,
unemployment

3

Exchange

strong currency: cheap imports,
dear exports

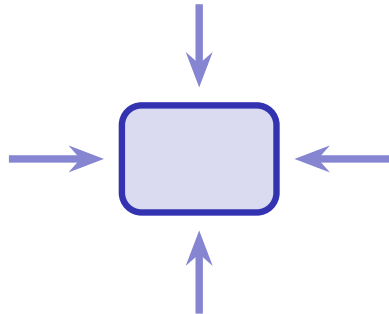
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Society

external costs (pollution) &
benefits (jobs)

Check yourself

- 1 What happens to jobs in a slump?
- 2 What does a higher interest rate do to borrowing?
- 3 Give one external cost of business activity.
- 4 What does globalisation let businesses do?



Answers 1. unemployment rises 2. makes it dearer (less borrowing) 3. e.g. pollution
4. trade worldwide