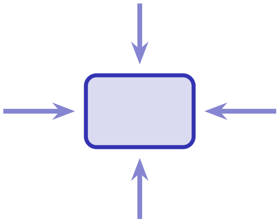
External Influences on Business

IGCSE Business Studies ▪ Topic 6

IGCSE Business Studies

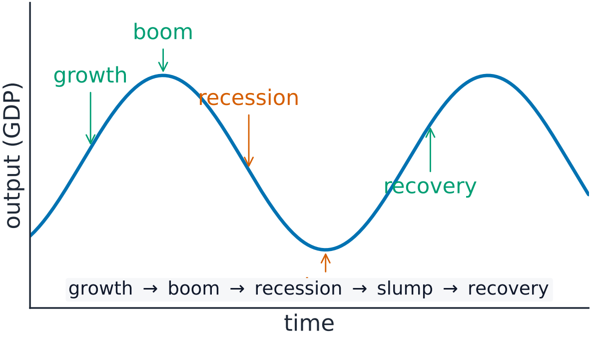


What we will cover

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

1 The economy

The business cycle



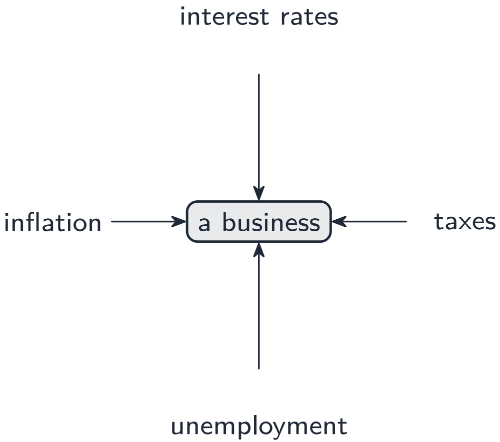
- **external costs** 外部成本 are costs paid by other people or by society, not by the business – for example **pollution** 污染, noise and heavy traffic.
- **external benefits** 外部收益 are gains for others – for example new jobs and better roads.

The four stages of the business cycle

growth 增长	spending rises, firms expand, unemployment falls
boom 繁荣	spending is very high; prices and wages rise, and shortages appear
recession 衰退	spending falls, output shrinks, firms cut back
slump 萧条	a deep, long recession – many firms close, and **unemployment** 失业 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 通货膨胀	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

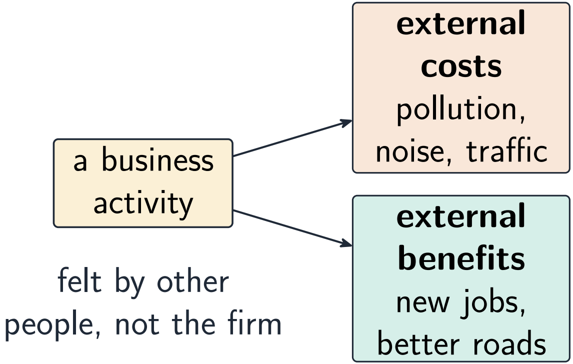
SPICED: **S**trong **P**ound ⇒ **I**mports **C**heaper, **E**xports **D**earer

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

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

2 Society and the world

External costs and benefits



Business activity affects others:

- **external costs** 外部成本 – **pollution** 污染, noise, traffic
- **external benefits** 外部收益 – 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 外部成本	a cost paid by others: pollution, noise, traffic, damaged health
external benefit 外部收益	a gain to others: new roads, trained workers who later move on, a revived town centre
social cost 社会成本	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 压力团体** 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 道德行为 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 冲突** with profit.

Globalisation and sustainability

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

> **Sustainable development** 可持续发展 meets today's needs without harming the future.

Multinational companies

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

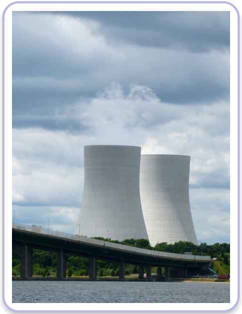
> (Simply exporting to other countries is not enough; the firm must actually operate there.)

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 全球化	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** $\rightarrow$ dearer loans, so less borrowing and spending; higher **tax** $\rightarrow$ people have less to spend; **inflation** $\rightarrow$ 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 $\rightarrow$ **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.

3 Recap

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**

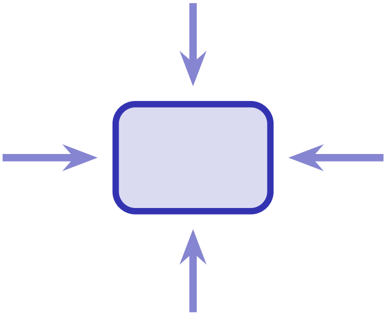
strong currency: cheap imports, dear exports

4 **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