

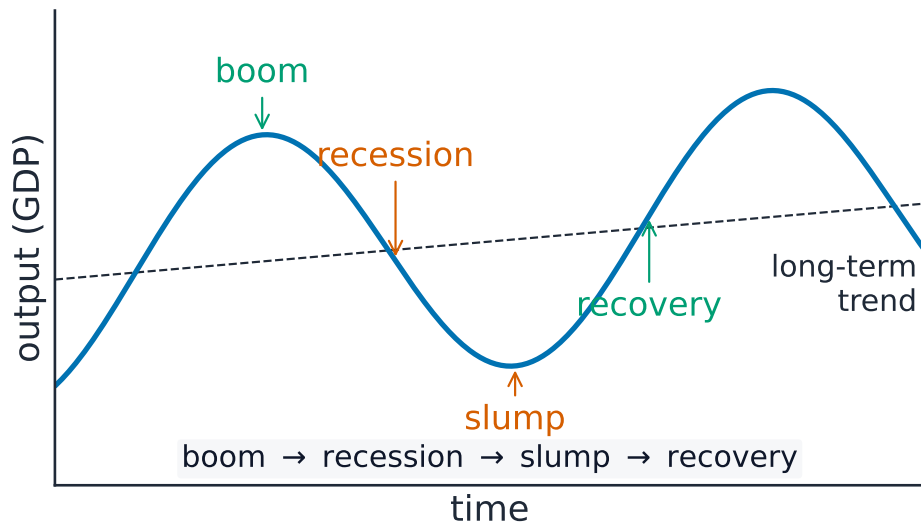
Exercise walk-through

6.1

External influences on business activity

A-Level Business

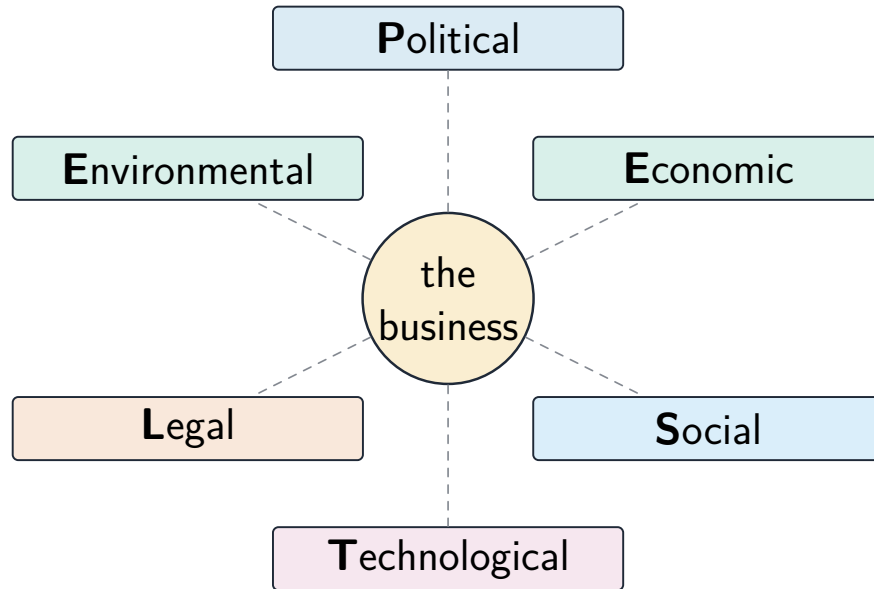
The business cycle



The **business cycle** is how the whole economy rises and falls:

- **boom** – fast growth, rising costs
- **recession** – demand & output fall
- **slump** – a deep, long recession
- **recovery** – output rises again

PESTLE – the six wider forces



A PESTLE analysis

checks the forces outside the firm:

- **political** & **legal** – rules & **legislation**
- **social** – tastes, ageing population
- **technological** – new products, lower cost
- **environmental** & **ethical** – sustainability, fairness

Exchange rates, interest rates, and the other planning tools

a weaker currency

exports are cheaper abroad and imports dearer – an **exporter**

gains

a stronger currency

the reverse – an **importer**

gains, and exporters are squeezed

the memory hook

SPICED: Strong Pound, Imports Cheap, Exports Dear

a rate rise

raises the cost of variable-rate borrowing – £8m of loans moving from 2% to 5% costs **an extra £240,000 a year**

and demand

higher rates also cut consumer spending, so a house-builder is hit twice

decision trees

weigh choices by their **likely results** – probability times payoff, minus the cost

External influences ment

are the ones the firm cannot control, so **strategic management** is about **exposure** to them, not about preventing them.

Exercises 2.1-2.3

2.1 Define the term *inflation*.

[2]

2.2 State the four stages of the business cycle.

[2]

2.3 State one effect on a business of a rise in interest rates.

[2]

Exercises 2.1-2.3

2.1 Define the term *inflation*. [2]

2.1

- a general rise in the level of prices over time (2 for a clear definition; 1 for a partial idea)

2.2 State the four stages of the business cycle. [2]

2.2

- boom, recession, slump, recovery (2 for all four; 1 for a partial list)

2.3 State one effect on a business of a rise in interest rates. [2]

2.3

- any one of: loans cost more, lowering profit; customers spend less, lowering demand; less new investment (2 for a developed point; 1 for a basic one)

Exercises 3.1·3.2

3.1 Explain one effect on a business of a **recession**.

[3]

3.2 A firm exports most of its goods. Analyse the impact on it of a **fall** (depreciation) in the local currency.

[8]

Exercises 3.1-3.2

3.1 Explain one effect on a business of a **recession**.

[3]

3.1

- [3] **AO1** 1 – state an effect (falling demand; lower sales; cost-cutting; risk of closure).
AO2 up to 2 – develop it, e.g. in a recession customers have less income
- sales fall
- the firm may cut costs or staff to survive (2 developed / 1 limited)

3.2 A firm exports most of its goods. Analyse the impact on it of a **fall** (depreciation) in the local currency.

[8]

3.2

- [8] **AO1 + AO2 + AO3** up to a developed chain on **two** effects. Example chains –
exports cheaper abroad: the local currency falls
- the firm's prices abroad fall
- it sells more
- higher revenue. *Imported inputs dearer*: any imported materials cost more
- variable costs rise
- some of the export gain is offset. Maximum 8; reward a two-sided analysis

Exercise 3.3

3.3 Interest rates have risen sharply. Evaluate how a business with large loans should respond. [12]

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3.3 Interest rates have risen sharply. Evaluate how a business with large loans should respond. [12]

3.3

- [12] **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. Options: **repay debt** to cut interest (but uses cash), **raise prices** (but may lose sales), **cut costs** (but may harm quality), **delay investment** (but may fall behind rivals). Judgement: the best response depends on how large the loans are, how price-sensitive demand is, and whether the rate rise is temporary – a firm with heavy debt may prioritise repaying or refinancing, while a strong firm may simply absorb the higher cost