

6 External influences and the cycle – Part 1

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	Write it 3 times (English)		
External influences	_____	_____	_____
business cycle	_____	_____	_____
boom	_____	_____	_____
recession	_____	_____	_____
slump	_____	_____	_____
recovery	_____	_____	_____
interest rate	_____	_____	_____

Recall

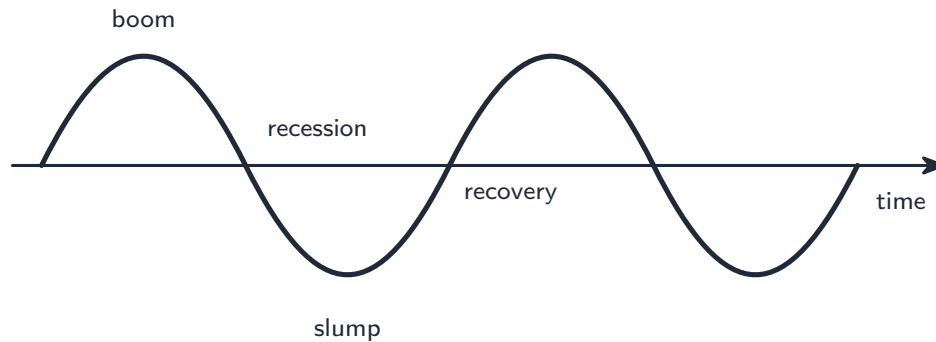
A business cannot control everything. **External influences** are forces outside the firm – like the economy – that it must watch and adapt to.

New ideas

Read these first, then do the Practice.

■ 1 The business cycle

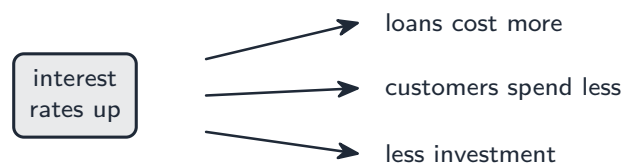
The **business cycle** is how the whole economy rises and falls over time, in four stages:



boom (fast growth) → **recession** (falling demand) → **slump** (a deep low) → **recovery** (rising again).

■ 2 Interest rates

The **interest rate** is the price of borrowing. When rates **rise**:



Watch out: in a boom demand is high; in a recession or slump it falls. When interest rates *rise*, borrowing costs more – so firms invest less and customers spend less, lowering demand.

Practice

Try these in order.

6.1 What are *external influences*? [1]

6.2 Name the four stages of the business cycle. [2]

6.3 Which stage is a deep, long recession? [1]

6.4 What happens to a firm's borrowing costs when interest rates rise? [1]

6.5 Why might customers spend less when interest rates rise? [1]

6.6 Challenge. A firm that sells expensive furniture on credit notices interest rates have risen sharply. Explain why its sales are likely to fall. [2]
