A-LEVEL BUSINESS • EXERCISE SHEET

6.1 External influences on business activity

Name: ________ Class: ______ Date: _______ **Total: 29 marks**

KEY WORDS social 社会 • environmental 环境 • business cycle 经济周期 • interest rate 利率 • exchange rate 汇率

Objective

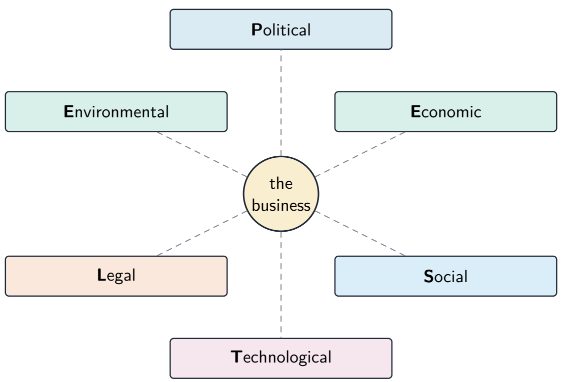
Build the skills to answer exam questions on **external influences** 外部影响 — the **business cycle** 经济周期, **interest rates** 利率, **exchange rates** 汇率, **inflation** 通货膨胀, taxation, and the wider **PESTLE** 宏观环境 forces.

You must be able to:

- describe the stages of the business cycle and the effect of interest rates
- explain how a change in the exchange rate affects exporters and importers
- analyse and evaluate how a business should respond to external change

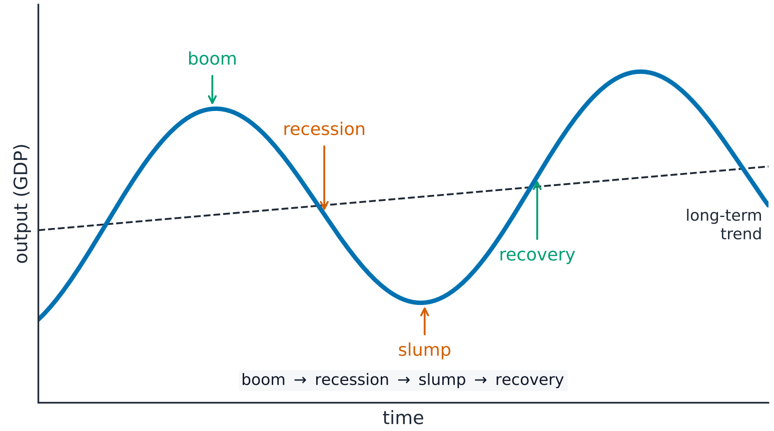
1 Worked examples

The economic environment



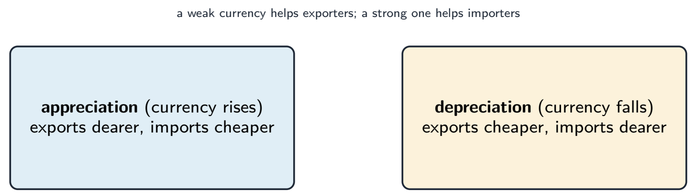
PESTLE: Political, Economic, Social, Technological, Legal, Environmental

- **Business cycle:** boom → recession → slump → recovery.



The business cycle: boom → recession → slump → recovery

- **Interest rate up:** borrowing costs more → customers spend less, firms invest less.
- **Exchange rate:** *appreciation* (currency rises) → exports dearer, imports cheaper; *depreciation* → exports cheaper (good for an **exporter**), imports dearer.



How a rise or fall in the exchange rate changes exports and imports

Answer shapes: AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

2 Practice

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]

3 Exam-style questions

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]

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

Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

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

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

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).

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 *[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.

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.