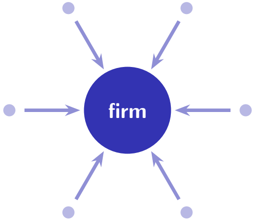
Business and its Environment

A-Level Business ▪ Topic 6

A-Level Business

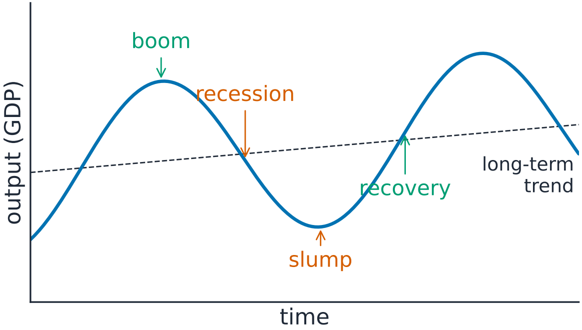


What we will cover

1. The business cycle
2. Interest & exchange rates
3. Inflation, tax & jobs
4. PESTLE forces
5. Strategy, SWOT & trees
6. Recap

globalisation links firms worldwide

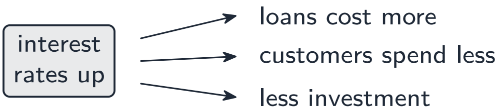
The business cycle



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

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

Interest rates



The **interest rate** 利率 is the price of borrowing. When it rises:

- loans cost more, so customers spend less
- firms with loans earn less profit
- new **investment** 投资 is less likely

A fall does the opposite.

Exchange rates

a weak currency helps exporters; a strong one helps importers

appreciation
(currency rises)
exports dearer,
imports cheaper

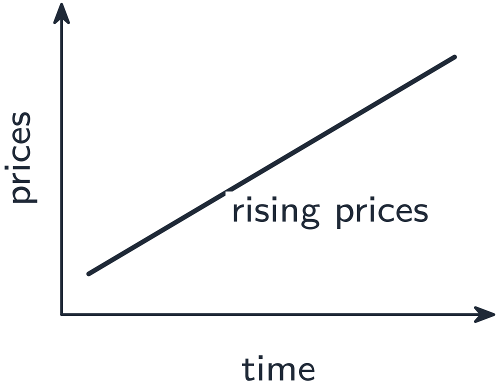
depreciation
(currency falls)
exports cheaper,
imports dearer

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

- **appreciation** 升值: exports dearer, imports cheaper
- **depreciation** 贬值: exports cheaper, imports dearer

> A weak currency helps **exporters** 出口商; a strong one helps **importers** 进口商.

Inflation



Inflation 通货膨胀 is a general rise in prices over time. High inflation:

- raises material & wage costs
- makes planning harder
- cuts what customers can afford

Low, steady inflation suits business best.

Taxation and unemployment

direct tax 直接税

taken from income or profit

indirect tax 间接税

added to spending on goods

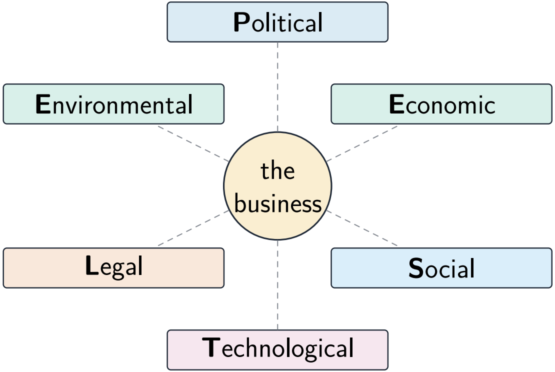
higher tax

high **unemployment** 失业

less to spend

lower demand

PESTLE – the six wider forces



A **PESTLE analysis** 宏观环境分析 checks the forces outside the firm:

- **political** 政治 & **legal** 法律 – rules & **legislation** 法规
- **social** 社会 – tastes, ageing population
- **technological** 技术 – new products, lower cost
- **environmental** 环境 & **ethical** 道德 – sustainability, fairness

Multinationals and globalisation

A **multinational** 跨国公司 produces and sells in many countries.

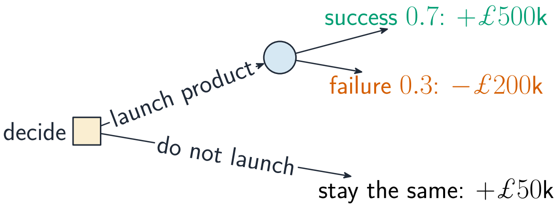
- one **global brand** 全球品牌 across borders
- must obey each country's laws & tastes
- **globalisation** 全球化 widens markets but also competition

Strategy and SWOT

	helpful	harmful
internal	**Strengths** what it does well	**Weaknesses** what it does poorly
external	**Opportunities** chances to grow	**Threats** dangers it faces

A **strategy** 战略 is a long-term plan to reach the firm's objectives and build a **competitive advantage** 竞争优势. A **SWOT analysis** SWOT 分析 weighs internal **strengths**/**weaknesses** against external **opportunities**/**threats**.

Decision trees



A **decision tree** 决策树 weighs each choice by the **probability** 概率 and payoff of its outcomes.

$$\text{EV} = \sum(\text{probability} \times \text{payoff}).$$

Pick the branch with the highest **expected value** 期望值, then subtract its cost.

Worked example – a stronger pound

The pound appreciates. Analyse the effect on a UK firm that imports components and exports finished goods.

- SPICED: Strong Pound ⇒ Imports Cheaper, Exports Dearer.
- Imported components cost less ⇒ costs fall ⇒ margins improve.
- Exports are dearer in foreign currency ⇒ demand falls (how far depends on PED).
- Net effect depends on the import : export mix and on how price-sensitive the export market is.

Never answer "the pound rose so the firm suffers". Work out both sides – costs and revenue – then judge on the balance and on elasticity.

Topic 6 – key takeaways

1 Business cycle

boom, recession, slump, recovery

2 Rates

interest = borrowing cost;
exchange = currency price

3 PESTLE

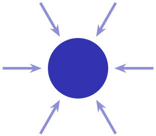
political, economic, social, tech,
legal, environmental

4 Strategy

SWOT & decision trees guide
long-term plans

Check yourself

1. Name the four stages of the business cycle.
2. A weaker currency helps exporters or importers?
3. Income tax: direct or indirect?
4. What does the S in PESTLE stand for?



Answers **1.** boom, recession, slump, recovery **2.** exporters **3.** direct **4.** social