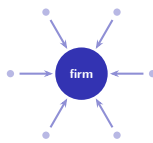


Business and its Environment

A-Level Business • Topic 6

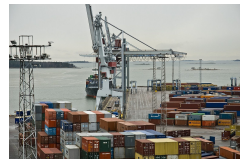
A-Level Business



Business and its Environment

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



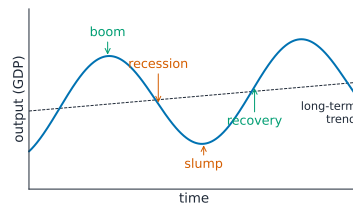
globalisation links firms worldwide

1

The economic environment

Business and its Environment
The economic environment

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

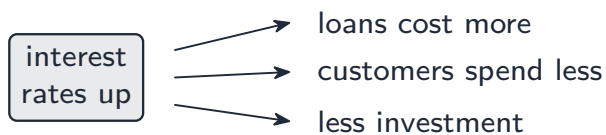
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The economic environment

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.



Business and its Environment
The economic environment

Exchange rates

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

a weak currency helps exporters; a strong one helps importers

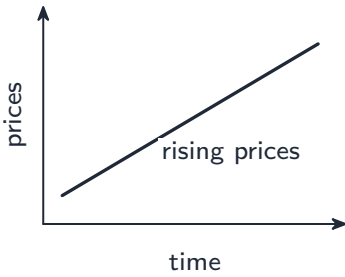
appreciation
(currency rises)
exports dearer,
imports cheaper

depreciation
(currency falls)
exports cheaper,
imports dearer

- **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



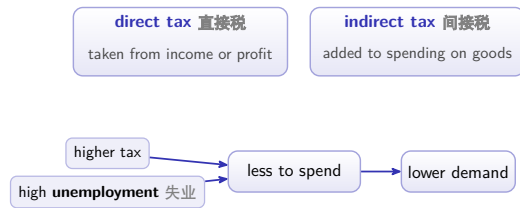
Inflation 通货膨胀 is a general rise in prices over time. High inflation:

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

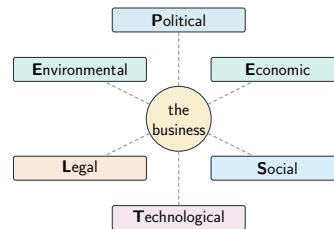
Low, steady inflation suits business best.

2 The wider environment

Taxation and unemployment



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

3 Strategic tools

Business and its Environment
└ Strategic tools

Strategy and SWOT

helpful

internal

Strengths
what it does well

external

Opportunities
chances to grow

harmful

Weaknesses
what it does poorly

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**.

Business and its Environment
└ Strategic tools

Decision trees

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

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

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

4

Recap

Business and its Environment
└ Recap

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 $\Rightarrow$ Imports Cheaper, Exports Dearer.
- Imported components cost **less** $\Rightarrow$ costs fall $\Rightarrow$ margins improve.
- Exports are **dearer** in foreign currency $\Rightarrow$ 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.

Business and its Environment
└ Recap

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

Business and its Environment
└ Recap

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