

Exercise walk-through

6.1

Economic issues

IGCSE Business Studies

What we will cover

- 1 The business cycle
- 2 Economic factors
- 3 Exchange rates
- 4 External costs & benefits
- 5 Globalisation & sustainability

The government's aims, and what each does to a business

low inflation

a general rise in prices raises costs; if wages chase prices, the country's goods become **too dear to export**

low unemployment

high unemployment **lowers sales** – but makes workers easier and cheaper to hire

economic growth

more spending, so more sales – and more competition for staff and materials

a balance of payments

exports at least matching imports; a weak currency helps exporters and hurts importers

the tools

taxes, government spending, and **interest rates**

Every government aim has **two** effects on a business, one helpful and one not. An answer giving only one caps the mark.

Exam tips

- Learn the **business cycle** (growth, boom, recession, slump, recovery) and how each stage changes sales, profit and jobs.
- Trace each economic factor to the business: higher **interest rates** → dearer loans, so less borrowing and spending; higher **tax** → people have less to spend; **inflation** → higher costs.
- **External costs** (pollution, noise) fall on other people, not the business; **external benefits** (new jobs, better roads) help others.
- Use **SPICED** for exchange rates: **S**trong **P**ound → **I**mports **C**heaper, **E**xports **D**earer.
- **Ethical behaviour** can cost more in the short term (so it may conflict with profit), but it can win loyal customers and a good name that raise profit later.

Exercises 2.1-2.3

2.1 State the five stages of the business cycle. [2]

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

2.3 Define the term *inflation*. [2]

Exercises 2.1-2.3

2.1 State the five stages of the business cycle. [2]

2.1

- **growth, boom, recession, slump, recovery** (K)
-

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

2.2

- loans become dearer so firms **invest less** / customers spend less so **sales fall** (K)
-

2.3 Define the term *inflation*. [2]

2.3

- **inflation** is a **general, sustained rise in prices** (K)

Exercises 3.1-3.2

3.1 Identify two ways a business might respond to a recession.

[2]

3.2 Explain two effects on a business of a rise in interest rates.

[6]

Exercises 3.1-3.2

3.1 Identify two ways a business might respond to a recession. [2]

3.1

- any **two** of: cut costs / lower prices / sell cheaper products / reduce staff (K, K)
-

3.2 Explain two effects on a business of a rise in interest rates. [6]

3.2

- for **each** of two effects: K + An, max 3 each
- e.g. **dearer borrowing**: more interest → lower profit; delay new machines
- e.g. **lower customer spending**: loans cost more → they spend less → sales fall

Exercise 3.3

3.3 Do you think a recession is always bad for every business? Justify your answer. [6]

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3.3

- **bad for most:** falling sales and profit; some firms close
- **not always:** sellers of cheap essentials (budget shops) may gain
- **judgement (Ev):** harms most businesses; cheap necessities can do well – it depends on what the firm sells