

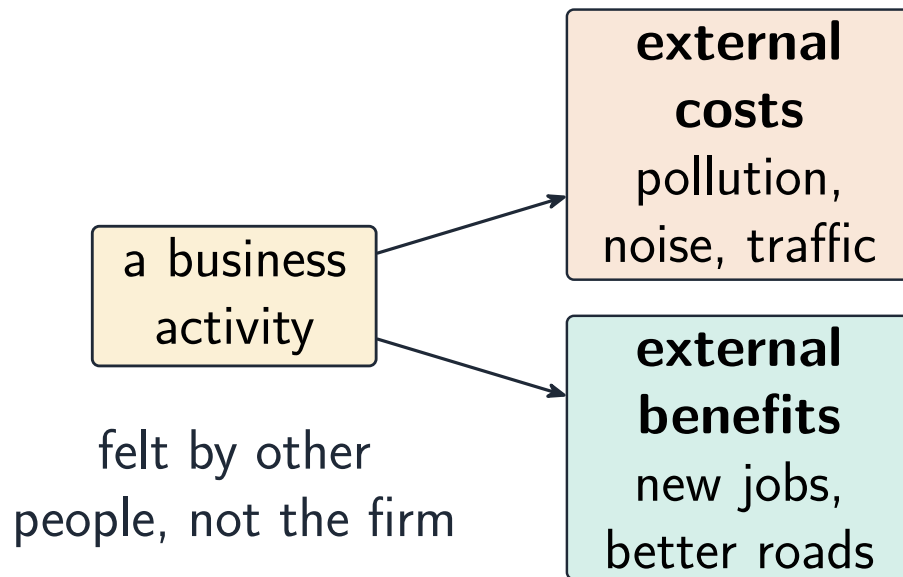
Exercise walk-through

6.3

Business and the international economy

IGCSE Business Studies

External costs and benefits



Business activity affects others:

- **external costs** –
pollution , noise, traffic
- **external benefits** –
new jobs, better roads

External costs and external benefits

the idea

when a business acts, **other people** can gain or lose – people who were not part of the decision

external cost

a cost paid by others: pollution, noise, traffic, damaged health

external benefit

a gain to others: new roads, trained workers who later move on, a revived town centre

social cost

private cost **plus** external cost – the true cost to everyone

why it matters

a firm that counts only its *private* costs will do things whose **social** cost exceeds their benefit

This is the whole case for regulation, taxes on pollution, and pressure groups: someone has to put the external cost back on the decision.

Pressure groups

A **pressure group** is a group that tries to influence businesses and governments, for example to cut pollution.

Pressure groups use the media, protests and boycotts.

Ethics and profit

Ethical behaviour means doing what is morally right, even when no law forces it – for example fair pay, safe products, and no child labour.

Acting ethically can cost more in the short term, so it may **conflict** with profit.

Globalisation and sustainability



Globalisation lets businesses trade worldwide (more markets, more competition).

Sustainable development meets today's needs without harming the future.

Exercises 2.1-2.3

2.1 Define the term *globalisation*.

[2]

2.2 Define the term *multinational company*.

[2]

2.3 State the effect of a **weaker** currency on the price of exports.

[1]

Exercises 2.1-2.3

2.1 Define the term *globalisation*. [2]

2.1

- **globalisation** is growing trade and movement of goods, money and people, so the world acts more like **one market** (K)

2.2 Define the term *multinational company*. [2]

2.2

- a **multinational** makes or sells in **more than one country** (K)

2.3 State the effect of a **weaker** currency on the price of exports. [1]

2.3

- a weaker currency makes **exports cheaper** to foreign buyers (K)

Exercises 3.1-3.2

3.1 Identify two benefits to a country of a multinational company locating there. [2]

3.2 Explain two drawbacks to a country of a multinational company locating there. [6]

Exercises 3.1-3.2

3.1 Identify two benefits to a country of a multinational company locating there. [2]

3.1

- any **two** of: new jobs and training / investment and technology / more choice and lower prices / more tax (K, K)
-

3.2 Explain two drawbacks to a country of a multinational company locating there. [6]

3.2

- for **each** of two drawbacks: K + An, max 3 each
- e.g. **profits leave**: sent back to the home country → less money stays locally
- e.g. **local firms forced out**: a large cheap multinational → small firms close

Exercise 3.3

3.3 A country's currency has become stronger. Do you think this is good for a business that exports most of its goods? Justify your answer. [6]

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3.3

- **bad for an exporter:** exports dearer for foreign buyers → they buy less → sales fall
- **some good:** imported materials become cheaper
- **judgement (Ev):** mostly bad for an exporter – it depends on how much the firm relies on exports versus imported materials