

6.1 Economic issues

Name: _____ Class: _____ Date: _____

Total: 20 marks

KEY WORDS recession • business cycle • inflation • boom
• growth

Objective

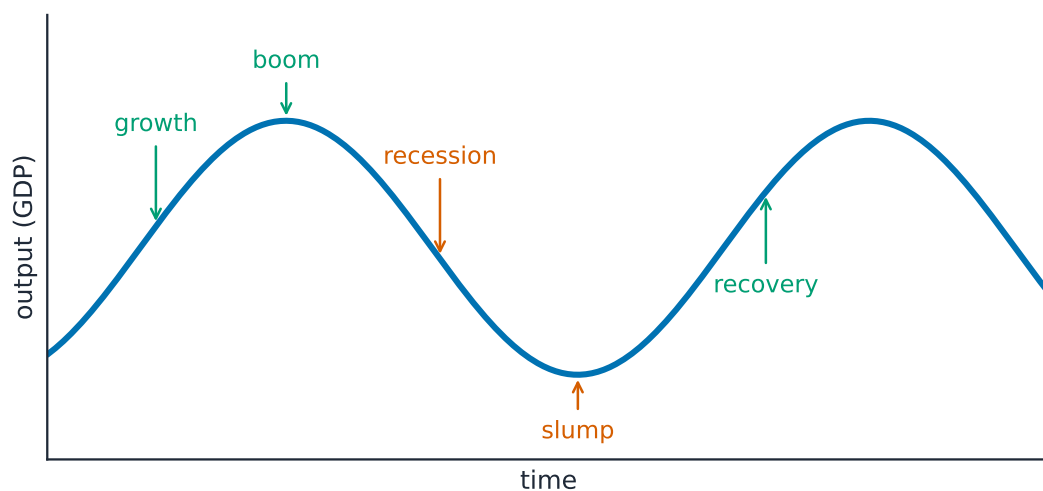
Build the skills to answer exam questions on **economic issues** – the **business cycle**, and how **taxation, interest rates, inflation, unemployment and exchange rates** affect business.

You must be able to:

- describe the stages of the business cycle
- explain how each economic factor affects a business
- analyse how a business should respond to economic change

1 Key knowledge and worked examples

■ The business cycle and economic factors



growth → boom → recession → slump → recovery

External influences are outside the business's control

- **Cycle:** growth → boom → recession → slump → recovery .
- **Higher taxes** → less spending, lower profit. **Higher interest rates** → dearer loans, less investment and spending.
- **Inflation** → higher costs. **High unemployment** → lower sales but easier hiring.

Answer shapes: K + App + An + Ev (a justified judgement, for “do you think” questions).

2 Practice

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]

3 Exam-style questions

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]

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

[6]

Solutions

IGCSE Business answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

Each answer shows the steps, then the **result**.

2.1

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

2.2

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

2.3

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

3.1

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

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

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