

External influences on business activity

IGCSE Business Studies

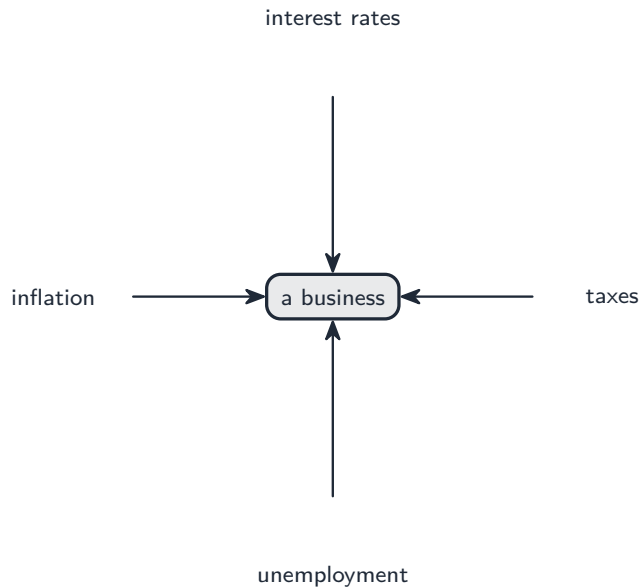
External influences

Every business is affected by **external influences** – things outside the business that it cannot control, such as the economy, the law and the environment. A good business watches these and plans for them.



Government and laws shape every firm: tax, interest rates and regulation are external influences

Economic issues

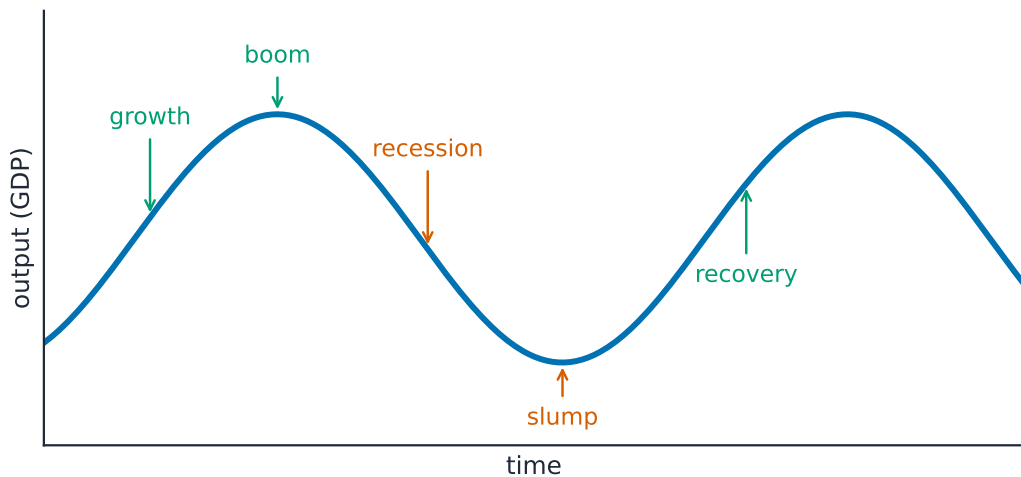


Interest rates, taxes, unemployment and inflation all affect business

■ The business cycle

The economy does not grow at a steady pace. It moves in a repeating pattern called the **business cycle**, with these stages.

Stage	What happens	Effect on business
growth	the economy is rising; people spend more	sales and profit rise; firms expand and hire
boom	spending is very high	prices and wages rise; shortages appear
recession	spending falls; the economy shrinks	sales and profit fall; firms cut jobs
slump	a deep, long recession	many firms close; high unemployment
recovery	spending starts to rise again	sales slowly improve



growth → boom → recession → slump → recovery

The business cycle moves through growth, boom, recession, slump and recovery

In hard times a business may cut costs, lower prices, or sell cheaper products.

■ Government economic aims and how they affect business

Governments try to keep the economy healthy. Their main aims are stable prices, plenty of jobs, steady growth, and a stable currency. To manage the economy, a government uses or watches several economic factors. Each one affects every business.

Economic factor	What it is	Effect on business
taxation	money the government takes from incomes and sales	higher tax leaves people with less to spend, and cuts business profit
interest rates	the cost of borrowing money	higher rates make loans dearer, so firms borrow and invest less, and customers spend less
inflation	a general rise in prices	costs rise; if wages chase prices, the country's goods can become too dear
unemployment	the number of people without work	high unemployment lowers sales, but workers are easier to hire
exchange rates	the price of one currency in another	a change makes imports and exports cheaper or dearer (see below)

Environmental and ethical issues

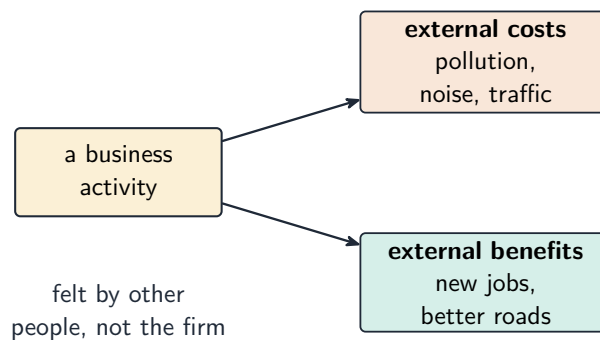


Business activity can harm the environment, raising ethical questions for firms and governments.

■ External costs and external benefits

When a business acts, other people can gain or lose.

- **external costs** are costs paid by other people or by society, not by the business – for example **pollution**, noise and heavy traffic.
- **external benefits** are gains for others – for example new jobs and better roads.



A business activity can create external costs and external benefits felt by other people

■ Sustainable development

Sustainable development means meeting today's needs without harming the ability of future people to meet their own needs. A business can harm the **environment** – through waste, pollution, and using up resources – or protect it, through recycling, clean energy and less packaging.

■ 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. A business may change its behaviour to avoid bad publicity.

■ 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. But it can also win loyal customers and a good name, which raise profit in the long term.

Business and the international economy



Shipping containers: businesses trade with the wider international economy.

■ Globalisation

Globalisation is the growing trade and movement of goods, money and people between countries, so the world acts more and more like one single market. It has grown because of cheaper transport, better communication, the internet, and fewer trade barriers such as **tariffs** (taxes on imports).

■ Multinational companies

A **multinational company** has operations – factories, branches, or offices – in more than one country. (Simply exporting to other countries is not enough; the firm must actually operate there.)

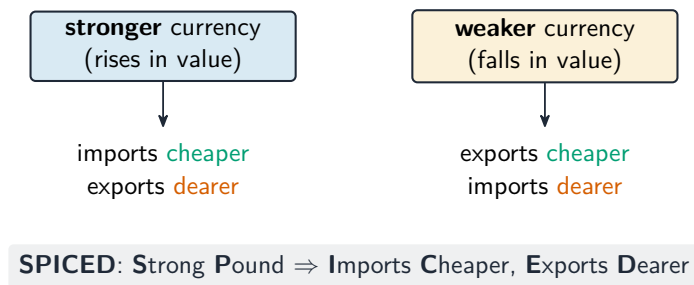
Benefits to a country	Drawbacks to a country
new jobs and training	profits may be sent out of the country
investment and new technology	local firms may be forced out of business
more choice and lower prices	resources may be used up, or the area polluted
more tax paid to the government	a large firm can have too much power

■ Exchange rates and trade

An exchange rate is the price of one currency in another. A change affects businesses that **import** (buy from abroad) and those that **export** (sell abroad).

- If the currency gets **stronger** (rises), exports become dearer for foreign buyers, so they sell less, while imports become cheaper.
- If the currency gets **weaker** (falls), exports become cheaper and sell more, while imports become dearer.

A useful memory aid is SPICED: **S**trong **P**ound → **I**mports **C**heaper, **E**xports **D**earer.



How a stronger or weaker currency changes the price of imports and exports

Worked example. A UK firm exports a machine priced at £20,000. The exchange rate moves from £1 = 1.50 USD to £1 = 1.20 USD. What happens to the price a US buyer pays, and is that good for the exporter? Convert the UK price at each rate: at the old rate $20,000 \times 1.50 = \mathbf{30,000 \text{ USD}}$; at the new rate $20,000 \times 1.20 = \mathbf{24,000 \text{ USD}}$. The pound has **weakened**, so the machine is 6,000 USD cheaper abroad and the firm should sell more - good for an exporter. Check it against SPICED: a weak pound is the reverse of it, so exports are cheaper. Convert the **actual figures** rather than only reciting the mnemonic, and notice that the UK price never changed at £20,000 - it is the **foreign** price that moves.

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.

Vocabulary card meanings

external influences: Forces outside the firm, such as the economy or the law. slump: A deep fall in spending, output, and jobs. external benefits: Gains that fall on a third party outside the deal between buyer and seller. ethical behaviour: Conduct judged right, not only legal.