# Exercise walk-through

## Economic issues ▪ 6.1

eXercise

# You must be able to

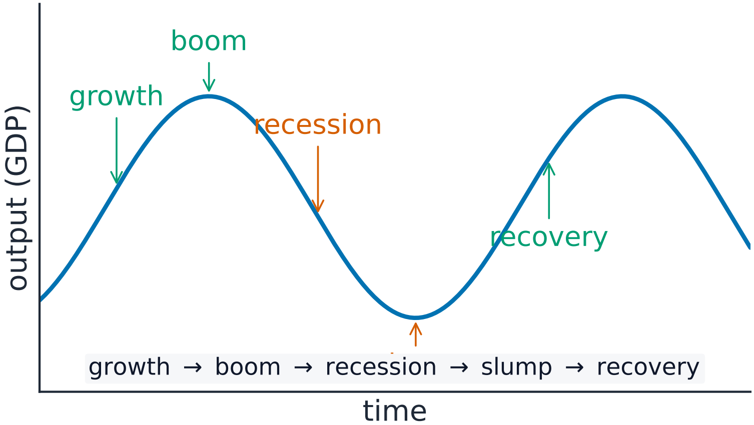
- describe the stages of the business cycle
- explain how each economic factor affects a business
- analyse how a business should respond to economic change

# Method — The business cycle and economic factors

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

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

# Method — The business cycle and economic factors




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

# Practice 2.1 ▪ 2 marks

State the five stages of the business cycle.

# Solution 2.1

Method: The business cycle and economic factors

**Worked steps**

growth, boom, recession, slump, recovery (2 for all five; 1 for a partial list).

# Practice 2.2 ▪ 2 marks

State one effect on a business of a rise in interest rates.

# Solution 2.2

Method: The business cycle and economic factors

**Worked steps**

any one developed effect: loans become dearer so firms invest less; customers borrow and spend less, so sales fall (2 for a developed effect; 1 for a basic one).

# Practice 2.3 ▪ 2 marks

Define the term *inflation*.

# Solution 2.3

**Worked steps**

a general, sustained rise in prices (2 for a clear definition; 1 for a partial idea).

# Exam-style 3.1 ▪ 2 marks

Identify two ways a business might respond to a recession.

# Solution 3.1

Method: The business cycle and economic factors

**Worked steps**

any two of: cut costs; lower prices; sell cheaper products; reduce staff $(1 + 1)$.

# Exam-style 3.2 ▪ 6 marks

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

# Solution 3.2

Method: The business cycle and economic factors

## Worked steps

*[6]* For **each** of two effects: K 1 + An up to 2 — e.g. *dearer borrowing*: a firm with loans pays more interest → lower profit, and it may delay buying new machines. *Lower customer spending*: customers' loans cost more → they spend less → the firm's sales fall. Maximum 3 each.

# Exam-style 3.3 ▪ 6 marks

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

# Solution 3.3

Method: The business cycle and economic factors

## Worked steps

*[6]* Both sides + judgement. **Bad for most:** lower spending means falling sales and profit, and some firms close. **Not always:** sellers of cheap, essential goods (e.g. budget supermarkets) may gain as customers switch to them. **Judgement (Ev):** a recession harms most businesses, but those selling cheap necessities can do well — so it depends on what the business sells.