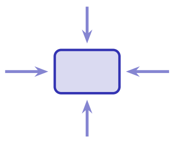
External Influences on Business

IGCSE Business Studies ▪ Topic 6

IGCSE Business Studies



What we will cover

1 The business cycle

2 Economic factors

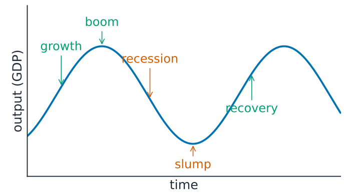
3 Exchange rates

4 External costs & benefits

5 Globalisation & sustainability

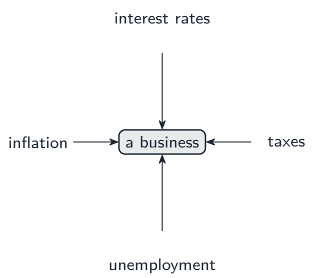
1 The economy

The business cycle



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

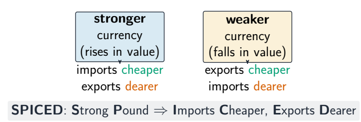
Economic factors



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

> Interest rates, taxes, unemployment and inflation all affect business

Exchange rates



The **exchange rate** 汇率 is the price of one currency in another.

> A stronger currency makes **imports** 进口 cheaper but **exports** 出口 dearer; a weaker one does the reverse.

2 Society and the world

External costs and benefits

a business activity → **external costs** pollution, noise, traffic

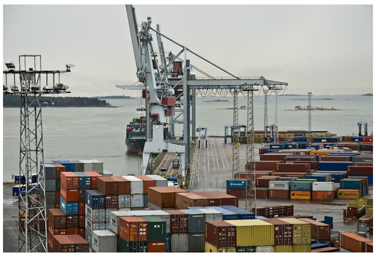
a business activity → **external benefits** new jobs, better roads

felt by other people, not the firm

Business activity affects others:

- **external costs** 外部成本 – **pollution** 污染, noise, traffic
- **external benefits** 外部收益 – new jobs, better roads

Globalisation and sustainability



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

> **Sustainable development** 可持续发展 meets today's needs without harming the future.

3 Recap

Worked example – rising interest rates

Interest rates rise. Explain two effects on a firm that sells furniture on credit.

- Customers' borrowing is dearer ⇒ fewer buy on credit ⇒ sales fall.
- Furniture is a luxury that can be postponed, so the fall is large.
- The firm's own loan repayments rise ⇒ costs up, profit down.
- It may delay expansion, since projects must now beat a higher return.

> Interest rates hit demand and costs at once. The damage is worst for firms selling credit-bought luxuries – exactly like furniture or cars.

Topic 6 – key takeaways

1 **Cycle**
growth, boom, recession, slump, recovery

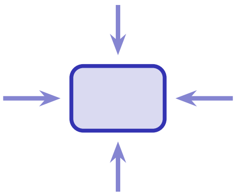
2 **Economy**
tax, interest rates, inflation, unemployment

3 **Exchange**
strong currency: cheap imports, dear exports

4 **Society**
external costs (pollution) & benefits (jobs)

Check yourself

1. What happens to jobs in a slump?
2. What does a higher interest rate do to borrowing?
3. Give one external cost of business activity.
4. What does globalisation let businesses do?



Answers **1.** unemployment rises **2.** makes it dearer (less borrowing) **3.** e.g. pollution **4.** trade worldwide