



Business Studies Year10

Spring 2

Blended Learning Booklet

Unit 2

Name _____

Tutor Group _____

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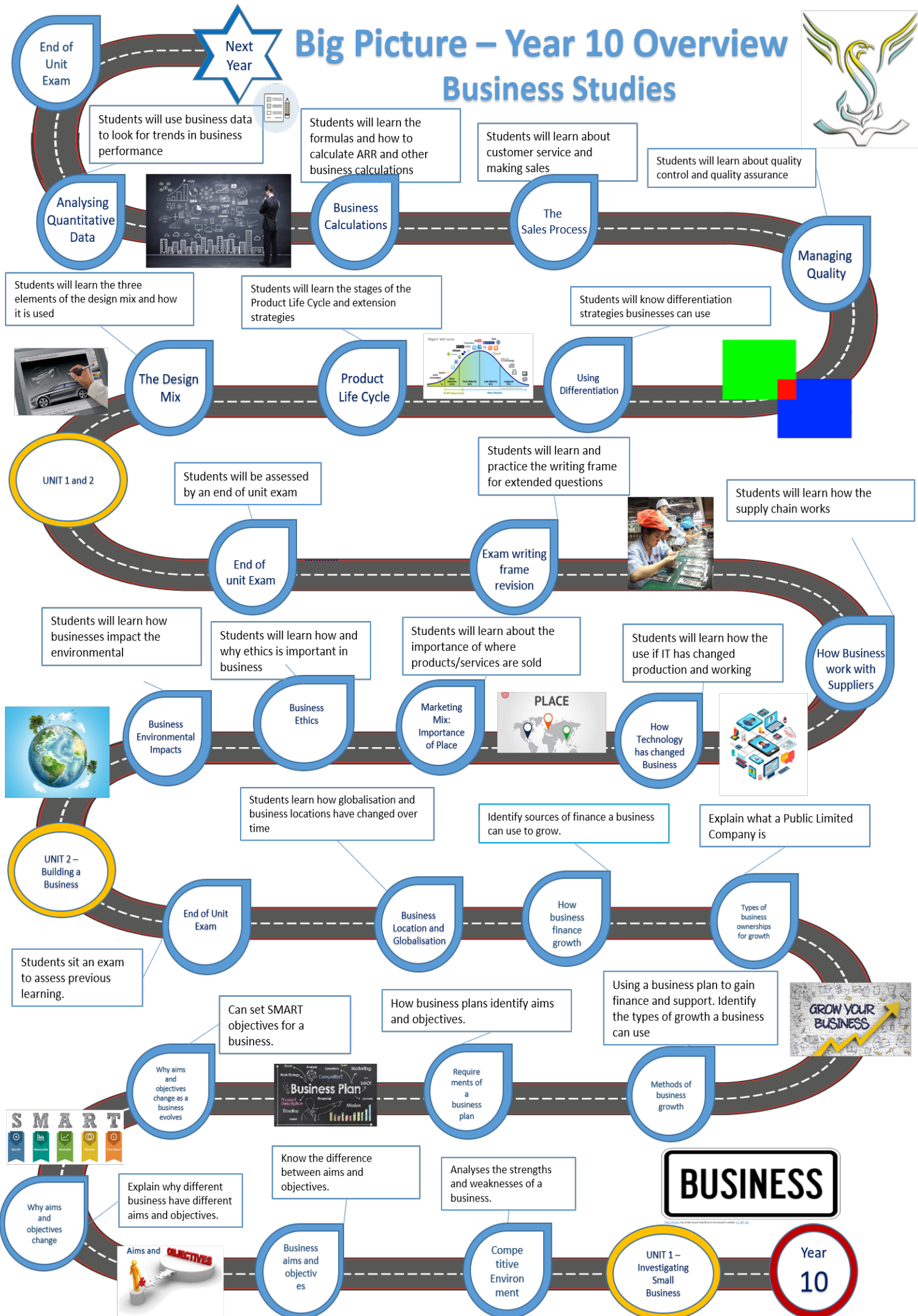
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Big Picture – Year 10 Overview Business Studies



How to use the booklet

For each topic you have the revision guide pages to read as a DART Task. This will be the basis for information. You will also need to watch the corresponding pods PowerPoints on www.businessed.co.uk and go through the online learning for the topic on **Seneca Learning**. Once you have completed this you should attempt to answer the exam questions for the topic which are included. For 3, 6, 9 and 12 mark questions, use the writing frames below. Please write your answers to 6, 9 and 12 mark questions in your Business Studies exercise book.

Writing Frame

3 Mark Questions

- ☐ ID = Identify your point
- ☐ L = Leading to
- ☐ T = Therefore

6 Mark Questions

- ☐ ID = Identify your point
- ☐ B = Because
- ☐ L = Leading too
- ☐ T = Therefore
- ☐ M = Moreover
- ☐ C = Consequently

9/12 Mark Questions

- ☐ ID = Identify your point
- ☐ B = Because
- ☐ L = Leading too
- ☐ T = Therefore
- ☐ M = Moreover
- ☐ C = Consequently
- ☐ ID = Identify your point
- ☐ B = Because
- ☐ L = Leading too
- ☐ T = Therefore
- ☐ A = Answer and justify
- ☐ I = It depends on
- ☐ M = Most importantly

Stakeholders

A stakeholder is anyone who's affected by a business. Even small businesses may have lots of stakeholders.

Different Stakeholders Have Different Ideas of Success

Different stakeholders are affected by the business in different ways. This means they have different opinions about what makes a firm successful and what its objectives should be. For example:

The owners are the most important stakeholders. They make a profit if the business is successful and decide what happens to the business. In a limited company, the shareholders are the owners (see p.22). Shareholders usually want high dividends, and a high share price.

Dividends are payments that the shareholders get if the company makes a profit. The more shares a shareholder owns, the higher their dividend will be.

Managers and other employees are interested in their job security and promotion prospects. These are improved if the firm is profitable and growing. Employees also want a decent wage and good working conditions. So they may benefit most when objectives are based on profitability, growth and ethics.

A firm buys its raw materials from suppliers. If the firm is profitable and grows they'll need more materials and the supplier will get more business. So suppliers benefit most when the firm sets objectives based on profitability and growth.

The local community where the business is based will suffer if the firm causes noise and pollution. They may gain if the firm provides good jobs and sponsors local activities. If the business employs local people, these employees will then have money to spend in local shops, which is good for the local economy. So the local community may benefit when objectives are based on minimising environmental impacts, ethical considerations, profitability and growth.

The government will receive taxes if the firm makes a profit. They may benefit most when objectives are based on profitability, growth, or job creation.

Customers want high quality products at low prices. They benefit when objectives are based on customer satisfaction.

A pressure group is an organisation that tries to influence what people think about a certain subject. They can influence the decisions a firm makes by creating bad publicity for the firm if they don't agree with the firm's actions. E.g. in 2015, farming pressure groups such as Farmers For Action, held nationwide protests about the low prices some supermarkets paid for milk. Many pressure groups are satisfied when businesses set objectives based on ethical considerations or minimising environmental impacts.

Stakeholders Influence Business Decisions to Varying Degrees

- 1) The owners make the decisions in a firm, so they're the most influential stakeholders.
- 2) However, they need to consider the interests of other stakeholders when they're setting their objectives.
- 3) Often, stakeholders will have conflicting opinions about the firm's objectives and its activities.
- 4) The firm may decide to ignore the opinions of some stakeholders, but they'll need to take others into account if they want to survive as a firm. For example:

- No business can ignore its customers. If it can't sell its products it won't survive.
- A business may want to hold onto its money for as long as possible, but suppliers will become unhappy if they're not paid on time.
- If a business doesn't have happy workers it may become unproductive.
- But a company may not mind being unpopular in the local community if it sells most of its products somewhere else.



Stakeholders — vampires are terrified of them...

...but you don't need to be. Just remember that people affected by a business are called stakeholders and they can influence a firm's objectives. That's stakeholder, not steakholder. Unless you want to look like a proper muppet.

Stakeholders

- 1 Read the following information carefully and answer the questions that follow.

Heyshore Sports Ltd. are a company that own a sports centre in the town of Heyshore. In the last five years, their revenue has increased by 36% and profits have increased by 20%. As a result of this success, they have increased staff wages by 5% and cut the membership fees they charge their customers by 3%. They have also invested in refurbishing their changing rooms and have started investing in new gym equipment designed for children.

Heyshore Sports Ltd. would like to expand their business by building more outdoor facilities. They are considering using an area of meadowland directly behind the sports centre. The land is currently a popular picnic spot for families, although a local environmental group tries to dissuade people from using the land as it's home to lots of wild plant and animal species. Another option is to use land 500 metres down the road from the sports centre. The land is currently occupied by a derelict factory, which would need knocking down and removing before any building could begin. This site is twice the size of the meadowland and the building work is expected to be more expensive.

- a) Outline **one** way in which Heyshore Sports Ltd. may have satisfied the objectives of their customers.

.....
 [2]

- b) Outline **one** reason why the government may have been satisfied with Heyshore Sports Ltd.'s business activities.

.....
 [2]

- c) Outline **one** reason why some of Heyshore Sports Ltd.'s owners may have disagreed with the decision to increase staff wages by 5%.

.....
 [2]

- d) Heyshore Sports Ltd. want to avoid too much conflict from stakeholders when they decide on a site for their expansion. They need to choose between:

Option 1: The area of meadowland behind the sports centre.

Option 2: The disused factory site 500 metres down the road from the sports centre.

Justify which **one** of these two options Heyshore Sports Ltd. should choose.

Write your answer on a separate piece of paper.

[9]

[Total 15 marks]



Technology and Business

The growth of the internet and the development of computers and other technological things have shaken up the business world. You won't get far in business these days without a load of chips and motherboards.

E-Commerce Means Buying and Selling Online

- 1) E-commerce is using the internet to buy or sell products.
- 2) Many firms now have websites where customers can buy their products.
- 3) E-commerce means that firms can reach wider markets compared to just having traditional shops — e.g. a small business in Dorset could end up selling products to someone in New Zealand.
- 4) E-commerce can be really convenient for consumers — it means they can buy products from all over the world, at any time of the day and they don't have to spend ages queuing up to buy products.
- 5) Firms have had to adapt to e-commerce as it's become more important. For example, they've had to build websites, employ IT specialists and develop systems to distribute products to online customers.

Firms can Communicate Digitally

Firms regularly need to communicate with their stakeholders (see p.29). There are many ways firms can use technology to do this:

WEBSITES: Websites are a great way to communicate with customers — e.g. by posting blogs or providing customer service (such as FAQs). Websites can also be used to publish reports to shareholders.

EMAIL: Email is a very quick way of communicating with stakeholders, either on a personal level (e.g. to respond to a customer query) or on a bigger scale (e.g. to tell all employees they can go home early).

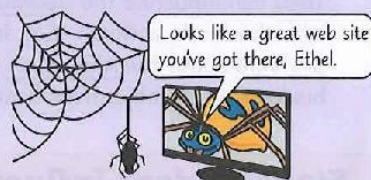
MOBILE APPS: These are programs used on mobile devices, such as smartphones or tablets.

They are usually used by firms to communicate with customers, for example by giving information about where stores are located, the products the company sells and any special offers.

LIVE CHATS: Live chats are an instant messaging service.

They have many uses — e.g. employees can use them to talk to each other from different locations, or customers can use them to speak with a customer service advisor via the internet.

VIDEO CALLS: Employees who work for the same business in different locations may use video calling to hold meetings, rather than travelling to meet. This can also be a good way for businesses to communicate with important shareholders, who may all live in different places.



Social Media is Becoming More Important to Businesses

- 1) Social media (see p.6) makes it really easy for users to share information with other users — information can be in many forms, such as written messages or articles, pictures, videos, or links to other sites.
- 2) This means social media is a great way for businesses to communicate — it can be used to display lots of different types of information, it can be updated regularly and it can be seen by loads of people at once.
- 3) Businesses use social media for all sorts of purposes — e.g. to provide customer service, to advertise their products, or to promote local events.

An app a day keeps the business doctor away...

Customers expect businesses to be up to date with technology. Nowadays people are used to being able to find information instantly, at any time. Businesses that don't change will probably have a hard time surviving.

More on Technology and Business

Not so long ago, you'd have been laughed at if you said you wanted to pay for your burger using only your eyes. These days it doesn't seem so far-fetched. All this new technology certainly keeps firms on their toes.

Technology Has Made it Easier for Us to Pay for Products

- 1) There are now lots of different payment systems that can be used to pay for products. For example:
 - Online payments — Nearly all firms allow you to pay online by entering your debit or credit card details. But there are other online payment systems (e.g. PayPal) that mean you don't have to enter your card details on every website you buy from, and offer a higher level of cyber-security (so your bank details are less likely to get nicked).
 - Chip and PIN — this is where you put your debit or credit card into a terminal (a machine at a checkout) and enter your unique PIN to pay. If you lose your card, you know that someone else can't go on a spending spree with it unless they know your PIN.
 - Contactless payments — this is where you pay for something just by holding your debit or credit card or smart device near a terminal. (Using a smart device for contactless payments involves downloading an app first — e.g. Apple Pay™ or Android Pay™.)
- 2) Having safer and easier payment systems can encourage customers to shop with the firm.
- 3) Faster payment methods also mean that businesses can serve more customers in any given time, so their revenue could increase.

Technology has Changed the way Businesses Operate

- 1) Firms need to adapt to changes in technology so they stay competitive. For example, if a firm's competitors are communicating with customers using apps then the firm should also consider doing this.
- 2) Businesses can often use new technology to carry out processes in place of people. This can lead to reduced costs in the long term — e.g. because fewer man-hours are needed to carry out tasks.
- 3) However, adapting to new technology can be very expensive. For example, a business may have to buy equipment or train staff to use new computer systems. They may also need to hire staff with the skills to use the new technology.
- 4) New technology can lead to increased sales for a business. For example, e-commerce may boost a firm's sales as they can reach a bigger market. Modern payment systems may lead to increased sales as it's easier and faster for people to buy products so they may buy products more often from the firm.
- 5) New technology can also affect a firm's marketing mix (see p.24). For example, e-commerce means that customers have more choice of firms to buy from as they can buy from firms in places all over the world, not just in their local area. This means that firms may need to change their pricing strategies or the way they promote their products to become more competitive. The growth of social media means that many firms are choosing to promote their products through this channel rather than through more traditional routes, such as newspaper adverts.

- 1) In 2015, Katie Patel bought Glisten Up Cars, a car wash firm. When she bought the firm it was close to going bust, but Katie made it profitable again within two years.
- 2) Katie bought handheld contactless payment terminals, which meant that people could pay for their car wash from their cars, rather than having to pay in cash or go into the office. This was more convenient for customers, so sales increased.
- 3) Katie also set up a website to inform customers about the firm, and set up social media accounts to advertise the firm and promote its special offers. These measures also led to increased sales.

BUSINESS
EXAMPLE

If only more things were contactless — like rugby in PE for example...

Keeping up with new technology can really help a firm — making things faster and easier is the name of the game.

Technology and Business

- 1 Which **two** of the following are disadvantages of keeping up to date with technology in business? Put a cross (X) in **two** correct boxes.

- A It can be very expensive. ☐
- B It usually makes processes slower. ☐
- C It limits the ways that businesses can communicate with customers. ☐
- D It can often mean that staff have to be retrained. ☐
- E It often limits the ways that businesses can promote their products. ☐

[Total 2 marks]

- 2 Read the following information carefully and answer the questions that follow.

Luanne owns a business that sells personalised children's gifts. Since starting the business at the start of 2016, her sales have continued to increase, as shown in **Figure 1**. She started her business by selling her products on a market stall but had an e-commerce website developed as well. She has been thinking about accepting PayPal as a form of payment on her website. Luanne would have to pay a fee for using PayPal, but it would allow customers to pay for their items by entering their PayPal user name and password, rather than the details of their credit or debit card.

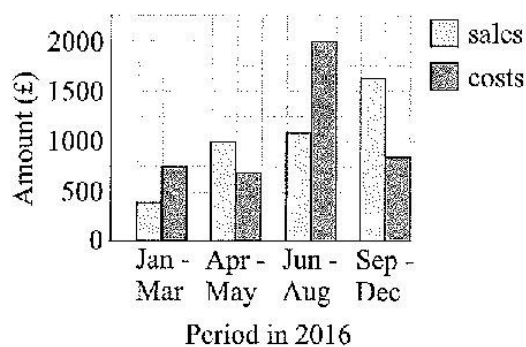


Figure 1

- a) Identify the 3-month period in which Luanne set up her website.



[1]

- b) Outline **one** benefit to Luanne of setting up her website.

[2]

- c) Outline **one** advantage to Luanne of accepting PayPal as a form of payment on her website.

[2]

[Total 5 marks]

- 3 Read the following information carefully and answer the questions that follow.

Special Pets and More is a pet shop located in a city suburb. As well as selling pet supplies, the business has also started selling small animals that need new homes. The first ten animals it had sold very quickly and customers buying them also tended to buy cages, food and accessories from the shop. Following this success, the owners rented the building next door to the shop to accommodate more animals and employed two new staff members to help to care for them.

The business advertises the animals it has for re-homing by placing adverts in its shop windows but currently the business is struggling to sell the animals it has. The owners are considering having a mobile app developed which would allow users to see statistics, pictures and video clips of the animals it has for re-homing and how much they cost.

- a) State **one** digital method, other than mobile apps, that Special Pets and More could use to communicate with its customers.

..... [1]

- b) Outline **one** way that the development of the mobile app would change Special Pets and More's marketing mix.

.....

 [2]

- c) Analyse the impact that having a mobile app developed could have on Special Pets and More.

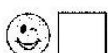
.....

 [6]

[Total 9 marks]

Exam Practice Tip

When you're given information about a business in the exam, make sure you read it all really carefully and use it to answer the questions. The examiners will want to see that you can apply your business knowledge to the specific situation they've given you — if you just randomly rattle off as much as you know about a topic you'll miss out on marks.



Employment and the Law

'Employment law' describes the many different laws associated with the relationship between employers and employees. The laws are generally about pay, recruitment, discrimination and health and safety.

Businesses Have to Pay Staff a Minimum Amount

- 1) There are laws about the minimum amount employers have to pay their staff.
- 2) Workers aged 24 and under but of school leaving age have to be paid the National Minimum Wage (NMW) — the exact amount depends on the age of the worker and the type of work. Workers aged 25 and over have to be paid the National Living Wage (NLW) — this is slightly more than the National Minimum Wage.
 - The NMW and NLW mean that companies can't cut their costs by paying workers less than the legal minimum. If they do, they're breaking the law.
 - If a company doesn't pay its workers enough, it could be given large fines. It could also get bad publicity, and consumers might stop using the business.
 - The NMW and NLW can increase a firm's costs. This can lead to increased prices, meaning a possible fall in sales and a reduced income for the firm. Some firms may not be able to afford to pay the NMW or NLW to all of their staff, so may have to lose some staff in order to survive.
 - The NMW and NLW can have benefits for companies though — they can lead to better motivated staff and increased productivity.

The NMW and the NLW are usually increased each year.

There Are Laws About Recruitment

- 1) Recruitment procedures must not discriminate against anyone because of, for example, their religion, gender, race, age, sexual orientation or because of disabilities. This is covered by the Equality Act 2010.
- 2) Firms must also make sure that any new recruits have a legal right to work in the UK. This can involve extra work for firms as they may have to carefully check new recruits' documents (e.g. passports and visas), but employing people illegally can result in big fines and possibly even the closure of the firm.

Businesses Can't Discriminate

- 1) Apart from recruitment (see above), the other main equal opportunities issue covered by the Equality Act 2010 is pay — all employees must be paid the same if they do the same job (or work of equal value) for the same employer.
- 2) If a company is found to have discriminated against someone, they'll have to pay compensation.
- 3) If any employee in a company is accused of discrimination, the company could also be held responsible. So companies need to take reasonable steps to prevent discrimination within the workplace — such as staff training and writing company policies about equal rights.

The Workplace Needs to be Safe

- 1) Health and safety legislation helps to make sure that risks to people at work are properly controlled.
- 2) Firms need to carry out risk assessments to identify possible dangers and take reasonable steps to reduce the risks. E.g. accident books need to be kept, and first-aiders trained. All staff must receive health and safety training and suitable equipment must be provided — e.g. hard hats on building sites.
- 3) A safe working environment should mean fewer accidents, and so fewer injuries. And hopefully it means a more productive workforce too — since people should need less time off work to recover.
- 4) Following health and safety laws can be expensive — e.g. paying for staff to go on safety courses.
- 5) But businesses that don't follow health and safety laws can be prosecuted, fined and even closed down.
- 6) They may also have to pay compensation to anyone who's injured, and could get bad publicity.

The law is fragile — careful not to break it...

Making sure all business activities are within the law can take time and be expensive, but all firms need to do it.

Employment and the Law

Warm-Up

Tick the three situations below that are breaking employment law.

An accountancy firm only recruits people who are under 50 years old. ☐

A nursery pays female supervisors more than male supervisors. ☐

750 grams of hamster food is sold in packaging that states it contains 1 kg. ☐

A jewellery maker sells necklaces with clasps that break easily. ☐

A sports centre refuses to recruit anyone who needs to use a wheelchair. ☐

- 1 Under the Health and Safety at Work Act, businesses have to take responsibility for the health and safety of their employees while they are at work. Coffee Tonight is a coffee chain that strictly follows this law, whereas Au Lait is a coffee chain that doesn't always follow this law.

a) State **two** possible consequences for Au Lait of not following this law.

.....

 [2]

b) Outline **one** disadvantage to Coffee Tonight of following this law.

.....

 [2]
 [Total 4 marks]

- 2 Entertainment World is a UK company that runs a series of theme parks. By law, Entertainment World must pay its staff at least the national minimum wage.

a) Outline **one** advantage to Entertainment World of paying its staff the minimum wage.

.....

 [2]

b) Outline **one** disadvantage to Entertainment World of paying its staff the minimum wage.

.....

 [2]
 [Total 4 marks]



Consumer Law

There are laws restricting how firms sell their products — the aim is to protect the consumer. If these laws weren't in place, some businesses might be tempted to be a bit dishonest. Like the time I bought a new TV that turned out to be an egg-whisk. Oh, come on — we've all done it.

The Consumer Rights Act Sets Conditions for Products

The Consumer Rights Act 2015 covers how goods and services can be sold. It basically states that goods should meet three criteria:

1 — The product should be fit for its purpose

The product has to do the job it was designed for — if you buy a bucket, say, it's not much use if it leaks water out of the bottom.

2 — The product should match its description

- The way a business describes a product it's selling is called a 'trade description'. It's illegal for a retailer to give a false trade description.
- This includes the size or quantity of the product, the materials it's made from, and its properties.
- It's also illegal to claim that a product has been endorsed or approved by a person or an organisation unless it really has been.



3 — The product should be of satisfactory quality

- This means that the product should be well made — it shouldn't fall apart after a couple of uses.
- It also means that it shouldn't cause other problems for the buyer — e.g. a fridge should keep food cold, but it shouldn't make a noise like a jet plane at the same time.

If products don't meet the legal requirements, customers can ask for their money back, a repair or a replacement.

Consumer Laws Affect Businesses

- 1) If a business breaks consumer law it is faced with the cost and inconvenience of having to refund the customer, or repair or replace their item.
- 2) The case could even end up in court if the customer is unhappy with the business's response about their item (which costs the business even more if the customer wins the case).
- 3) As well as being expensive, breaking consumer law can harm the reputation of the business, which could lead to a reduction in sales.
- 4) So businesses have to be very careful when selling products and services to their customers.
- 5) They need to make sure they train their staff properly, so they sell products accurately and understand what a customer's rights are if they are unhappy with a product.

Firms need to make sure they keep up to date with all legislation that they need to follow — any changes to the legislation could mean that they need to make changes to their business. For example, a change to consumer law could mean that they have to rewrite any terms and conditions they give their customers and retrain their staff.



Consume a law — I'm told it tastes like chocolate...

Q1 Martine buys a new pencil case from a company's website. The product description online says it's suitable for standard stationery needs, and should arrive within three days of purchase. When the pencil case arrives, Martine discovers it is too short to fit a normal sized pen. Explain one way in which the company selling the pencil case has broken consumer law.

Consumer Law

- 1 Read the following information carefully and answer the questions that follow.

Bill has started up a business selling used DVDs, called Bill's Films. He buys 50 used DVDs and checks each one for faults. He goes through the following checklist for each DVD:

- | | | |
|---|---|-----------|
| 1 | Does the DVD play from beginning to end without stopping? | pass/fail |
| 2 | Does the DVD case match the DVD inside? | pass/fail |

If a DVD fails either of the tests above then he still sells it as it is, without labelling any defects, but at a discount price. He sells the remaining DVDs at a higher price.

- a) State **one** reason why Bill's Films is breaking consumer law.

[1]

- b) State **one** thing that Bill's customers are legally entitled to if a DVD they purchase does not meet legal requirements.

[1]

- c) State **one** change that Bill can make to his business in order to keep to the requirements of consumer law.

[1]

[Total 3 marks]

- 2 Explain **one** way in which the profit of a business might be affected if its products don't meet legal requirements.

[Total 3 marks]

- 3 Explain **one** way in which a business might respond if there is a change in consumer law.

[Total 3 marks]



Unemployment and Government Taxes

The economic climate can have a huge effect on firms, but it's something that they can't control. The economic climate includes many different economic conditions — first up, unemployment and taxes.

Unemployment is a Big Problem

People are unemployed when they're able to work but can't find a job. The level of employment (the number of people in work) changes over time, and this can have a big effect on businesses.

- 1) Unemployment means the economy as a whole produces less output than if everyone was employed. So everyone suffers from unemployment — in theory at least. UK unemployment was very high in 2010 — around 2.5 million. In 2016, this had fallen to about 1.6 million.
- 2) Some firms can actually benefit from unemployment. They may be able to pay lower wages if there are lots of unemployed people desperate for a job. It can also mean they can fill jobs easily. In areas of high unemployment, the government may even give grants to firms who open and provide jobs in the area. These factors may encourage a firm to grow when unemployment is high.
- 3) But there can also be big problems for businesses when there are high levels of unemployment. Less employment means lots of people have less disposable income. This can lead to a lack of demand for products, so sales can fall. A firm may respond by, e.g. reducing prices, reducing output or making staff redundant.
- 4) It may also be a problem if firms hire people who have been unemployed for a while — people may lose skills while they're unemployed, so firms may need to retrain them.

Disposable income is the money that people have left once they have paid tax.

- 1) DV Murray is a small construction firm in the UK. The recession in 2008 meant that the firm had to make many of its construction workers redundant.
- 2) In 2014, the growth of the economy meant that DV Murray took on many new contracts and needed to recruit more workers.
- 3) Many of the workers it recruited had not worked in the construction industry since 2008, so DV Murray had to spend time and money on retraining these staff.

BUSINESS EXAMPLE

Tax is Money That Goes to the Government

- 1) Both consumers and businesses have to pay tax. For example, consumers have to pay tax on money they earn (called income tax). Businesses have to pay tax on their profits. They also have to pay other taxes, such as environmental tax on activities that harm the environment, and tax on premises they own.
- 2) Tax rates are set by the government. Changes to tax rates can have a big impact on businesses:
 - If the amount of income tax that consumers need to pay falls, they will have more disposable income. This means that consumer spending is likely to increase, leading to increased revenue for firms. The opposite is true if income tax increases — consumer spending is likely to fall.
 - If the amount of tax that a business needs to pay increases, it reduces the amount of money they have available to reinvest. This can lead to slow growth for a business. If environmental tax increases, a firm may try to be more environmentally-friendly to avoid paying extra tax, e.g. by recycling more. But the tax increases may force the firm to find ways to cut costs in order to survive or meet their profit targets, e.g. by making staff redundant. They may also consider relocating the business abroad to a country where businesses pay less tax.
 - If the government reduces taxes that a business has to pay, it means the business will have more money available to reinvest. This can help businesses to grow. However, lower business taxes might encourage firms from abroad to set up in the UK. This increases competition in the market and may lead to a fall in sales for UK businesses if they don't compete well.

Having disposable income is no excuse for throwing your money away...

Make sure you know the ins and outs of unemployment and tax and the effects they can have on businesses.

Unemployment and Government Taxes

- 1 Explain **one** way in which high unemployment may cause problems for a business.

.....

.....

.....

[Total 3 marks]

- 2 Explain **one** advantage to a business of starting up while unemployment levels are high.

.....

.....

.....

[Total 3 marks]

- 3 Read the following information carefully and answer the questions that follow.

Country Rides is a small horse riding business. It has built up popularity since it opened five years ago, and now many of its horse riding trips become fully booked weeks in advance. The business faces very little competition and the owners think the business could be more profitable if they invested in more land and more horses. Before deciding whether to invest they are considering some of the predicted changes in taxation in the coming years. It is predicted that income tax is set to fall and the tax small businesses have to pay is set to rise.

- a) Outline **one** advantage to Country Rides of a fall in income tax.

.....

.....

[2]

- b) Analyse the impact on Country Rides of a rise in the tax that small businesses have to pay.

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[6]

[Total 8 marks]



Inflation and Consumer Income

Another two economic conditions now and it's two which are always changing — prices and incomes.

Inflation is an Increase in the Price of Goods and Services

In general, the price of goods and services inflates (goes up) over time. The prices of hundreds of products that an average UK household would buy is regularly tracked.

The percentage increase in the price of these products over time is used to measure the rate of inflation. Inflation can have many different effects on a business. For example:

- **CONSUMER SPENDING:** When inflation rises, consumer spending is likely to go up in the short-term — people rush to buy more products before prices go up even more. This creates extra revenue for a business, which can lead to higher profits (depending on how much the increase in inflation has affected its costs). However, if wages don't go up at the same rate as inflation, demand for products can start to fall (there's more about this below).
- **COST OF LABOUR:** With high inflation, employees can put pressure on employers to increase wages so that they can afford the higher prices being charged for the things they need. This can increase a business's costs and reduce its profits.
- **GLOBAL COMPETITION:** A high inflation rate makes UK exports (products sold to other countries) expensive, so UK firms become less competitive globally. This means that a firm that sells lots of exports may see its sales fall. However, when inflation is low, sales of exports are likely to increase.

When inflation is high, business growth tends to be low. Businesses find it hard to predict what is going to happen to their costs and sales. This can make them reluctant to take risks and invest in their business.

Changes in Income can Affect Businesses

Over time, the amount that people earn (their income) increases.

However, incomes don't necessarily change at the same rate as inflation.

Income rises at a slower rate than inflation...

- People will have to spend a greater proportion of their income on things they really need — such as food.
- So they'll have less money left to spend on luxuries, such as going to the cinema, or buying new shoes — the demand for these products will go down.
- This means businesses that provide luxuries will suffer — their sales are likely to go down, leading to lower profits. They could lower their prices or spend more on advertising to increase demand again, but this is still likely to lead to lower profits.
- However, some businesses will benefit if people's incomes are relatively low. Stores selling goods at discount prices are likely to see sales go up as more customers will be making an effort to buy things as cheaply as they can.

If inflation is rising at a faster rate than income, income is said to be going down in 'real terms'.



Income rises at a faster rate than inflation...

- People will be spending a smaller proportion of their income on things they need. This means they'll have more money to spend on luxuries, and the demand for these goods and services will go up.
- Businesses providing luxuries will see an increase in sales and their profits are likely to increase.
- Stores selling goods at discount prices may see their sales and profit go down as people start worrying less about getting things for the cheapest possible price.



Protect yourself from falling prices — wear a hard hat...

Q1 George owns a fine dining restaurant. Explain how his sales might be affected if:

- Income is rising at a faster rate than inflation.
- Inflation is rising at a faster rate than income.

Inflation and Consumer Income

- 1 Explain **one** reason why a UK business which sells products globally may benefit when the inflation rate in the UK is low.

.....

.....

.....

[Total 3 marks]

- 2 **Figure 1** shows the percentage change in inflation and the average weekly wages in **country A** every year between 2006 and 2017.

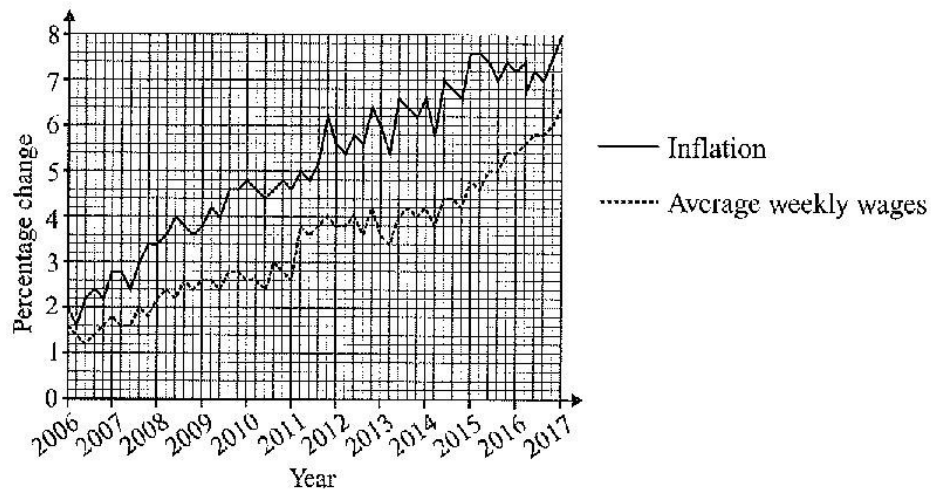


Figure 1

- a) Identify the year between 2006 and 2017 during which inflation first reached a percentage change of 5%.

.....

[1]

- b) Identify the percentage change in average weekly wages at the start of 2015.

.....

[1]

- c) Explain how the difference in the rate of increase of inflation and average weekly wages may have affected businesses which sell luxury items in **country A**, between 2006 and 2017.

.....

.....

.....

.....

[3]

[Total 5 marks]



Interest Rates

On to another economic condition now — interest rates. Many businesses and consumers will borrow money at some point. The amount of money they have to pay back depends on the interest rate.

Interest is Added to Loans and Savings

- 1) As you read on p.13, when you borrow money, you usually have to pay it back with interest — this means that you pay back more than you borrowed.
- 2) If you save money, you earn interest — the amount of money in your savings account will increase over time.

- The amount of interest you pay or earn depends on the interest rate — it's usually given as a percentage. The higher the interest rate, the more you pay or earn.
- In the UK, the Bank of England sets the base rate of interest — most other interest rates are linked to this. The base rate fluctuates (goes up and down) depending on how good the economy is.

No, Meera, I said it was about borrowing.

Low Interest Rates Lead to Increased Spending

- 1) When the interest rate is cut, it's cheaper to borrow money. But you get less interest when you save money at a bank.
- 2) When rates are low, firms and consumers borrow more and save less.
- 3) Consumers have more money to spend, so demand for goods and services goes up. This means that firms are likely to make more profit and may need to increase output.
- 4) Firms that borrow money to finance their spending (e.g. by using overdrafts and loans) will have smaller interest repayments, so they have more money available to spend on other parts of the business. They may also choose to borrow more while interest rates are low, e.g. if they want to grow the business.

High Interest Rates Lead to Decreased Spending

- 1) Increases in interest rates have the opposite effect to cuts — borrowing money becomes more expensive, but savers get better returns on their investments.
- 2) Firms and consumers will have less money available to spend — they'll be paying higher rates on money they've borrowed. They're also likely to be trying to save more, in order to take advantage of higher returns.
- 3) This reduces demand for products, so firms often sell less and their profits may go down.
- 4) It may also mean that firms can't afford to pay everyone who works for them — so some people may be made redundant, and unemployment may go up.

As revision increases, my interest rate goes down...

Interest rates can be tricky to get your head round. They're like a seesaw — if interest rates go down, spending goes up. If interest rates go up, spending goes down. Have another read to make sure you know why this happens.

Exchange Rates

Exchange rates are the final **economic condition** you need to know about — hurrah. Exchange rates tell you how **currencies** compare. They're really important for firms that **buy from** or **sell to** other **countries**.

Exchange Rates Convert between Currencies

- 1) If a company wants to **import** products, they'll have to pay for the product in the **currency** of the **country** it was made in. For example, if a British firm is importing goods from the US, they'll have to pay for them in **dollars**, rather than **pounds**.
- 2) An exchange rate is the **price** at which **one currency** can be **traded for another**.
- 3) Exchange rates are affected by the **economy** of the country that uses the currency, and by the **global economy**. This means they can **change** over time.

Importing means buying goods from another country. Exporting means selling goods to another country.

- In June 2016, the UK voted to leave the **European Union**.
- This created a lot of **uncertainty** about what would happen to the UK economy.
- As a result, the **value** of the **pound** dropped overnight.
- The day before the result was announced, **£1** was worth **\$1.48**. After the result was announced, **£1** was worth just **\$1.36**.

A Weak Pound is Good for Exporters, Bad for Importers

- 1) If the value of the pound **decreases**, you'll be able to **buy fewer dollars** (or other currency) for the **same price** as before.
- 2) Pounds are **cheaper**, so British **exports** become **less expensive abroad** — resulting in **more sales** and higher profits for British firms that export products to other countries.
- 3) The **weak pound** also makes it **more expensive** for **foreign firms to sell their products** in the UK. That's **good news** for British firms that compete with goods imported from abroad — they **won't** have to **reduce their prices** so much to stay competitive.
- 4) But it's **bad news** for **British firms** that use **imported raw materials** — these are now **more expensive** so the production costs of these firms are higher. They'll need to **increase** the price they **sell** their products for to cover their costs, which could cause their **sales** and **profits** to go down.
- 5) The result is that the UK will have **more exports** and **fewer imports**.

- If **£1 = \$1.50**, a British cricket ball that costs **£5** will sell in the US for $5 \times 1.50 = \$7.50$. And a baseball that cost **\$6** in the US can be sold for $6 \div 1.50 = £4$ in the UK.
- If the value of the pound falls so that **£1 = \$1.30** the **£5** cricket ball would sell in the US for $5 \times 1.30 = \$6.50$. The **\$6** baseball can now be sold in the UK for $6 \div 1.30 = £4.62$.

You don't need to be able to do these calculations — but make sure you understand how changing the exchange rate can affect the cost of importing or exporting.

A Strong Pound is Bad for Exporters, Good for Importers

- 1) An **increase** in the value of the pound makes **exports more expensive** and **imports cheaper**. It's just the **opposite effect** to the example above.
- 2) British firms that **export** products to other countries are likely to see their **sales** and **profits go down** — their products will be **more expensive** so fewer people will buy them. They may decide to **move** part of their business **abroad** so they can **trade** in the **currency** of the country where they **sell** their products, meaning they will be **less affected** by the exchange rate.
- 3) British firms that **import** raw materials will be able to make products **more cheaply**, so their profits may **go up**.



1 sultana = 0.84 raisins on the currant exchange...

This is a difficult page, so check you really understand it all. A weak pound means it's expensive to buy things from abroad, and cheap for people from abroad to buy things from us. A strong pound means the opposite.

Exchange Rates

Warm-Up

Fill in the gaps in the following passage, using the words on the right.

..... are goods that are bought from a different country.

..... are goods that are sold to a different country.

If the value of the British pound decreases, British exports will be

..... abroad.

more expensive

imports

exports

cheaper

- 1 Which of the following statements best describes what is meant by an 'exchange rate'? Put a cross (X) in **one** correct box.

- A The price at which products are sold.
- B The rate at which goods are exchanged between countries.
- C The rate at which one country imports products from another.
- D The price at which one currency can be traded for another.

☐
☐
☐
☐

[Total 1 mark]

- 2 A Chinese company that makes hats buys some of its raw materials from India. The company sells its products worldwide. Most of its income comes from the USA.

- a) The value of India's currency (INR) falls against China's currency (CNY). Explain how this change in exchange rate may affect how much it costs the Chinese company to make their hats.

.....

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.....

[3]

- b) The value of the USA's currency (USD) rises against China's currency (CNY). Explain how this change in exchange rate may affect the sales of the hats.

.....

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.....

.....

[3]

[Total 6 marks]



GCSE Business Studies – Year 10 Autumn Term

Knowledge and Understanding	Skills
<p>Pupils can explain and answer questions on the following topics:</p> <ul style="list-style-type: none"> Factors influencing business location The impact of globalisation on businesses Barriers to international trade How businesses compete internationally The impact of ethical and environmental considerations on businesses Methods of distribution The purpose of business operations Production processes Impacts of technology on production Managing stock The role of procurement 	<p>Demonstrates accurate knowledge and understanding of business concepts and issues throughout, including appropriate use of business terminology (AO1b).</p> <ul style="list-style-type: none"> • Detailed application of knowledge and understanding of business concepts and issues to the business context throughout (AO2). • Deconstructs business information and/or issues, finding detailed interconnected points with logical chains of reasoning (AO3a). • Draws a valid and well-reasoned conclusion based on a thorough evaluation of business information and issues (AO3b).
	<p>Sound application of knowledge and understanding of business concepts and issues to the business context although there may be some inconsistencies (AO2).</p> <ul style="list-style-type: none"> • Deconstructs business information and/or issues, finding interconnected points with chains of reasoning, although there may be some logical inconsistencies (AO3a). • Makes a judgement, providing a justification based on sound evaluation of business information and issues relevant to the choice made (AO3b).
	<p>Demonstrates mostly accurate knowledge and understanding of business concepts and issues, including appropriate use of business terminology in places (AO1b).</p> <ul style="list-style-type: none"> • Deconstructs business information and/or issues, finding interconnected points with chains of reasoning, although there may be some logical inconsistencies (AO3a).
	<p>Pupils can answer exam questions identifying one impact point and two linked strands.</p> <p>Pupils can use the correct calculations and formulas to answer numerical questions.</p> <p>Limited application of knowledge and understanding of business concepts and issues to the business context (AO2).</p> <ul style="list-style-type: none"> • Attempts to deconstruct business information and/or issues, finding limited connections between points (AO3a).