

External influences on business activity

A2

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Read first: **Business objectives**, **Stakeholders in a business**

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What you need to know

By the end of this topic you should be able to:

1. Political and legal

- Weigh up the advantages and disadvantages of **privatisation** (moving a business from the state to private owners) and of **nationalisation** (the reverse) in a given situation.
- Explain how a government can use **the law** to control employment practices, working conditions (including health and safety), wages, marketing behaviour, competition, where businesses locate, and the sale of particular goods and services.
- Explain how a change in political or legal factors affects a business and its decisions.

2. Economic

- Explain how a government can **help** businesses and encourage enterprise, and how it can **constrain** them.
- Explain how a government can deal with **market failure**.
- State the main **macroeconomic objectives**: low unemployment, low inflation and economic growth, and explain how the economy's performance against them affects businesses.
- Explain **monetary, fiscal, supply-side and exchange rate policies**, and how changes in them affect a business and its decisions.

3. Social and demographic

- Explain **corporate social responsibility (CSR)** and the issues it raises, such as honest accounting, paying incentives (bribes) to win contracts, and **social auditing**.
- Explain why a business must consider the needs of its **community**, including **pressure groups**.
- Explain **demographic change** (the size and make-up of the population) at local, national and global level, and how social and demographic change affects businesses.

4. **Technological**: explain how technological change affects a business and its decisions.

5. **Competitors and suppliers**: explain how they affect a business and its decisions.

6. International

- Explain why **international trading links** matter and how **trade agreements** affect businesses.
- Explain the role of **technology in international trade**.

- Weigh up the advantages and disadvantages a **multinational** can bring to a country, and explain the relationship between multinationals and governments.

7. Environmental

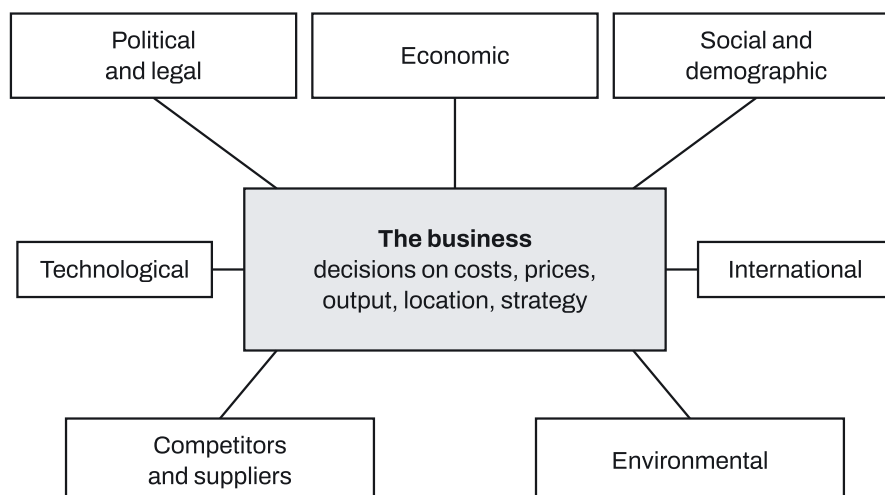
- Explain how **physical environmental issues** influence business behaviour.
- Explain how a business and its stakeholders use an **environmental audit**.
- Explain how the growing importance of **sustainability** affects businesses and their decisions.

CSR as a business objective and the triple bottom line are in the AS topic business objectives; stakeholders and their aims are in stakeholders in a business. Using PEST and SWOT to plan strategy is in the next topic, business strategy. Here you need how each outside force changes what a business can do.

Understand it

What "external influences" means

An **external influence** is anything outside the business that affects it but that it **cannot control**: laws, the economy, the population, technology, rivals, suppliers, other countries and the natural environment. The business can only **respond** to them.



Each can be a constraint or an opportunity

The same change can be a **constraint** (it holds the business back or adds cost) for one business and an **opportunity** (it opens a new market or cuts cost) for another. A tax on sugary drinks constrains a soft-drink maker but helps a bottled-water firm. Exam questions often say which one they want: answer only that side.

Every answer in this topic follows the same chain: **the change** → **what it does to costs, prices, demand or risk** → **the effect on revenue, profit, cash flow or growth** → **the decision the business takes** (raise prices, find a new supplier, delay an expansion, change its product, move abroad).

Political and legal influences

Privatisation moves a business (or a whole industry) from **state ownership to private owners**, for example by selling shares to the public. **Nationalisation** moves a private business **into state ownership**.

	Advantages	Disadvantages
Privatisation	The profit motive pushes managers to cut waste and improve service; competition may lower prices; the government receives money from the sale and no longer has to fund losses; private owners can raise finance for investment more easily	Owners may cut unprofitable services that people rely on (a rural bus route); a private monopoly may raise prices; jobs may be cut to raise profit; the state loses future profits
Nationalisation	The state controls a strategic or scarce resource (energy, water, minerals) and can secure supply for its own industries; it can keep running a service that is needed but loss-making; profits go to the state, not private shareholders; it stops a foreign takeover ; it can stop a monopoly charging very high prices and make it act in the public interest (for example cutting pollution)	It is costly to buy the business; the taxpayer covers losses; without the profit motive or competition it may become inefficient; political interference can slow decisions

"Advantages to the government" means reasons the **state** gains (control, revenue, security of supply, public interest); "advantages to a business customer" means what changes for a firm that **buys** from the industry (more reliable supply, better service, lower prices if competition rises).

How governments use the law to control business:

Area	What the law does	Effect on a business
Employment practices	Bans discrimination in hiring, pay and promotion; sets rules on contracts, dismissal and redundancy	Fairer recruitment; costs of following procedures; legal claims if it fails
Working conditions, health and safety	Maximum working hours, rest breaks, safe machinery, protective clothing, training	Safer, more motivated staff; extra costs and inspections
Wage levels	A minimum wage	Higher costs for labour-intensive firms; may raise prices or replace staff with machines; staff may work harder
Marketing behaviour	Bans misleading adverts and false claims; limits advertising of some products to children	Must check every claim; fines and bad publicity if it breaks the rules

Area	What the law does	Effect on a business
Competition	Bans price fixing between rivals and abuse of a dominant position; can block mergers	Cannot agree prices with rivals; a large firm may be stopped from taking over a competitor
Location decisions	Planning permission; zoning rules on where factories, shops and waste sites may go	Delays and extra cost; some sites ruled out
Particular goods and services	Licences, age limits, bans or heavy taxes on goods such as alcohol, tobacco, weapons and medicines	Restricted markets; paperwork; sometimes a protected market for licence holders

A **change** in law or government (a new party in power, a new regulation) affects a business through **costs of compliance**, **changes in demand**, **new opportunities** (a law that forces customers to buy a service the firm sells) and **uncertainty**, which makes planning harder.

Economic influences

Government help and encouragement of enterprise. Grants and subsidies; cheap or guaranteed loans; lower taxes for small or new firms; advice and training schemes; enterprise zones; less red tape; government contracts; investment in roads, ports, internet and education.

Government constraints on business. Taxes; regulation and licences; limits on pollution; minimum wages; competition rules; restrictions on imports or on foreign ownership.

Market failure is when a free market produces the wrong amount of a good, or at the wrong price, so society is worse off. Causes include **external costs** (pollution borne by others), under-supply of goods everyone benefits from (street lighting), **monopoly** power, and buyers lacking information. Governments respond with **taxes** on harmful goods, **subsidies** for helpful ones, **regulation** and fines (pollution limits, safety standards), providing goods themselves, competition law, and rules that make firms give information (labelling).

Macroeconomic objectives.

Objective	Meaning	Why it matters to a business
Low unemployment	Few people who want a job are without one	More people earning, so higher demand; but with very low unemployment, skilled staff are hard to find and wages rise
Low (and stable) inflation	The general level of prices rises slowly	High inflation raises input and wage costs, makes customers' real incomes fall and makes planning harder; very stable prices make contracts and pricing easier
Economic growth	Real GDP (the total output of the economy, after removing inflation) rises	Rising incomes raise demand, especially for income-elastic products such as luxuries; a recession (falling output) does the reverse

How much a business is affected depends on its product's **income elasticity of demand** (luxuries rise and fall most with incomes; necessities hardly change; cheap "inferior" goods may sell **more** when incomes fall), its **costs** (how much is labour, imported, or borrowed), and its **markets** (home or export).

Government policies to reach the objectives.

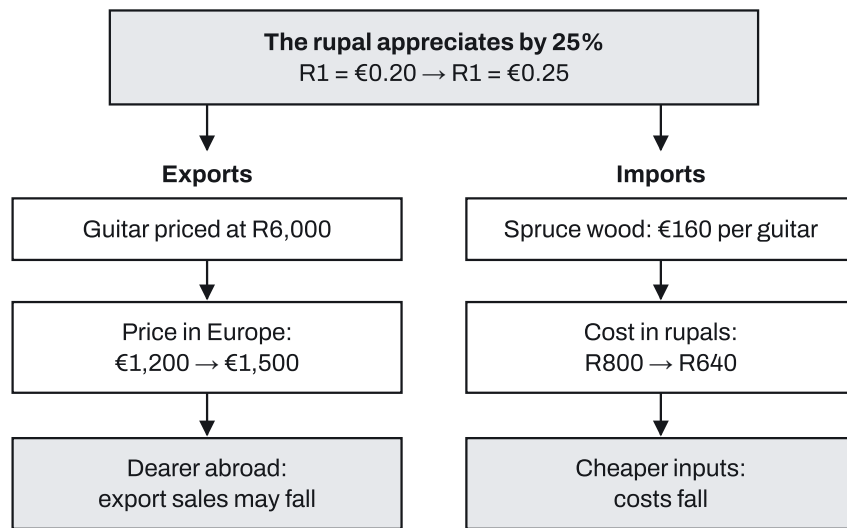
- **Monetary policy:** the central bank changes **interest rates** (and the money supply). A **rise** makes borrowing dearer for firms (higher interest payments, investment delayed) and households (loan and mortgage repayments rise, so less spending, especially on non-essentials); it is used to slow inflation. A **cut** does the reverse and is used to boost demand.
- **Fiscal policy:** changes in **taxation and government spending**. Different taxes hit different places: **income tax** changes households' disposable income and so demand; **corporation tax** changes the profit a company keeps after tax (and so retained profit for investment); **indirect taxes** (sales tax, VAT) change prices. Government spending on roads, schools or hospitals creates orders for some firms and improves infrastructure for all. Expansionary policy (cut taxes, spend more) raises demand; contractionary policy reduces it.
- **Supply-side policy:** aims to make the economy produce more efficiently in the long run: education and training, privatisation and deregulation, lower taxes on enterprise, help with research. Benefits arrive **slowly**, often over years.
- **Exchange rate policy:** managing the value of the currency (for example by changing interest rates or buying and selling currency).

Exchange rates. The **exchange rate** is the price of one currency in terms of another. Write it as "units of foreign currency per one unit of home currency".

- **Appreciation:** the home currency rises in value, so each unit buys **more** foreign currency. **Exports become dearer** abroad (in foreign currency) and **imports become cheaper** at home.
- **Depreciation:** the home currency falls in value. **Exports become cheaper** abroad and **imports become dearer**.
- **Fluctuation** (frequent ups and downs) adds **uncertainty**: a business cannot be sure what its foreign sales will earn or what its imported inputs will cost, so pricing, budgeting and investment abroad are harder to plan.

Two formulas turn a price from one currency to the other:

$$\text{price abroad} = \text{home price} \times \text{exchange rate}, \quad \text{home cost of an import} = \frac{\text{foreign price}}{\text{exchange rate}}.$$



A depreciation has the opposite effects

The overall effect on a business depends on **the balance between what it exports and what it imports**, how **price elastic** demand for its exports is, whether it **invoices** foreign customers in their currency or its own, whether it **hedges** (agrees a future exchange rate in advance with a bank), and whether the change is **temporary or long-lasting**. Appreciation also makes **investing abroad** cheaper (building a factory overseas costs fewer home-currency units); depreciation makes it dearer.

Social and demographic influences

CSR means a business takes responsibility for how its decisions affect all its stakeholders, society and the environment, not only its owners' profit. Issues the syllabus names:

- **Accounting practices:** publishing honest, complete accounts, not hiding debts or inflating profit to mislead investors, lenders or tax authorities.
- **Paying incentives for the award of contracts:** offering money or gifts to an official or a buyer to win a contract is **bribery**. It is illegal in most countries, unfair to competitors, and a scandal can destroy a firm's reputation.
- **Social auditing:** an independent check of a business's effect on society (its staff, suppliers, community and environment), often published as a report, so stakeholders can see how it is doing against its CSR aims.

CSR **benefits** a business through a stronger brand and image, loyal customers (who may pay more, so demand is less price elastic), easier recruitment and lower labour turnover, and support from investors and government. Its **costs** are higher spending now (fairer prices to suppliers, cleaner methods, audits), lower short-term profit, and closer scrutiny. The **shareholder view** says a business's job is to make profit within the law; the **stakeholder view** says it must balance every group's interests.

The community and pressure groups. A **pressure group** is an organised group that tries to change the behaviour of businesses or governments (environmental, consumer or local residents' groups). It uses publicity, social media campaigns, protests, boycotts and lobbying the government. A business that ignores

its community risks a damaged reputation, lost sales, delays to planning permission and new laws; one that listens may win local support, staff and customers.

Demographic change means changes in the population: its size, **age structure** (an ageing or a young population), birth and death rates, **migration**, household size and where people live. It acts at three levels:

- **Local:** a new housing estate or people moving away from a town changes demand for nearby shops and services, and the supply of local workers.
- **National:** an ageing population raises demand for health care, leisure for retired people and adapted housing, and shrinks the supply of young workers; a young population raises demand for education and starter homes.
- **Global:** world population growth, migration and the rising middle class in developing economies create new markets and new competitors.

Social change covers changing tastes, attitudes and lifestyles: healthier eating, working from home, shopping online, concern for ethics and the environment. Businesses that spot a trend early can gain sales; those that ignore it lose them.

Technological influences

New technology changes **products** (new features, whole new products), **processes** (automation, robots, computer-aided manufacturing) and **marketing and selling** (online selling, social media, customer data, artificial intelligence). It can cut costs, raise quality and productivity, and give a **unique selling point** or **first-mover advantage**. It also brings **high research and development and equipment costs**, training needs, resistance from staff who fear for their jobs, and the risk that equipment becomes **out of date** quickly. A business that does not keep up may be overtaken by rivals that do.

Competitors and suppliers

Competitors. A new or stronger rival gives customers more choice, so the business may lose sales and market share, and may have to **cut prices**, **cut costs**, **spend more on promotion**, **innovate** to differentiate its product, or look for **new markets**. A rival with **economies of scale** can undercut its prices. Competition can also push a business to become more efficient.

Suppliers affect a business through:

- **Price** of inputs: a supplier that raises prices squeezes margins, especially when the business has **only one** possible supplier (the supplier has power).
- **Quality:** poor materials mean poor finished products, complaints and waste.
- **Reliability:** late or missed deliveries stop production and lose orders.
- **Flexibility:** whether it can supply more, or less, at short notice.
- **Credit terms:** how long the business has to pay, and any discount for paying early, which affect cash flow.
- **Innovation:** new or better materials.
- **Ethics:** a supplier's poor labour or environmental practices can damage the buyer's reputation.

- **Supply-chain risk:** tariffs, wars or disasters abroad that disrupt the supplier.

The **decisions** a business may take in response: change its selling price, hold more **buffer inventory**, find a second or alternative supplier, buy direct from abroad, pay early to get a discount or pay later to protect cash, change its product range, tighten quality checks, or make the input itself (backward vertical integration).

International influences

International trading links let a business sell to far bigger markets, buy cheaper or better inputs, and spread risk across countries; they also expose it to foreign competitors, exchange rate changes and trouble abroad.

Trade agreements between countries reduce **trade barriers**: **tariffs** (taxes on imports) and **quotas** (limits on the amount imported). In a **free trade area** members remove barriers between themselves but each sets its own barriers against non-members. For a business inside the agreement: cheaper imported inputs, easier and cheaper exports to member countries, more foreign competitors in its home market, and possibly new rules or standards to meet.

Technology in international trade: online selling reaches customers worldwide; digital payments, online translation and video calls make foreign deals easier; container shipping, tracking and logistics software cut transport costs; data lets firms manage supply chains across many countries.

A **multinational** (a business with production or service operations in more than one country) can bring a host country:

Advantages

Jobs and training; investment in factories and infrastructure; new technology and skills; tax revenue; exports that earn foreign currency; more choice for consumers; orders for local suppliers

Disadvantages

Local firms may be forced out; profits sent back to the home country; low wages or poor conditions; pollution and use of natural resources; senior jobs given to foreign staff; it may leave suddenly if costs rise elsewhere; its size gives it political influence

Multinationals and governments. Governments compete to attract them with grants, tax breaks and cheap land, because of the jobs and investment. They also need to control them: taxing their profits (and stopping **transfer pricing**, where a multinational moves profit to a low-tax country on paper), setting labour and environmental standards, and sometimes requiring local partners. A large multinational can bargain hard, threatening to move elsewhere.

Environmental influences

Physical environmental issues include climate change, extreme weather (floods, droughts), air and water pollution, waste, and running out of non-renewable resources. They influence business through new laws and taxes (carbon taxes, emission limits), higher costs of scarce materials and energy, damage to sites and supply chains, and changing customer demand. A business may respond by cutting its emissions and waste, switching to renewable energy and recycled materials, or redesigning products.

An **environmental audit** is a check of a business's effect on the natural environment (energy and water use, emissions, waste, use of resources) and how sustainable its activities are, measured against targets or legal limits. Uses:

- **For the business:** it shows **where to improve**, so managers can set clear, measurable targets and monitor progress; it often finds savings (less energy and waste, lower costs); it reduces the risk of breaking environmental laws; it gives evidence for better decisions; published results improve its image and can motivate staff who care about the environment.
- **For stakeholders:** customers and pressure groups can see whether green claims are true (**transparency**); investors and lenders judge risk; the government checks compliance; the community sees the effects on its area.

Drawbacks: it costs time and money, may reveal problems that are expensive to fix, and bad results that become public can harm the business.

Sustainability means meeting today's needs without harming the ability of future generations to meet theirs. Its growing importance affects businesses through customer demand for sustainable products (a chance to charge more or win market share), higher costs of changing processes, investor and lender pressure, new laws, and the risk of bad publicity for firms seen as harmful. Many costs come now while the benefits (savings, reputation, avoiding future fines) come later.

Key facts and formulas

There is no formula list for this subject in the exam. "Learn it" means you must remember it.

Formula or fact	Status
Percentage change = $\frac{\text{new} - \text{old}}{\text{old}} \times 100$	Learn it
With the exchange rate as foreign currency per one unit of home currency: price abroad = home price $\times$ exchange rate	Learn it
With the exchange rate as foreign currency per one unit of home currency: home-currency cost of an import = $\frac{\text{foreign price}}{\text{exchange rate}}$	Learn it
Appreciation: exports dearer abroad, imports cheaper. Depreciation: exports cheaper abroad, imports dearer	Learn it
Change in yearly interest = loan $\times$ change in interest rate	Learn it
Monetary policy: interest rates and money supply. Fiscal policy: taxation and government spending. Supply-side policy: long-run efficiency (training, deregulation, privatisation)	Learn it
Macroeconomic objectives: low unemployment, low inflation, economic growth	Learn it

Formula or fact	Status
Privatisation: state to private ownership. Nationalisation: private to state ownership	Learn it
External influence: a factor outside the business that it cannot control, which can be a constraint or an opportunity	Learn it
Environmental audit: a check of a business's effect on the environment and how sustainable it is	Learn it

How to do it

We have tagged 36 questions on this topic (2021–2026), all on Paper 3 and Paper 4. One of them (a Paper 4 question on government policy and future strategy) is two types at once, so the counts add up to 37.

Question type	Questions
Analyse the impact of changes in the external environment	10
Analyse or evaluate the impact of the economy and government economic policy	9
Analyse or evaluate the impact of exchange rate changes	4
Analyse or evaluate corporate social responsibility	4
Analyse or evaluate sustainability and environmental audits	3
Advise on how external influences affect future strategy (Paper 4)	2
Analyse or evaluate the impact of legal changes	2
Analyse the advantages of privatisation or nationalisation	2
Evaluate the impact of joining a trade agreement	1

The marks are for four skills: **K** (knowledge: a correct definition or point), **App** (application: using facts from the case, not just copying them), **An** (analysis: a chain of cause and effect) and **Eval** (evaluation: a supported judgement). Below, (K), (App), (An) and (Eval) after a sentence show the mark it earns.

The two Paper 3 shapes. Almost every question here is one of these:

- **"Analyse two ..." [8]:** 2 K, 2 App, 4 An. Write exactly **two** paragraphs, one point each. Each needs a key term or point (K), a fact from the case used to make the point (App), and a chain of **at least two links** (An) ending in profit, sales, costs, cash flow or a decision. One point fully developed can still earn 3 of the 4 analysis marks. No judgement is needed, so don't spend time on one. (In 2021–2022 this shape was worth 10 marks.)
- **"Evaluate ..." [12]:** 2 K, 2 App, 2 An, 6 Eval. Define the key term, analyse two or three effects (positive and negative) in context, then spend about half the answer weighing them: which matters **most for this business**, and what it **depends on**. (In 2021–2022 this shape was worth 16 marks.)

1. Analyse the impact of changes in the external environment (10 questions)

The case describes several outside changes (higher inflation, falling incomes, new trade barriers, a new rival, a single supplier, a new technology, a change in tastes). You pick two and trace each to the business. The question may ask for impacts in general, or only **threats**, **constraints** or **opportunities**: then only that side scores.

1. **K**: a short definition: external influences are factors outside the business's control that can constrain it or create opportunities. Then name each change correctly (inflation, recession, a tariff, a social trend).
2. **App**: tie each change to something specific in the case: what the business sells, who its customers are, where its inputs come from, its objectives, its numbers.
3. **An**: build the chain: change → costs, prices or demand → revenue and profit → a decision.
4. Stop after two points. Don't add a conclusion.

Variants:

- **One named influence** (suppliers, competitors, technology): the two points are two different effects of that one influence. For suppliers, link each effect to a **decision** the business takes (change prices, hold buffer inventory, look for another supplier, change payment timing, tighten quality control); a chain that never reaches a decision stays in the lower band.
- **A technology question tied to a decision** (whether to develop a new product): effects include first-mover advantage and a unique selling point, higher sales and image as an innovator, but also high research and equipment costs and rivals catching up.
- **An older 16-mark evaluate version**: as below in type 2, with a judgement on which change matters most.

2. Analyse or evaluate the impact of the economy and government economic policy (9 questions)

The case gives a change in interest rates, taxes, government spending, inflation, unemployment or growth, or a list of new policies. You analyse (8–10 marks) or evaluate (12–16 marks) the effect on the business.

1. **K**: define the policy or term (monetary policy, fiscal policy, inflation, recession).
2. **Read exactly which change** the case gives. An income tax cut works through **households' spending**; a corporation tax cut works through **the firm's retained profit**; an interest rate change works through **borrowing costs** for the firm and its customers.
3. **App**: link to the business's facts: is its product a luxury or a necessity (income elasticity)? Is it heavily borrowed (high gearing) or planning a loan-financed expansion? Does it sell to households or other businesses? Does it export or import?
4. **An**: one chain per change, for example: interest rates rise → the business's overdraft costs more each month → less cash is left for stock and wages → it postpones opening a new branch.
5. **Eval**: which change has the **biggest effect**, and whether the overall effect is good or bad; what it depends on: how big and how lasting the change is, time lags (infrastructure spending takes years), income elasticity, customer confidence (people may save a tax cut rather than spend it), the business's gearing.

Variants:

- **Several policies at once:** choose the two or three that matter most to this business and analyse them in depth, rather than listing every one.
- **The Paper 4 version** (20 marks): new government policies (grants, a minimum wage rise, education reform, removing trade barriers) and the business's future strategy. See type 6.

3. Analyse or evaluate the impact of exchange rate changes (4 questions)

The case says the currency has appreciated, depreciated or is fluctuating. You evaluate the impact (12 marks) or analyse opportunities and threats (10 marks).

1. **K:** define the exchange rate and the change (appreciation: the currency buys more foreign currency; depreciation: less; fluctuation: unpredictable movements).
2. **Work out the direction correctly.** Depreciation: exports cheaper abroad, imports dearer. Appreciation: the reverse. If you are given figures, use the two formulas to show the change in price or cost.
3. **App:** which of the business's sales are exports, which of its inputs are imported, and whether it plans to invest abroad.
4. **An:** chains for **both** sides: exports (price competitiveness → sales → revenue) and imports (input costs → margins or prices → profit).
5. **Eval:** which side is bigger for this business; what it depends on: the share of costs that are imported, price elasticity of demand abroad, whether contracts are invoiced in a foreign currency, hedging, whether the change is short-term or lasting. For fluctuation, the main problem is **uncertainty** in planning and pricing.

Variant: "one opportunity and one threat" means exactly one of each: for an appreciation, cheaper imported inputs (opportunity) and dearer exports (threat).

4. Analyse or evaluate corporate social responsibility (4 questions)

1. **K:** define CSR. Benefits: image and brand, customer loyalty (less price-elastic demand), staff motivation and retention, competitive advantage. Costs: higher spending, lower short-term profit, cash flow pressure.
2. **App:** the business's actual CSR actions in the case (what it buys, from whom, how it treats staff, its packaging, its mission).
3. **An:** chains such as: buying from local producers at fair prices → higher costs → higher prices or lower margins; a reputation for responsibility → loyal customers and a premium price → higher profit.
4. **Eval** (12–16 marks): weigh short-term cost against long-term gain; financial against non-financial factors; whether **its customers actually care** (a business buyer may care mostly about price); the owners' objectives; the shareholder against the stakeholder view.

Variant: "how far CSR should influence a decision" (whether to expand, where to locate): treat CSR as one factor alongside profit, investment appraisal results and objectives, and judge its weight. Ethical issues in the case (an official asking for a payment, residents' protests) are strong application.

5. Analyse or evaluate sustainability and environmental audits (3 questions)

1. **K**: define an environmental audit or sustainability.
2. **Advantages of an environmental audit**: shows where to improve; supports clear, measurable targets; better-informed decisions and lower risk; cost savings from less waste and energy; meets stakeholders' expectations; transparency that builds trust; a culture that motivates staff. Take two and build each into a chain in context.
3. **Evaluating sustainability**: analyse the costs (new equipment, dearer materials) and the benefits (reputation, premium prices, lower energy costs, meeting future laws). If there is an investment appraisal result (a negative NPV, a long payback), weigh it against the mission and the non-financial benefits, and note that the figures are only estimates and may not cover the whole life of the investment.

6. Advise on how external influences affect future strategy (Paper 4) (2 questions)

Paper 4's 20-mark questions are marked roughly 3 K, 2 App, 8 An, 7 Eval. Without knowledge no other marks are given.

1. **K**: name and explain the external influences (political and legal, economic, social, technological, competitors, environmental; PEST is a useful frame).
2. **App**: use the appendices: each external fact the case gives.
3. **An**: take an influence, show how it helps or harms the strategy (developed chain), then **counter-balance** it with a reason the effect may be smaller or different. Do this for at least two influences.
4. **Eval**: advise. Judge **how far** external influences decide the strategy's success, which influence matters most, and what the judgement depends on (how fast the environment changes, the business's finance, whether the influence actually touches its niche). You can contrast them with internal factors, but only to weigh them. Suggest what the business should do (research, flexible plans).

7. Analyse or evaluate the impact of legal changes (2 questions)

1. **K**: define the change (a law or regulation that constrains or supports business activity; a minimum wage; a health and safety rule).
2. **App**: what the case says about the business's staff, products or processes that the law touches (how many low-paid workers, what waste it produces).
3. **An**: costs of compliance → prices or profit; and any upside: better-motivated staff, a cleaner image, rivals who cannot comply leaving the market. A balance of a cost and a benefit for one law counts as developed analysis.
4. **Eval** (16 marks): judge by the size of the extra cost against revenue, how quickly it must comply, how competitors are affected, and whether the business can pass costs on.

8. Analyse the advantages of privatisation or nationalisation (2 questions)

1. **K**: define it (1 mark): privatisation moves a business from state to private ownership; nationalisation the reverse.

2. **Read whose advantages** are asked for: the government's, or a business that uses the industry's output. Disadvantages score nothing.
3. **Nationalisation, advantages to the government:** control of a scarce or strategic resource and secure supply for home industries; guaranteed funding for research or production; profits to the state; keeps a needed but loss-making activity going; prevents a foreign takeover; stops monopoly pricing; makes the business act in the public interest. Chain each to a national goal (growth, less reliance on imports, money for public services).
4. **Privatisation, advantages to a business customer:** efficiency from the profit motive, competition, investment, so more reliable supply and better service, perhaps lower prices → lower costs and fewer production stoppages for the customer.

9. Evaluate the impact of joining a trade agreement (1 question)

1. **K:** a free trade area removes tariffs and quotas between members; members still set barriers against non-members.
2. **An:** cheaper imported inputs → lower costs and margins up; easier exports to rich member markets → more sales; but more competition at home from member producers → lower prices and sales.
3. **Eval:** depends on how much of its input is imported, how strong and differentiated its products are against members' producers, and brand loyalty in the new export markets.

Worked examples

Example 1

Harbourlight Boatyard (HB) builds and repairs small fishing boats in country M; 70% of its revenue comes from repairs. The government has raised the tax on diesel fuel, so its price has risen from 1.20 dollars to 1.38 dollars a litre. A typical fishing boat in HB's harbour uses 400 litres a week. A new law will require every fishing boat to carry an electronic locator beacon by 2028. HB can fit one for 350 dollars, and 600 boats use the harbour.

Analyse two impacts on HB of these changes in its external environment. [8]

The diesel tax rise (a constraint). External influences are factors outside HB's control, such as government tax decisions (K). The diesel price rises by $\frac{1.38 - 1.20}{1.20} \times 100 = 15\%$, so a boat using 400 litres a week now pays $400 \times 0.18 = 72$ dollars more each week (App). HB's customers are fishermen whose running costs have risen, so they are likely to postpone repairs that are not urgent (An), which hits the 70% of HB's revenue that comes from repairs and cuts its profit (An).

The beacon law (an opportunity). A new law forces every fishing boat to have a beacon fitted (K). With 600 boats in the harbour at 350 dollars each, the work is worth up to $600 \times 350 = 210,000$ dollars before 2028 (App). Because fitting is compulsory, demand does not depend on the fishermen's falling profits (An), so HB could decide to train staff to fit beacons and use them to bring customers in for other repairs, raising revenue (An).

Each point has K, App and a two-link chain ending in a decision or profit: $2 K + 2 \text{ App} + 4 \text{ An} = 8$.

Example 2

Nordvale Guitars (NG) makes acoustic guitars in country P, whose currency is the rupal (R). It sells each guitar for R6,000 and exports 60% of its output to Europe, where its guitars compete with many other makers. Each guitar uses spruce wood imported from Europe at €160. Over the past year the rupal has appreciated from $R1 = €0.20$ to $R1 = €0.25$.

Evaluate the impact on NG of the appreciation of the rupal. [12]

Knowledge. The exchange rate is the price of one currency in terms of another; an appreciation means each rupal now buys more euros (K). This makes exports dearer abroad and imports cheaper at home (K).

Exports. At the old rate a guitar cost European buyers $6,000 \times 0.20 = 1,200$ euros; now it costs $6,000 \times 0.25 = 1,500$ euros, a rise of 25% (App). With many rival makers in Europe, buyers can easily switch, so NG's export sales are likely to fall (An), and since exports are 60% of its output, its revenue and capacity utilisation could fall sharply (An).

Imports. The wood for each guitar used to cost $\frac{160}{0.20} = 800$ rupals and now costs $\frac{160}{0.25} = 640$ rupals, a saving of R160 per guitar (App). Lower costs raise the profit margin on every guitar, including the 40% sold at home.

Evaluation. The export effect is likely to be far bigger than the import effect (Eval). If NG keeps its euro price at €1,200 to protect sales, it receives only $\frac{1,200}{0.25} = 4,800$ rupals per guitar, R1,200 less than before, while the cheaper wood saves only R160: a net loss of R1,040 per exported guitar (Eval). How much NG suffers depends on how price elastic European demand is: if its guitars have a strong brand and loyal players, it could raise the euro price part of the way and lose few sales (Eval). It also depends on whether the appreciation lasts; if it may reverse, NG could protect itself by agreeing future exchange rates with its bank, and in the longer term by selling more at home or in markets whose currencies have not fallen against the rupal (Eval). Overall, because NG relies on exports and imports only a small part of its costs, the appreciation is a serious threat to its profit unless its brand lets it hold its euro prices up (Eval).

The marks: 2 K, 2 App, 2 An, and 6 Eval for a judgement in context with the numbers, which side is bigger, and what it depends on.

Example 3

Ridgeway Cranes (RC) hires out cranes to construction companies. Its revenue is 4 million dollars a year, 35% of it from road-building projects paid for by the government. RC has a 5 million dollar bank loan at a variable interest rate and made a profit of 800,000 dollars last year. The central bank has raised its interest rate from 4% to 6% to reduce inflation, and the government has announced a 20% cut in its spending on new roads.

Evaluate the likely impact on RC of these changes in monetary and fiscal policy. [12]

Knowledge. Monetary policy is the central bank's use of interest rates to control inflation; fiscal policy is the government's use of taxation and spending (K). A rise in interest rates and a cut in government spending are both contractionary: they reduce demand in the economy (K).

Interest rates. RC's yearly interest rises from $5,000,000 \times 0.04 = 200,000$ to $5,000,000 \times 0.06 = 300,000$ dollars, an extra 100,000 dollars (App). If nothing else changes, profit falls from 800,000 to 700,000 dollars, a fall of $\frac{100,000}{800,000} \times 100 = 12.5\%$ (An). Construction companies also pay more to borrow, so some private building projects will be delayed, reducing demand for crane hire (An).

Government spending. Road projects bring in $4,000,000 \times 0.35 = 1,400,000$ dollars a year. If RC's road work falls in line with the 20% cut, it loses $1,400,000 \times 0.20 = 280,000$ dollars of revenue (App).

Evaluation. The spending cut is likely to matter more than the interest rate rise: the possible loss of 280,000 dollars of revenue is larger than the 100,000 dollars of extra interest, and many of RC's costs (the cranes, the loan) are fixed, so lost revenue falls straight through to profit (Eval). But the effect depends on timing: projects already started will usually continue, so the cut may take a year or more to reach RC, while the extra interest starts at once (Eval). It also depends on how long the high rate lasts; if inflation falls, the central bank may cut it again (Eval). RC could reduce the damage by repaying some of the loan or switching to a fixed rate, and by looking for work on private projects that are less affected, such as factory or energy sites (Eval). Overall, RC faces a squeeze on profit from both sides, with the loss of road work the bigger and longer-lasting threat (Eval).

Common mistakes

- **Copying the case instead of using it.** Repeating that "inflation has risen to 7%" earns nothing on its own. Use the fact to make a point: what it does to this firm's costs or customers.
- **Getting exchange rates backwards.** Saying a depreciation makes exports dearer is the most common error. Depreciation: exports cheaper, imports dearer. Check your direction with a quick number.
- **Mixing up the taxes.** An income tax change affects households' spending; a corporation tax change affects the company's profit after tax. Read which one the case changes.
- **Writing about the economy, not the change asked about.** If the question names particular policy changes, analyse those changes, not the general state of the economy.
- **Explaining the policy but not the business.** Knowing that higher interest rates make borrowing dearer earns K; the marks come from what that does to this business (its loan, its customers, its plans).
- **Answering the wrong side.** If the question asks for threats, opportunities, advantages or constraints, the other side gets no credit.
- **One-link chains.** "Costs rise, so profit falls" is limited analysis. Add the step in between or after: who pays more, for what, and what the business then decides.
- **Evaluating in an "analyse" answer.** Analyse questions have no marks for judgement; use the time to develop your two chains.
- **Unsupported judgements.** "Overall the effect is positive" with no reason earns little. Say why, using the case, and what the judgement depends on.

- **Misreading who changes ownership.** In a privatisation question, the business in the case is usually a customer of the privatised industry, not the business being sold.

How to get the marks

- **Command words.** *Analyse*: develop points into chains of cause and effect, in context, no judgement needed. *Evaluate*: analyse both sides, then make a supported judgement in context. *Advise* (Paper 4): weigh the options or influences and recommend, with reasons.
- **[8] "analyse two ..."**: two paragraphs. In each: a key term (K), a case fact used, not copied (App), and two or more links (An). Only the best two points are marked, so a third point wastes time.
- **[12] "evaluate ..."**: 2 K, 2 App, 2 An, 6 Eval. The top band needs a judgement **about this business** that draws on your analysis: which effect is biggest, why, and what it depends on.
- **Use the numbers.** A quick calculation from the case (a price in the foreign currency, extra interest on a loan, a percentage change in costs) is strong application and helps your judgement.
- **Name the link to a decision.** Many mark schemes reward a chain that ends in what the business will do (raise its price, delay a project, change supplier).
- **"It depends on ..."** gives evaluation its substance: income or price elasticity, how long the change lasts, time lags, how much is imported or exported, gearing, how competitors react, what customers care about.
- **Time**: allow about 1.5 minutes per mark; plan the 12-mark answers before writing.

Quick check

1. A business in country Z sells sofas abroad for Z9,000 each. The exchange rate falls from $Z1 = 0.08$ to $Z1 = 0.06$. (a) Find the dollar price of a sofa before and after. (b) By what percentage has the dollar price fallen? (c) The business also imports a machine priced at \$48,000. Find its cost in zels before and after.
2. Give two advantages to a government of nationalising its country's only oil refinery.
3. State four areas of business activity that a government can control by law.
4. Analyse one advantage to a chain of hotels of carrying out an environmental audit. **[4]**
5. State two advantages and two disadvantages that a multinational might bring to a host country.

Answers

1. (a) Before: $9,000 \times 0.08 = 720$ dollars. After: $9,000 \times 0.06 = 540$ dollars. (b) $\frac{720 - 540}{720} \times 100 = 25\%$.
 (c) Before: $\frac{48,000}{0.08} = 600,000$ zels. After: $\frac{48,000}{0.06} = 800,000$ zels. The depreciation makes exports cheaper abroad and imports dearer.
2. Any two: the government controls the country's fuel supply and can keep it flowing to home industries; it can keep the refinery open even if it makes a loss; profits go to the state for public spending; it prevents a foreign company from taking it over; it can stop the refinery charging monopoly prices.
3. Any four: employment practices; working conditions and health and safety; wage levels (a minimum wage); marketing behaviour; competition; location decisions; the sale of particular goods and services.
4. An environmental audit measures a business's effect on the environment (K). The audit could show that the hotels' laundry and air-conditioning use far more energy and water than needed (App). Managers can then set targets to cut them, lowering running costs (An), and publish the improvement to attract guests who choose hotels with green credentials, raising occupancy and profit (An).
5. Advantages (any two): jobs and training; investment and new technology; tax revenue; exports; orders for local suppliers. Disadvantages (any two): local firms forced out; profits sent abroad; pollution or overuse of resources; low wages or poor conditions; may leave suddenly; political influence.

Past questions to try

- 9609/33/O/N/23 Q1: two constraints from changes in the external environment.
- 9609/32/F/M/24 Q5: the impact of an appreciation of the currency.
- 9609/31/M/J/24 Q5: how far CSR should influence a decision to expand.
- 9609/32/M/J/24 Q5: joining a trade agreement.