

Cambridge IGCSE · Business Studies 0450 · Notes

Environmental and ethical issues

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What you need to know

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

1. **Explain how business activity can harm the environment**, for example by adding to global warming, and why environmental concerns can be both an **opportunity** and a **constraint** for a business.
2. **Explain externalities**: the **external costs** and **external benefits** that a business decision can create for people outside the business.
3. **Explain sustainable development** and the ways a business can contribute to it.
4. **Explain how and why a business might respond to environmental pressures and opportunities**, including pressure from **pressure groups**.
5. **Explain the role of legal controls** over business activity that affects the environment, such as pollution controls, and how they affect a business.
6. **Identify the ethical issues a business might face**, including the **conflict between profit and ethics**.
7. **Explain how a business might react and respond to ethical issues**, such as child labour or paying fair prices to suppliers.

Understand it

Why these issues matter to a business

A business does not work in a bubble. Its factories, shops, lorries and suppliers affect the air, the land, the water and the people around it, and the people around it can push back: customers can stop buying, campaigners can make the news, and governments can pass laws. So environmental and ethical issues are **external influences** on a business, like the economy.

Each issue can be a **constraint** (it limits what the business can do or raises its costs) or an **opportunity** (it opens a way to win customers, cut costs or stand out). The same issue is often both at once:

- A new law against single-use plastic is a **constraint** for a drinks maker, which must change its bottles, but an **opportunity** for a business that makes glass or paper alternatives.

- Customers who care about the planet are a **constraint** on a business that pollutes, because they may stop buying, but an **opportunity** for a business that can prove it is clean, because they may pay more for its products.

Most exam questions on this topic ask what a named business could **do**, or how an issue **affects** it. Keep two questions in mind and you will rarely go wrong: *what does this change cost the business?* and *what does it gain the business?*

How business activity affects the environment

Almost every business uses resources and produces waste. The main ways business activity harms the environment are:

- **Air, water and noise pollution:** smoke and fumes from factories and vehicles that damage health; chemicals washed into rivers that kill fish; machines and lorries running day and night.
- **Greenhouse gases and global warming:** burning **fossil fuels** (coal, oil and gas) releases carbon dioxide, which traps heat in the atmosphere, so the Earth warms and weather becomes more extreme.
- **Using up land:** factories, mines and roads built on green space, and forests cut down (**deforestation**), so wildlife loses its habitat.
- **Using up natural resources:** some are **non-renewable** (oil, metals); others, such as fish and trees, are renewable only if given time to grow back.
- **Waste:** packaging, offcuts and old products sent to landfill, much of it slow-to-rot plastic.
- **Congestion:** lorries and delivery vans adding to traffic jams.

A business's **carbon footprint** is the total amount of greenhouse gases its activities produce, including from transporting its goods.

Externalities: private and external costs and benefits

When a business makes a decision, such as building a new factory, it weighs up **its own** costs and benefits. These are **private** costs and benefits:

- **Private costs** are paid by the business itself: wages, materials, rent, energy bills, the cost of the building.
- **Private benefits** are gained by the business itself: revenue from sales, profit.

But the decision also affects people who had no say in it: neighbours, the local community, other businesses, the government, wildlife. These effects on **third parties** are called **externalities**.

- **External costs** are the costs that a business's activity places on the rest of society, which the business itself does not pay. Examples: smoke that makes neighbours ill, a river polluted so fishermen catch less, traffic jams caused by delivery lorries, the loss of a park or forest, noise at night.
- **External benefits** are the gains to the rest of society, other than the business, that come from its activity. Examples: jobs for local people, so unemployment falls in the area; taxes paid to the government, which pays for schools and hospitals; new roads or a railway link built for the factory that local people can use too; more orders for local suppliers and shops; training that gives workers skills they keep.

	Private <i>the business pays or gains</i>	External <i>third parties pay or gain</i>
Costs	wages, materials rent, energy bills	smoke and noise traffic congestion lost green space, wildlife resources used up
Benefits	revenue profit	jobs for local people taxes for government new roads orders for local suppliers

Externalities are the shaded column: they fall on people outside the business.

The test is always **who pays or who gains**. The wages a factory pays are a private cost to the business; the jobs those wages provide for an area with high unemployment are an external benefit to the community. The fuel a lorry burns is a private cost; the fumes and the traffic jam it adds to are external costs.

A business left alone has little reason to cut costs it does not pay: dumping waste in a river saves it money while the people downstream bear the cost. That is why governments pass laws, pressure groups campaign, and some customers choose businesses that clean up after themselves.

Sustainable development

Sustainable development is development that meets the needs of people today without putting the needs of **future generations** at risk. For a business, it means producing in ways that do not damage the environment or use up resources faster than they can be replaced, so the business, and the world it depends on, can carry on in the future.

The key idea is **the future**: a fishing business that catches every fish in the sea this year has nothing to catch next year. A sustainable fishing business catches only as many as can be replaced by new fish growing up.

The way (k)	What changes	Effect for the future
Use renewable energy	less fossil fuel burned	fewer greenhouse gases
Reduce, reuse, recycle	less waste	fewer new resources used
Sustainable sources	what is used is replaced	resources left for later
Local suppliers	shorter journeys	smaller carbon footprint
Eco-friendly packaging	less plastic thrown away	less harm to wildlife

The way earns the knowledge mark; the effect is the explanation.

Ways a business can contribute to sustainable development:

- **Renewable energy** (solar, wind) instead of coal, oil or gas; and **fewer resources**: efficient machines, less energy, water and packaging.
- **Reduce, reuse and recycle waste**: turn offcuts into other products, reuse containers, recycle the rest.
- **Environmentally friendly materials**: recycled, or from **sustainable sources** that replace what they take (replanted forests, fisheries with catch limits).
- **Environmentally friendly products and packaging**: longer-lasting, repairable or biodegradable products; recycled or plastic-free packaging.
- **Cleaner methods**: avoid toxic chemicals, fit filters to chimneys, treat waste water.
- **Local suppliers and cleaner transport**: shorter journeys, electric vehicles, rail instead of road, fewer flights.
- **Replace what is used**: replant trees after felling; limit catches so fish stocks recover.

Each way works through an **effect**: less waste, fewer resources used, fewer greenhouse gases, resources left for the future. That effect is what turns a way into an explanation.

Primary-sector businesses (farming, fishing, mining, forestry) take resources straight from nature, so for them sustainability is about **replacing what they take**: replanting, catch limits, rotating crops, restoring land after mining. **Tertiary-sector businesses** (airlines, hotels, shops, banks) do not make goods, so they focus on energy, transport, waste and their suppliers.

Environmental concerns as opportunities and constraints

As an opportunity, being green can...	As a constraint, it can...
attract customers who care, who may pay a higher price	raise costs : cleaner machinery, renewable equipment, dearer sustainable materials
open new markets for green products	force higher prices (fewer sales) or smaller profit margins
cut costs in the long run: less energy, waste and materials	limit output , or where and when the business can operate
improve the brand image , so it stands out from rivals	take time to change suppliers or methods, delaying production
help recruit and keep staff , and attract investors	need finance , perhaps a loan with interest to pay

Which side wins usually depends on **how much customers care**, **how big the extra cost is**, and **how far ahead the business looks**: many green investments cost money now and save money later.

Why and how businesses respond to environmental pressures

Environmental pressures are demands on a business to reduce its harm to the environment. They come from customers, pressure groups, the media, employees, investors, the local community and the government.

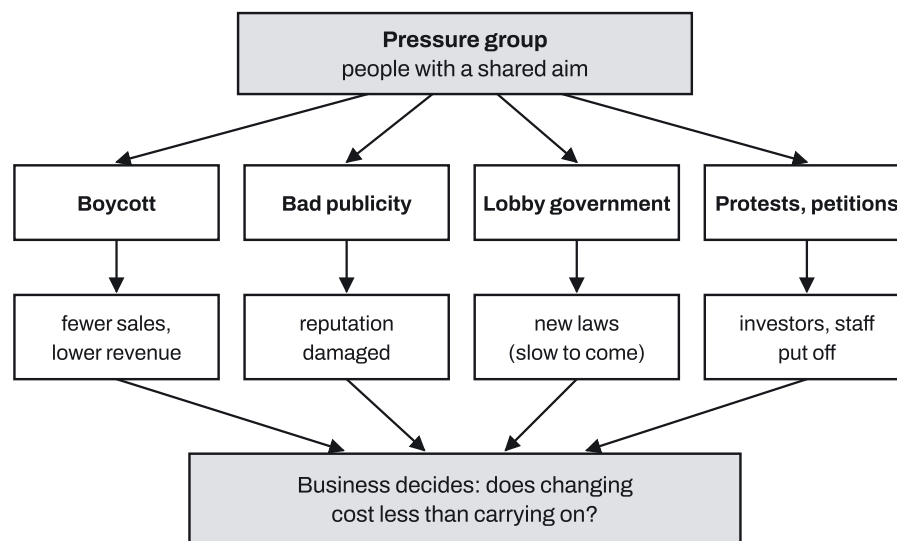
Why a business might respond: to protect its **brand image**; to keep or win **sales**; to avoid **boycotts** and pressure-group action; to **stand out from competitors**; to **recruit, keep and motivate** staff; to attract **investors**; to avoid **finances and legal action** and be ready for stricter laws.

How it might respond: any of the ways to contribute to sustainable development above, or changing a product or its packaging, checking its suppliers' methods, and telling customers what it has changed. A business may also decide **not** to respond, if the cost is too high or its customers care more about price.

Pressure groups

A **pressure group** is a group of people with a common interest or aim who try to influence the decisions of businesses or the government. Environmental groups, animal welfare groups, consumer groups and local residents' groups are examples. A pressure group is not a stakeholder group or a trade union: it does not own, work for or lend to the business, and it does not represent its employees.

Pressure groups have no legal power to give orders to a business. They influence it **indirectly**, through the people the business depends on.



Ways a pressure group tries to influence a business: organise a consumer **boycott**, so sales fall; create **bad publicity** through social media, newspapers and stunts, so the reputation suffers; **lobby the government** for new laws (slow, but once a law changes every business must obey it); hold **protests** and start **petitions**, which attract media attention and show how many people care; and take **legal action** if the business is breaking the law.

What makes a pressure group effective? It has many supporters and good media coverage; the business sells to consumers who care about the issue (a clothing brand is easier to boycott than a supplier of steel to other businesses); the change it asks for is cheap and easy; and the issue is easy to understand. A small group with a costly demand aimed at a business that sells to other businesses may achieve little.

Legal controls over business activity affecting the environment

Because externalities fall on people outside the business, governments pass laws to limit them. **Legal controls** are rules every business must follow; breaking them can lead to fines, court action or even closure.

Examples: **pollution limits** (a maximum amount of smoke or chemicals; filters required); **pollution permits** bought for each unit released; **waste disposal rules**; **bans** on materials or products such as single-use plastic; **planning controls** on where a business may locate and when it may operate; **duties to repair damage** (replant trees, restore land after mining); and **environmental taxes** on fuel, landfill or plastic.

How legal controls affect a business: higher costs (filters, safer waste disposal, dearer materials, permits, taxes), so profit falls or prices rise; **changes to production** (materials, energy, machinery, methods), with staff **retrained**; **limits on output or opening hours**, so less is sold; **limits on location**, so it may have to move or be refused permission to expand; **fines** if it breaks the law; and **redesigned products or packaging**.

Because the law applies to **every** business of that kind, legal controls usually raise costs for competitors too. So obeying the law does not, by itself, give one business a better image than its rivals; it simply keeps the business legal. Going **beyond** the law can.

Ethics in business

Ethics are moral principles: ideas about what is right and wrong. An **ethical business** is one that does what is morally right, even when the law does not require it and even when it costs money. Ethics are about **choice**; the law is about **obligation**.

Three ideas that are easily mixed up:

Idea	Question it asks	Example
Legal	What must we do by law?	paying at least the minimum wage; meeting pollution limits
Ethical	What is morally right, beyond the law?	paying well above the minimum wage; refusing suppliers that use child labour; paying farmers a fair price
Environmental	How do we affect the natural world?	using renewable energy; cutting packaging waste

They overlap (polluting a river is environmental damage, and choosing not to is also an ethical choice), but in an exam they are not interchangeable: a question about ethics wants answers about **treating people fairly**, and a question about the environment wants answers about **the natural world**.

Ethical issues a business might face involve its employees (fair wages that are enough to live on, safe conditions, reasonable hours, no **child labour**, secure contracts), its suppliers (a **fair price**, paying **on time**, suppliers who treat their own workers fairly), its customers (fair prices, honest advertising, safe products, no adverts aimed at children, protecting personal data) and the wider world (no animal testing, honest environmental claims).

Child labour means employing children, often in poor countries, for long hours, low pay and in unsafe conditions, which keeps them out of school. A business may not employ children itself but buy from a supplier that does, for example a factory making clothes or a farm growing cocoa or cotton.

The conflict between profits and ethics

Acting ethically often costs money, at least at first, but it can also raise profit, especially in the long run:

Costs of being ethical (short run)	Gains from being ethical (long run)
fair wages and better conditions raise labour costs	a good reputation allows higher prices and builds customer loyalty
fair prices to suppliers raise material costs , so the profit margin shrinks unless prices rise	ethical customers choose it over rivals, so sales and market share rise
ethical suppliers may be fewer or slower , so supplies are limited and production delayed	well-treated staff are more motivated : less absenteeism and labour turnover, easier recruiting
refusing some business (cheap suppliers, adverts to children) means lost opportunities	investors who care are keener; suppliers treated fairly are more reliable
	it avoids bad publicity, boycotts and the cost of a scandal

So there is a **conflict**: owners may want the highest profit now, while acting ethically lowers it in the short run. Whether it lowers profit overall **depends** on how much extra it costs, whether customers know and care, and whether the business looks at the short or the long term.

How businesses react to ethical issues

A business facing an ethical issue can **change its own behaviour** (pay above the minimum, improve conditions, stop misleading adverts, pay suppliers on time); **check its supply chain** (inspect suppliers, ask for proof that no child labour is used, drop suppliers that break its rules); **pay fair prices** by buying from farmers' co-operatives or through **fair-trade** schemes, which guarantee producers a minimum price; write a **code of conduct** for staff and suppliers; and **tell customers** what it does, so it gains the reputation it is paying for. Or it can **ignore the issue**: cheaper now, but it risks a scandal, a boycott and lost sales if the issue becomes public.

Each response is good for one stakeholder and may cost another: fair prices help **suppliers** but cost the **owners** some profit, at least at first. Good answers say **who gains** from the response and **what it costs** the business.

Key facts and formulas

This topic has no formula list in the exam. "Learn it" means you must remember it.

Fact	Status
External costs: costs that a business's activity places on third parties (society), not paid by the business itself	Learn it
External benefits: gains to third parties (society), other than the business, from its activity	Learn it
Private costs and benefits: those paid or gained by the business itself (wages, materials; revenue, profit)	Learn it
Sustainable development: development that meets today's needs without harming the environment or putting future generations at risk	Learn it
Pressure group: people with a common interest who try to influence the decisions of businesses or the government	Learn it
Ethical business: one that does what is morally right, beyond what the law requires	Learn it
Ways business harms the environment: pollution (air, water, noise), greenhouse gases and global warming, land use and deforestation, using up resources, waste, congestion	Learn it
Pressure-group methods: boycotts, bad publicity, lobbying government, protests, petitions, legal action	Learn it
Legal controls raise costs or change methods for every business of that kind; going beyond the law is what builds an ethical or green image	Learn it

How to do it

We have tagged 43 questions on this topic (2021–2026), on Paper 1 and Paper 2. 7 of them have parts of more than one type, so the counts add to 50.

Question type	Questions
Define a key term	6
External costs and external benefits of a business	6
Paper 2: weigh two or three environmental or ethical options (12 marks)	6
Ways to contribute to sustainable development	4
How pressure groups influence businesses	4
How legal controls over the environment affect a business	4
Ways a business can act ethically	4
Judge: does being ethical or green pay?	4
Ways business activity affects the environment	3

Question type	Questions
Reasons to respond to environmental pressures	3
Benefits and limitations of being ethical or green	3
Judge: the best way to contribute to sustainable development	3

The mark scheme codes are **k** (knowledge: a correct point), **app** (application: a detail from the case that makes sense with the point), **an** (analysis: a developed consequence) and **eval** (evaluation: a justified judgement).

Part	Marks	What earns them
Paper 1 "Define"	2	a full definition; part of it = 1
Paper 1 "Identify"	2 or 4	1 per point; only the first two (or four) are marked
Paper 1 "Outline two"	4	each: k + app
Paper 1 "Explain two"	6	each: k + app + an
Paper 1 (e) "Do you think ...? Justify"	6	2 k + 2 an + 2 eval; general, so no app
Paper 2 (a) "Explain"	8	each point (1) + up to 3 more for the chain of explanation, at least one applied to the case
Paper 2 (b) "Consider ... Which ...? Justify"	12	levels: every option discussed in detail with the case's data, then a justified choice that says why the others were rejected

1. Define a key term (6 questions)

Two marks for a full definition, one for part of it. Five terms have come up (in 6 questions):

- **Sustainable development** (0450/12/F/M/26 Q1 part (b)): activity that does not harm the environment (1) **and** does not put future generations at risk / lets the business survive in the future (2).
- **External benefits** (0450/13/M/J/25 Q3 part (a)): gains to the rest of society or third parties (1), **other than the business, from its activity** (2).
- **External costs** (0450/11/O/N/24 Q4 part (a)): costs paid by the rest of society or third parties (1), **not by the business, as a result of its activity** (2).
- **Pressure group** (0450/12/F/M/24 Q2 part (b), 0450/13/M/J/22 Q1 part (a)): a group of people with a **common interest** (1) who try to **influence decisions** of businesses or the government (1).
- **Ethical business** (0450/13/M/J/21 Q3 part (a)): a business that does what is **morally right** (1), **beyond what the law requires** / even if it costs more (1).

Write one sentence that contains both halves.

2. External costs and external benefits of a business (6 questions)

Forms: outline two external costs, 4 marks ([0450/12/M/J/25 Q4](#) part (c), a tyre maker); outline one cost and one benefit, 4 marks ([0450/12/M/J/24 Q3](#) part (c), an oil company; [0450/12/M/J/21 Q4](#) part (c), a farm); explain one of each, 6 marks ([0450/13/M/J/23 Q2](#) part (d), a paper maker); Paper 2 (a), 8 marks, two of each ([0450/22/F/M/23 Q4](#)) or one of each from an appendix ([0450/23/M/J/21 Q2](#)).

1. **Choose an effect on a third party**, not on the business. Costs: a type of pollution (air, water or noise), congestion, loss of land or wildlife, using up natural resources. Benefits: jobs for local people, taxes paid to the government, better roads or transport, orders for local suppliers.
2. **Make the two points different in kind**: for example one pollution point and one land or resources point.
3. **Apply each to the case** with a different detail: the product (tyres, oil, paper), the number of factories or countries, the number of employees.
4. **For "explain" and Paper 2, add what it does to the community**: fumes, so local people suffer breathing problems; jobs, so unemployment falls and families spend more in local shops; taxes, so the government can spend more on schools.

3. Paper 2: weigh two or three environmental or ethical options (6 questions)

Paper 2 (b), 12 marks, levels-marked. The case gives two or three options with data in an appendix, and asks which to choose:

- buying all flowers from sustainable sources against using renewable electricity for a florist ([0450/22/O/N/25 Q4](#));
- which environmental problem to solve first, a factory's coal fuel or suppliers that damage the environment ([0450/22/M/J/24 Q4](#));
- three ethical issues for a theatre (fair wages, local costumes, refreshments from non-polluting suppliers): which has the biggest effect ([0450/22/M/J/23 Q4](#));
- three ways a bakery could improve its ethical image, including pay above the legal minimum: which is most effective ([0450/21/M/J/22 Q4](#));
- three ethical issues (advertising to children, low wages, local suppliers): which has the greatest effect ([0450/23/M/J/21 Q2](#));
- three ways a furniture maker could contribute to sustainable development: which maximises profit ([0450/21/M/J/21 Q4](#)).

Plan:

1. **One paragraph per option.** For each give at least one advantage and one disadvantage, each developed into its effect on the business: costs, prices, sales, revenue, reputation, cash flow, staff.
2. **Use the appendix numbers.** Work out what you can: the extra cost per year, the saving per week or per year, how long a saving takes to pay back an investment, the percentage change in costs or price. A calculated figure is the strongest application there is.
3. **Answer the exact criterion.** If the question says "maximise profit", compare costs and revenues; if it says "biggest effect" or "most effective", say on what (sales, image, costs).

4. **Conclude**: choose one option, give the decisive reason from the case, and say **why each other option was rejected**. Either choice can reach the top of Level 3 if it is justified.

Level 3 (9–12) needs every option discussed in detail and in context, plus that reasoned rejection; one option done in detail caps the answer at Level 2.

4. Ways to contribute to sustainable development (4 questions)

Identify two ways, 2 marks (0450/12/O/N/23 Q2 part (b)); outline two ways, 4 marks (0450/11/M/J/25 Q4 part (c), a glass maker; 0450/13/O/N/24 Q3 part (c), a skincare maker); explain two ways, 6 marks (0450/12/F/M/25 Q3 part (d), a candle maker).

1. **Name a specific action** (k) from the list in "Understand it": renewable energy, fewer resources, recycling or reusing waste, recycled or sustainable materials, eco-friendly products or packaging, cleaner methods, local suppliers, cleaner transport, replanting.
2. **Apply it** (app): the product, the factory, the number of countries.
3. **For "explain", give the effect on the environment or the future** (an), as in the diagram: less waste, so less pollution; fewer resources used, so more left for future generations; less fossil fuel burned, so fewer greenhouse gases.

5. How pressure groups influence businesses (4 questions)

Identify two or four ways, 1 mark each (0450/11/O/N/24 Q4 part (c), four ways; 0450/13/M/J/23 Q2 part (b)); explain two ways, 6 marks (0450/11/O/N/22 Q2 part (d), an electricity supplier); explain two ways and judge which is most effective, 6 marks (0450/12/M/J/24 Q3 part (e)).

1. **Name the action** (k): boycott, bad publicity, lobbying government, protests, petitions, legal action.
2. **Explain what it does to the business** (an): a boycott cuts sales and revenue; publicity damages reputation and can put off investors; lobbying can bring a new law, but slowly.
3. **For "most effective"**, compare two and decide: a boycott usually hits hardest because lost revenue is immediate and direct, unless the business sells to other businesses rather than to the public; lobbying can change the rules for the whole industry but takes years and may fail.

6. How legal controls over the environment affect a business (4 questions)

Outline two ways, 4 marks (0450/13/M/J/24 Q1 part (c), a timber business; 0450/12/F/M/24 Q2 part (c), a hat maker); explain two ways, 6 marks (0450/12/M/J/22 Q2 part (d), a bus maker); Paper 2 (a), 8 marks, the effect of two named new laws on a hotel (0450/22/F/M/22 Q4: menus must list ingredients; no single-use plastic bottles).

1. **Say what the business must change or pay** (k): new equipment or filters, a different way to dispose of waste, fines or permits, dearer materials or packaging, retraining, less output, moving or not being allowed to expand, replanting.
2. **Apply it** (app): what the business makes and how (cutting trees, a factory with fumes, a hotel's restaurant).

3. **Develop the effect** (an): higher costs, so lower profit or higher prices; less output, so less revenue; time to change, so production is delayed.
4. **When the law is named** (Paper 2), take each law in turn and say exactly what this business must do differently, then what it costs and what it might gain (customers with allergies trust the menu; the hotel buys glass bottles at a higher cost).

7. Ways a business can act ethically (4 questions)

Outline one way with each of two named stakeholders, 4 marks ([0450/11/O/N/25 Q4](#) part (c), employees and customers); explain one way with each, 6 marks ([0450/13/M/J/25 Q1](#) part (d), employees and suppliers); outline two ways to become more ethical, 4 marks ([0450/12/F/M/23 Q1](#) part (c), a car maker; [0450/13/O/N/21 Q1](#) part (c), when producing its products).

Stakeholder Ethical actions

Employees	fair wages above the legal minimum; safe, decent conditions; no child labour; secure contracts, not zero-hours
Suppliers	pay a fair price; pay on time; buy from those who treat their workers fairly
Customers	fair prices; honest advertising; safe products; no adverts aimed at children

For the 6-mark version, the analysis is the **effect on the stakeholder**: fair wages, so employees keep a decent standard of living; paying on time, so the supplier avoids cash-flow problems; a fair price, so the supplier's profit margin is protected.

8. Judge: does being ethical or green pay? (4 questions)

Paper 1 (e), 6 marks, general (no application). Stems: are the advantages of being ethical greater than the disadvantages ([0450/12/O/N/24 Q2](#))? Will being ethical always lead to lower profit ([0450/11/M/J/24 Q4](#), [0450/12/O/N/22 Q1](#))? Should manufacturers always respond to environmental pressures ([0450/11/M/J/22 Q2](#))?

1. **One advantage** (k) → its consequence (an): reputation → higher prices or loyal customers; motivated staff → lower labour turnover.
2. **One disadvantage** (k) → its consequence (an): fair prices to suppliers → higher variable costs → lower gross profit margin; fewer ethical suppliers → less output.
3. **Decision with a comparing reason** (2 eval): say which outweighs the other **and why**, often by time (costs come now, reputation gains build later) or by type of business (customers of a consumer brand notice; customers of a supplier to other businesses may not).

The evaluation marks need one valid advantage **and** one valid disadvantage first.

9. Ways business activity affects the environment (3 questions)

Identify two ways, 1 mark each, only the first two marked ([0450/13/O/N/25 Q3](#) part (a); [0450/12/O/N/23 Q2](#) part (a); [0450/13/M/J/21 Q4](#) part (b)). Give two from different headings: air or noise pollution; greenhouse gases and global warming; using up land or deforestation; depleting natural resources; waste; congestion.

10. Reasons to respond to environmental pressures (3 questions)

Identify two reasons, 2 marks ([0450/13/O/N/25 Q3](#) part (b)); outline two reasons, 4 marks ([0450/13/O/N/23 Q3](#) part (c), a food maker); outline two **ways** to respond, 4 marks ([0450/11/M/J/23 Q4](#) part (c), a skincare maker).

- **Reasons** (why): protect the brand image; keep or win sales; avoid boycotts and pressure-group action; stand out from competitors; recruit and keep staff; attract investors; avoid fines and legal action.
- **Ways** (how): recyclable or less packaging, eco-friendly ingredients, renewable energy, cutting waste. Read which one the question wants.

For "outline", tie each to the case: a food maker that values its brand image; a survey figure in the stem showing how many customers want greener products.

11. Benefits and limitations of being ethical or green (3 questions)

Paper 1 (d), 6 marks, each point k + app + an: one benefit and one limitation of being ethical ([0450/11/O/N/23 Q3](#), a computer maker); two reasons why being ethical is important ([0450/13/M/J/23 Q3](#), an insurance business); one advantage and one disadvantage of trying to protect the environment ([0450/12/O/N/21 Q2](#), a trainer maker).

Use the lists in "The conflict between profits and ethics" and "Environmental concerns as opportunities and constraints". Apply each with a case detail (3000 workers; imported materials; insurance for farms), then develop it to sales, prices, costs or margins.

12. Judge: the best way to contribute to sustainable development (3 questions)

Paper 1 (e), 6 marks, general: is renewable energy the best way for a manufacturer ([0450/12/F/M/22 Q1](#)) or for a tertiary-sector business ([0450/12/F/M/21 Q2](#)) to contribute? Explain two ways for a primary-sector business and choose the best ([0450/13/O/N/22 Q1](#)).

1. **The named way** (k) → its effect (an): renewable energy has a high set-up cost but lowers energy bills for years, and cuts greenhouse gases.
2. **An alternative way** (k) → its effect (an): recycling waste, less packaging, electric vehicles; for the primary sector, replanting or catch limits.
3. **Decide which is best and why** (2 eval), comparing cost, how quickly it pays back and how much difference it makes to the environment.

Worked examples

Example 1

Coastline Cement runs a large cement works next to a fishing town. It employs 400 local people and is building a new road from the works to the motorway.

(a) For each of the following, state whether it is a private cost, a private benefit, an external cost or an external benefit of Coastline Cement's activity. [4]

1. Dust from the works settling on houses and cars in the town.
2. The revenue from selling cement.
3. Fishermen catching less after waste water from the works reaches the harbour.
4. Townspeople using the new road to reach the motorway more quickly.

(b) Explain the difference between an external cost and a private cost. [2]

(a)

1. External cost (1): the residents bear it, not the business.
2. Private benefit (1): the business gains it.
3. External cost (1): the fishermen bear it.
4. External benefit (1): a third party gains from the road.

(b) A private cost is paid by the business itself, such as the wages of its 400 employees (1); an external cost is a cost of the business's activity that falls on third parties outside the business, such as the dust on the town's houses (1).

Total: $4 + 2 = 6$ marks.

Example 2

Hartwell Packs makes school backpacks in a factory in country Y. It has 120 employees. Its machines run on electricity from a coal-fired power station. Last year it cut 50 000 metres of fabric, and 8% of it ended up as offcuts that were thrown away.

Explain two ways Hartwell Packs could contribute to sustainable development. [6]

Way 1. Fit solar panels to the factory roof to generate its own renewable electricity (k) for the machines that make the backpacks (app). Less coal is burned to power the factory, so fewer greenhouse gases are released and the business adds less to global warming (an).

Way 2. Reuse its fabric offcuts, $50\,000 \times 0.08 = 4000$ metres a year (app), to make smaller products such as pencil cases (k). Less waste goes to landfill and less new fabric has to be produced, so more resources are left for future generations (an).

Each way earns k + app + an: 6 marks. The 4000 metres is not needed for the marks, but working out a figure from the stem makes the application clear.

Example 3

Do you think legal controls are more effective than pressure groups at making businesses protect the environment? Justify your answer. [6]

Legal controls, such as limits on how much smoke a factory may release, must be obeyed by every business (k), so a business that ignores them can be fined or even closed, which forces it to change (an). Pressure groups can organise a boycott of a polluting business (k), so its sales and revenue fall and it may change its methods to win customers back (an).

Legal controls are more effective because every business in the industry has to obey, whether or not its customers care, whereas a boycott only works when customers know about the issue and are willing to stop buying (eval). A pressure group is likely to have little effect on a business that sells to other businesses rather than the public, but the law still applies to it, although the law can take years to change (eval).

Two developed points and a comparing decision: 2 k + 2 an + 2 eval. Deciding that pressure groups are more effective, because they act faster and can push a business beyond the legal minimum, would earn the eval marks too.

Example 4

Greenleaf Cafés has 4 cafés in a busy city. It sells 300 000 hot drinks a year at an average price of \$4.00. The owner, Mira, wants to improve the business's environmental and ethical image and is considering two changes:

- **Compostable cups.** Greenleaf now uses plastic-lined paper cups costing \$0.05 each. Compostable cups cost \$0.08 each. In a survey of Greenleaf's customers, 62% said they would prefer a café that does not use plastic-lined cups. The city council plans to ban plastic-lined cups in 2 years.
- **Fairly priced coffee.** Greenleaf spends \$90 000 a year on coffee beans. Buying directly from a farmers' co-operative that pays growers a fair price would cost 20% more. The cafés could then advertise that every cup supports the farmers who grew the beans.

Consider both changes. Which should Mira choose? Justify your answer. [12]

Greenleaf's revenue is $300\,000 \times 4 = 1\,200\,000$, so \$1 200 000 a year.

Compostable cups. The extra cost is $0.08 - 0.05 = 0.03$, so \$0.03 a cup, and $300\,000 \times 0.03 = 9000$, so \$9000 a year, only 0.75% of revenue. With 62% of customers saying they prefer cafés without plastic-lined cups, the change could win new customers and keep existing ones loyal, so sales and revenue could rise by more than the \$9000 cost. And since the council plans a ban in 2 years, Greenleaf will have to change anyway: switching now gains the reputation while rivals still use plastic, and avoids a rush to find a supplier later. On the other hand, the \$9000 is a real cost that cuts the profit margin unless prices rise, and once the ban comes, every café will use compostable cups, so the advantage will not last.

Fairly priced coffee. The extra cost is $90\,000 \times 0.20 = 18\,000$, so \$18 000 a year, twice the cost of the cups and 1.5% of revenue, or $18\,000 \div 300\,000 = 0.06$, so \$0.06 a drink. Paying growers a fair price is a strong ethical message that Greenleaf could advertise, and it may attract customers willing to pay a little more; a price rise of just 6 cents a drink would cover the cost. But no figure shows how many of Greenleaf's customers care where the beans come from, so the extra sales are less certain, and the price rise may push some price-conscious customers to rivals.

Recommendation. Mira should choose the compostable cups. They cost half as much as the fairly priced coffee (\$9000 against \$18 000 a year), the survey shows most customers want the change, and the coming ban means Greenleaf must make it within 2 years anyway, so acting first turns a cost it cannot avoid into a reason for customers to choose it now. The coffee change is rejected for now because its cost is higher and there is no evidence that customers will pay for it; Mira could survey customers about it and reconsider later.

Both options discussed in detail with the case's figures, and a recommendation that says why the other was rejected: Level 3 (9–12). Choosing the coffee, justified by the longer-lasting advantage once the ban removes the cups' benefit, would score as well.

Common mistakes

- **Mixing up ethical, environmental and legal.** Paying the minimum wage is a legal duty, not an ethical choice; not testing on animals is ethical, not environmental. Answer about what the question names.
- **Giving private costs or benefits as externalities.** Higher wages for the business's staff, the business's revenue, or "the business pays more tax" seen from the business's side are private. Name the third party who bears the cost or gains the benefit.
- **Giving two kinds of pollution as two external costs.** Air pollution and noise pollution count as one point; make the second point congestion, loss of land or using up resources.
- **Vague answers: "it damages the environment" or "it helps the environment".** Say how: which pollution, which resource, which effect.
- **Defining by repeating the term.** "Costs outside the business" for external costs, or "a group that puts pressure on businesses" for a pressure group, shows no understanding. Use the definitions in the "Key facts" table.
- **Leaving future generations out of sustainable development,** or answering a "how" question with "sustainable production", which repeats the question. Name the action: solar power, recycled plastic, replanting.
- **Answering "why be sustainable" when the question asks "how".** Better image and more sales are reasons, not ways to contribute; when asked how a way helps, explain its effect on the environment.
- **Answering "should a business contribute" when the question asks "which way is best".** The stem has already decided to contribute.
- **Writing government actions or green actions as pressure-group methods.** A pressure group cannot pass laws, fine businesses or install solar panels; it boycotts, publicises, lobbies, protests, petitions and goes to court. Saying it will "force the business to change" without saying how earns nothing.

- **Saying a legal control improves the business's reputation.** The law applies to every business of that kind, so obeying it is not what sets a business apart.
- **Writing about the effect on the environment or on customers when the question asks about the business.** For a legal control, the effect is on the business's costs, methods, output or location.
- **"It will cost more" with nothing after it.** Say what the higher cost does: higher prices, so fewer sales, or a smaller profit margin.
- **In a 12-mark answer, repeating the appendix without explaining it, or a conclusion that only restates the paragraphs above.** Turn each figure into an effect, then give a new reason for the choice and say why the other options lose.

How to get the marks

- **Define** (2 marks): both halves in one sentence. External costs/benefits: third parties or society + caused by the business's activity, not paid or gained by the business. Sustainable development: no harm to the environment + future generations. Pressure group: common interest + trying to influence decisions. No examples instead of a definition.
- **Identify** (1 mark each): short, different, precise answers; only the first two (or four) are marked, so don't write a list of six.
- **Outline** (4 marks): k + app per point. Use a **different** case detail for each point (the product, the number of employees or countries, a figure in the stem), and make sure it makes sense with the point.
- **Explain** (6 marks, Paper 1): k + app + an per point. The analysis is a consequence: for a sustainability way, its effect on the environment; for a legal control, its effect on the business's costs or output; for an ethical action, its effect on the stakeholder.
- **Paper 2 (a)** (8 marks): each point named, then a chain of three steps, one of them using the appendix (a figure, a named product, a location).
- **Paper 1 (e)** (6 marks): general, so no marks for case details. Two developed points, one on each side, then a decision that compares them. "It depends" earns eval only when you say **on what** and **which way it tips**.
- **Paper 2 (b)** (12 marks): every option discussed with advantages and disadvantages and the case's numbers, then a recommendation that rejects the other options with reasons. Calculations from the appendix (extra cost, savings, pay-back time) lift the answer.
- **"Justify your answer"**: the marks are in the reasons, not the choice. Either choice can score full marks.

Quick check

1. Say whether each action is mainly **legal**, **ethical** or **environmental**. (a) Paying staff the minimum wage set by the government. (b) Paying cocoa farmers more than the market price so they earn a decent living. (c) Switching delivery vans from diesel to electric. (d) Refusing to buy from a clothing factory that employs children.
2. Define "sustainable development".

3. A small bakery can fit solar panels for \$12 000. They will save \$150 a week on electricity. How many weeks will it take for the savings to pay for the panels? How much will the panels save in a year (52 weeks)? Will they have paid for themselves within one year?
4. A clothing company buys 40 000 shirts a year from a supplier at \$6.00 each. Paying the supplier a fair price would add 15% to the price of each shirt. Calculate the extra cost per year. The company sells the shirts at \$20 each: what is the extra cost as a percentage of the selling price? State one benefit to the company that might cover this cost.
5. Identify two ways a pressure group might try to influence a business, and say what each could do to the business.

Answers

1. (a) **Legal**: it is required by law. (b) **Ethical**: it goes beyond the law to treat suppliers fairly. (c) **Environmental**: it cuts fumes and greenhouse gases. (d) **Ethical**: it refuses to profit from child labour.
2. Development that meets people's needs today without harming the environment or putting the needs of **future generations** at risk.
3. Weeks to pay back = $12\,000 \div 150 = 80$, so **80 weeks**. Saving in a year = $150 \times 52 = 7800$, so **\$7800**. After one year the panels have saved \$7800 of the \$12 000, so **no**: they pay for themselves part-way through the second year, after which the saving is extra profit.
4. Extra per shirt = $6.00 \times 0.15 = 0.90$, so \$0.90. Extra cost per year = $40\,000 \times 0.90 = 36\,000$, so **\$36 000**. As a percentage of the selling price: $\frac{0.90}{20} \times 100 = 4.5$, so **4.5%**. One benefit: a better reputation with ethical customers, so the company can charge a slightly higher price or sell more shirts (or: loyal suppliers who deliver reliably and on time).
5. Any two, each with its effect: a **boycott**, so sales and revenue fall; **bad publicity** in the media, so the reputation is damaged; **lobbying the government**, so a new law may force a change; **protests or petitions**, so investors or staff are put off; **legal action**, so the business faces court costs.

Past questions to try

- **0450/22/O/N/25 Q4**: part (b), two ways a florist could contribute to sustainable development, with costs and savings to compare (12 marks).
- **0450/12/M/J/24 Q3**: parts (c) and (e), an external cost and benefit of an oil company, then the most effective pressure-group method.
- **0450/13/M/J/25 Q1**: part (d), acting ethically with employees and suppliers.
- **0450/12/F/M/25 Q3**: part (d), two ways a candle maker could contribute to sustainable development.