

3.2.3 – The economic climate

Interest rates are the cost of borrowing and the reward for saving.



Higher interest rates means that borrowing is **expensive** – people and businesses borrow **less**.
Lower interest rates mean that borrowing is **cheaper** – people and businesses borrow **more**.

The Bank of England can raise or lower interest rates

They might do this to either stimulate or suppress borrowing. If people are spending money too quickly, prices will rise because **demand** rises. If prices rise too fast, soon we won't be able to afford to live as comfortably. This is called **inflation**.



One person's spending is another person's income.

If fewer people have jobs, then the average amount of money being earned is lower. If, on average, we have less money then we can only spend less money. If we spend less, then someone else will earn less, and so they spend less. It becomes a self-reinforcing cycle.

The more we spend the more companies must supply

As people earn more or less money, and can borrow more or less money, the amount we spend (and so the amount of goods and services we **demand**) will change. When people earn more or can borrow more, we see demand increase, but the same is true vice-versa. If people stop spending so much then demand falls, and when demand falls prices fall, this is called **deflation**.



3.2.1 - Technology

E-Commerce has changed the process of doing business dramatically. Not just retail, but all markets have been affected by the introduction of new technology and online shopping. Everyone shops online – even businesses. Ordering is now completed online.



M-Commerce is now growing even faster, it's possible for businesses to access more customers in more places more easily. Social media marketing allows businesses to target individuals based on their likes and dislikes. It puts advertising in front of them at the right time to make it more likely for them to buy.

Digital Communication speeds up the rate at which information can be moved around. It has also replaced the need to travel as far and as often. Video conferencing apps like FaceTime and Skype mean that you can talk to people all over the world, face to face, without travelling, saving time, money, and the environment.

Important examples:



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3.2.4 - Globalisation



Imports and Exports

Foreign currency exchange has a major impact on how much we import or export. If a currency is **strong** then it buys **more** of another currency. If it is **weak** it buys **less**.

SPICED – Strong Pound, Imports Cheaper, Exports Decline

£1 can buy more of the product coming from overseas so it becomes cheaper. But it costs someone overseas more to buy products made here, so exports are more expensive and reduce. **WPIDEC – Weak Pound, Imports Decline, Exports Cheaper** £1 buys less of the product coming from overseas so it becomes more expensive, so less is imported. It costs someone overseas less to buy products made here, as their currency can buy more pounds. Exports become cheaper.

Operating worldwide – globalisation has made it cheaper to relocate to other parts of the world to be nearer to raw materials or markets. International travel and shipping means that products can be made anywhere and sold anywhere. Costs remain an important factor in any decision.

3.2.5 - Legislation

Legal changes affect business, when the law changes it is likely that a business will have to change how they operate in order to **comply** with the law. Even small changes can mean large costs for the business, as the administration and work involved in making the change takes time.

Key Legislation:

National Minimum/Living Wage:

- This sets a minimum amount of money a worker can be paid per hour, depending on their age.
- Raising the minimum wage will increase costs and could lead to the business having to reduce its workforce.
- By increasing the minimum wage, the government should see the lowest earners in the country receive higher wages allowing them to improve their living standards.

Equality Act (2010):

- This protects individuals from discrimination by employers in relation to certain protected characteristics
- This Act is an important part of British Values as it promotes mutual respect and tolerance – it protects our individual liberty as it ensures who we are does not limit what we can do.

Health and Safety at Work Act (1974):

- Sets out the duties of the employer and employee in creating a safe working environment
- A safer environment for employees makes them feel safe and cared for, and more likely to see the company as a good employer. This can lead to better retention of staff, and so lower recruitment costs, and to a better reputation making it easier to recruit better quality workers.

Trade Descriptions Act (1968):

- This Act prevents businesses from misleading customers. This helps to protect the consumers from being tricked into spending money or receiving poor quality goods and services.

3.2.2 - Ethical and environmental considerations

Ethics are the rules that require a business to operate in a way that is fair and honest. Modern consumers expect businesses to behave in a way that treats them well, but that also minimises:

- The use of single-use materials such as **black plastic** which cannot easily be recycled, or of **palm oil** the production of which is responsible for significant deforestation and harm to wildlife.
- Unnecessary travel, particularly **air travel**, which is especially bad for the environment.
- The amount of waste going to **landfill**, and an increase in the amount of recyclable raw materials used.
- The emission of **air pollution**, this is a topical issue at the moment – diesel exhaust fumes cause significant harm to human beings living in cities.
- **Noise pollution**, from loud vehicles, factories, and antisocial behaviour.
- **Traffic congestion**, as a result of increasing numbers of vehicles on the roads.

Ethics in business are mostly concerned with **doing what is right**. However, this often comes at a cost; there is likely to be a **trade-off** between **doing what is cheapest** and doing what is right.

Sustainability is a goal of most businesses, and it is to avoid unnecessary use of materials and energy to avoid causing damage to the planet.



They take this approach to achieve two things:

- Improve their reputation
- Ensure they can continue to operate long into the future

Operating this way can result in short-term losses as operating sustainably can be expensive – reusable materials can often cost more.

3.2.6 - The competitive environment

Monopoly – a market which is dominated by one seller or producer. By law a monopoly occurs if a firm has a market share of 25%. Trying to compete with a business that has a monopoly is very difficult because they can dictate prices.

Competitive Market – a situation where multiple businesses compete for the same customers.

Price	Selecting the right price can improve your competitiveness – customers may be attracted by a lower price or by promotional pricing
Quality	Higher quality may set a product apart from the competition. In relation to luxury goods in particular, quality is often the most important factor.
After sales service	For products like cars, the quality of after sales care is very important. i.e. the features of the warranty, whether a courtesy car is available.
Location	Businesses selling convenience goods are going to benefit from being very close to their customer, where casual dining restaurants need to be near to the competition to benefit from increased footfall.
USP	Unique Selling Point – this is a feature of the product or service that is unique to this business. By having a unique selling point that adds value, it allows the business to charge a higher price and to attract more customers.
Delivery	A range of options for customers for how they receive/take possession of the product will increase the number of customers by adding convenience. Click and Collect and home delivery alongside in-store shopping make it easier for customers by reducing wait time and the need to travel.
Branding	The design and reputation of a brand can increase the appeal. Apple have managed to make the most obvious success of branding, as it has become such a desirable brand to own – whether with an iPhone, iPad, Watch, TV, MacBook, iMac, iPod etc.

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Key Term	Definition
Air pollution	Harmful substances and fumes in the air that cause disease, allergies, or damage to humans or other living organisms, or to the environment.
Competition	The presence of other businesses in the same market attempting to sell to the same customers
Consumer law	Laws that are designed to protect the consumer, by ensuring that products and services offered by businesses are safe, and that they deal with their customers in an honest and fair way.
Consumer spending	The amount of money being spent by households on the goods and services they want and need.
Contracts of employment	The legal document that states the terms and conditions for both the employer and the employee when paying someone to do a job.
Digital communication	Transmitting information between computing devices.
E-Commerce	Transactions that are carried out using the internet. i.e. Amazon
Economic Climate	Key factors within a country such as the level of consumer spending, the level of production, the number of people unemployed, rates of inflation and interest.
Employment Law	These laws govern what can and can't be expected of an employee, and how a business may treat its employees.
Equality Act (2010)	This act of parliament is a set of laws that protect individuals from discrimination. It lists the characteristics that are protected, and that cannot be discriminated against. These are: Age / Disability / Gender reassignment / Marriage and civil partnership / Pregnancy and maternity / Race / Religion or belief / Sex / Sexual orientation
Ethical Objectives	Aims that relate to abiding by their moral code in order improve reputation. This could include trying to act fairly, protecting the environment, or contributing to charitable activities.
Ethics	The moral principles that determine how a business wishes to operate.
Exchange Rates	The price at which one currency can be exchanged for another. For example, £1:€1.10 To find £250 in Euros, multiply by 1.10 To find €250 in Pounds, divide by 1.10
Export	Selling a product to a customer outside of the country that you operate in.
External Costs	Negative impacts caused on people, places, or other organisations by a business' activity.
Global Warming	The increase in the average temperature of the earth, leading to negative consequences for life, caused by the release of carbon dioxide and other greenhouse gases.

Key Term	Definition
Globalisation	The increasingly 'local' nature of the planet – businesses operate worldwide, with money, goods, services, and people moving across national borders.
Health and Safety at Work Act (1974)	Laws relating to processes and procedures that businesses must follow in order to keep their employees and customers safe.
Import	Buying from a company outside your national borders.
Interest Rates	"The reward for saving and the cost of borrowing." Expressed as a percentage, it is the rate at which either savings or debts grow over time. Borrowing or saving £1,000 at an interest rate of 5% means that at the end of the year you would either owe £1,050 or have £1,050 in your account.
Inward Investment	People and businesses from outside of your national borders investing in your country's businesses or land.
Level of employment	What percentage of the population who could work, are working. Often a percentage, if the level of employment is 97%, then it means that 3% are unemployed.
Markets	The place where buyers and sellers meet, to exchange money or credit, for goods and services of a particular type. i.e. the Car market, clothing market, wheat market, or the stock market.
M-Commerce	Business transactions completed on a mobile device such as smartphone or tablet.
Multinational Company (MNC)	A company with offices or divisions in more than one country.
National Minimum/Living Wage	The minimum hourly rate for employees in the UK. It tends to increase each year and changes in April. As of April 2019, the rate for 25 year olds was £8.21/hour. The rate is different for different age groups below that.
Noise Pollution	Noise that causes some level of disturbance, either from vehicles, or business operations. It could include customers arriving or leaving a business.
Recycling	Converting waste into useable material.
Risk	The chance that an investment might not deliver a profit.
Social responsibility	Businesses needing to act in a way that protects people within society rather than harming them.
Sustainability	Businesses operating in a way that does not damage the environment or use up natural resources.
Traffic congestion	More vehicles on the roads than they can handle without queues and longer journey times.
Uncertainty	This occurs when it is difficult to predict the outcome. In economic terms, uncertainty leads to people saving rather than spending money. The level of investment falls.
Waste	Unwanted materials. Businesses may have to pay to dispose of waste.
Waste Disposal	The removal and disposal or destruction of unwanted items or materials. Through either landfill, incineration, or recycling.
Zero-hour contract	Terms of a job that mean there is no minimum number of hours guaranteed for a worker, per week. Likewise, there is no expectation that a worker has to accept hours that are offered.

Don't forget! PESTLE-C is a useful acronym for reminding yourself of all of the external factors that affect businesses.

P – **Political** issues like a change in government, leading to different types of laws being passed.
E – **Economic** increases or decreases in consumer spending, interest and exchange rates, or borrowing.
S – **Social** changes in the fashions and trends that lead consumers to buy and try different products
T – **Technological** things like Apple Pay have been *disruptive* they have changed how businesses operate.
L – **Legal** new laws change the rules and businesses have to change to follow them, increasing costs.
E – **Environmental** and **Ethical** changes in what people want to see your business doing
C – **Competition** what they do will have a big impact on you, their actions will affect your decisions.