

# **Business Studies**

## **Key Terms**



Globalisation	<p>Increases in worldwide trade and movement of people and capital between countries.</p> <p>Opportunities:</p> <ul style="list-style-type: none"> <li>• new markets/bigger markets: buy and sell</li> <li>• opening factories/ops in other countries</li> <li>• importing materials/components cheaper</li> <li>• possible tax fiddles</li> </ul> <p>Threats:</p> <ul style="list-style-type: none"> <li>• increased foreign business/job competition</li> <li>• increased foreign investment at home</li> <li>• possible wage increase to multinational rates</li> </ul>	Common (single) Currency	When a group of countries agree to use the same currency, e.g. the Euro
Free Trade Agreement	<p>Exists when countries agree to trade imports/exports with no barriers or restrictions such as tariffs and quotas, e.g. NAFTA (North American Free Trade Agreement)</p> <p><b>The EU Single Market:</b> consistent regulations and free movement of trade and people.</p>	Multinational Business: Customer/Host Country	<ul style="list-style-type: none"> <li>• can get recognised brand (and quality) everywhere</li> <li>• increases competition/business efficiency = lower prices</li> <li>• more choice of goods and services</li> <li>• may lose local businesses/products</li> <li>• new investment but profits leave country</li> <li>• generally only low skilled jobs created</li> <li>• uses up local/scarc resources but fewer imports and more exports</li> <li>• multinational can influence a government, but (some) taxes paid</li> </ul>
(Social) Benefits	<p>Social benefits are current transfers (made in cash or in kind) received by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education or family circumstances.</p>	Multinational Business: Relocating	<p>Problems:</p> <ul style="list-style-type: none"> <li>• Access to suitable employees</li> <li>• Access to suitable land</li> <li>• Different legal controls or standards</li> <li>• Distance from market or suppliers</li> <li>• Communication problems</li> </ul> <p>Benefits:</p> <ul style="list-style-type: none"> <li>• Cheaper labour</li> <li>• Cheaper land</li> <li>• Nearer raw materials or market</li> <li>• Lower standards or controls = lower costs, in trade agreement area</li> </ul>
Entering Foreign Markets	<p>Need knowledge of:</p> <ul style="list-style-type: none"> <li>• <b>Distribution Channels</b> - can be difficult to establish company with foreign retailers, may need to use different distribution methods</li> <li>• <b>Consumer Trends</b> - buying habits, current taste and fashions</li> <li>• <b>Competition</b> - brands and prices</li> <li>• <b>Government Regulations</b> - legal controls concerning products</li> </ul>	Economic Union	Agreements between countries to trade freely with each other and have common economic institutions, e.g. The European Union.
Protectionism	<p>When a government protects domestic businesses from foreign competition using, e.g. tariffs and quotas (see Balance of Payment).</p>	Multinational Business	Businesses with factories, production or service operations in more than one country.

Business Environment	The sum total of all external and internal factors that influence a business.	Stakeholders	Anyone with an interest in a business. Stakeholders are individuals, groups or organisations that are affected by the activity of the business. They include: <ul style="list-style-type: none"><li>• Owners</li><li>• Managers</li><li>• Workers</li><li>• Customers</li><li>• Suppliers</li><li>• Lenders</li><li>• The local community</li></ul> Internal stakeholders are groups within a business. External stakeholders are groups outside a business.
Business Cycle	The four stages an economy goes through over a period of time, as an economy does not grow at a steady rate. <ul style="list-style-type: none"><li>• <b>growth/recovery</b> - GDP increases</li><li>• <b>boom</b> - growth over the medium to long term</li><li>• <b>recession</b> - falling output and therefore GDP, unemployment increasing, average std of living falls, demand falls, less business growth due to uncertain future</li><li>• <b>slump/depression</b> - long period of declining GDP</li></ul>	Balance of payment	Records the difference between a country's exports and its imports. These should ideally balance or more exports than imports over time. <b>Imports:</b> goods/services bought by a country <b>Exports:</b> goods/services sold by a country <b>Import tariff:</b> tax on an imported product. <b>Import quota:</b> a physical limit to the quantity of a product that can be imported.
Inflation	Increase in the average price of goods and services over time. If rapid: purchasing power of wages fall and living standards fall, pressure to raise wages, prices increase, foreign goods become more competitive (cheaper), businesses become reluctant to expand as they are less certain about future demand. <b>Depreciation:</b> a decrease in prices. <b>Real income:</b> the value of income or what the income will buy - it falls if prices rise faster than money income.	Government Economic Objectives	<ul style="list-style-type: none"><li>• Low inflation - Maintaining the rate of inflation at around 2%</li><li>• A good balance of payments (aim to export more than you import)</li><li>• Raising GDP</li><li>• low unemployment</li></ul>
Unemployment	When people are willing and able to work, but no work is available. High unemployment can mean: <ul style="list-style-type: none"><li>• lower level of output</li><li>• gov't spends more on benefits and receives less in tax</li><li>• leaves a larger pool of potential workers for employers to pick from</li><li>• less pressure on wage increases</li></ul>	Social Responsibility	When a business decision benefits stakeholders other than shareholders, e.g. a decision to reduce pollution by using the latest and 'greenest' production equipment.
Gross Domestic Product (GDP)	The total value of output of goods and services in a country in a year.	Environment	The natural world. Benefits of environmental concern: <ul style="list-style-type: none"><li>• climate change, affects all; social responsibility</li><li>• renewable resources, sustainable growth</li><li>• societal demand; social responsibility</li></ul> Drawbacks of environmental concern: <ul style="list-style-type: none"><li>• can be expensive = higher costs/prices</li><li>• can make businesses uncompetitive = lower demand = loss in sales</li><li>• tragedy of the commons</li></ul>

Exchange Rate	<p>Price of one currency in terms of another.</p> <p><b>Exchange rate appreciation:</b> a rise in the value of a currency.</p> <p><b>Exchange rate depreciation:</b> a fall in the value of a currency.</p>	Disposable Income	<p>The level of income left after a taxpayer has paid income tax and any other taxes on income plus any money benefits from the government.</p> <p><b>Real income:</b> the value of income or what the income will buy - it falls if prices rise faster than money income.</p>
Monetary Policy	<p>A change in interest rates by the government or a central bank, e.g. the Bank of England or the European Central Bank.</p> <p>Higher interest rates:</p> <ul style="list-style-type: none"><li>• new loans/overdrafts = higher costs to borrowers</li><li>• less new investment</li><li>• mortgages/personal borrowing higher = less disposable income.</li><li>• people save as good return = less spending</li><li>• can attract foreign investors = higher exchange rate</li></ul>	Private Costs/ Benefits	<p>Private costs: paid for by the business for an activity</p> <p>Private benefits: gains to a business from an activity</p>
Supply-Side Policies	<p>Policies that are intended to effect the supply of goods/services, and increase the competitiveness of industries in an economy against those from other countries.</p> <ul style="list-style-type: none"><li>• (Apparently) privatisation increases competitiveness of business</li><li>• improvement in education/training</li><li>• ways to increase competition between businesses, e.g. laws to stop monopolies, limit patent protection laws etc.</li><li>• encourage investment, e.g. increase patent laws.</li></ul>	Externalities: Costs/Benefits	<p><b>External costs:</b> paid for by the rest of society, other than the business, as a result of a businesses activity.</p> <p><b>External benefits:</b> gains to the rest of society, other than the business, resulting from business activity.</p>
Fiscal Policy	<p>Any change by the government in tax rates or public sector spending.</p> <p>Tax:</p> <ul style="list-style-type: none"><li>• taxes higher = spending reduces</li><li>• can be income/profit tax or VAT</li><li>• import tariffs = a raise in price of imports</li></ul> <p>Spending:</p> <ul style="list-style-type: none"><li>• increase in spending on gov't services, schools, healthcare, benefits or infrastructure.</li><li>• can increase jobs and disposable income, leading to increased demand and possible economic growth</li></ul>	Social Costs/ Benefits	<p>Social costs: External costs + private costs.</p> <p>Social benefits: external benefits and private benefits.</p>
Taxes	<p><b>Bring in state revenue (along side things like gov't borrowing, etc.)</b></p> <p><b>Direct:</b> Paid directly from incomes, e.g. income or profit tax.</p> <p><b>Indirect:</b> Added to the prices of goods, (generally just on non-essentials) e.g. VAT (value added tax).</p> <p><b>Import tariff:</b> tax on an imported product</p>	Sustainable Development	<p>Development that does not put at risk the living standards of future generations.</p> <p>Ways to encourage sustainable business practice:</p> <ul style="list-style-type: none"><li>• laws/fines/quotas</li><li>• additional taxes on products that pollute (levy)</li><li>• pollution permits - businesses need to buy them raising costs</li></ul>

<div>Sustainable Development: Production Methods</div>	<p>Methods that cause minimum damage to the environment.</p> <ul style="list-style-type: none"> <li>• reduce</li> <li>• reuse</li> <li>• recycle</li> <li>• new technology</li> <li>• renewable sources of energy</li> <li>• recycled raw materials</li> <li>• develop new 'environmentally friendly' products and production methods.</li> </ul>	<div>Government Assistance to a Home Business</div>	<ul style="list-style-type: none"> <li>• Import Quotas</li> <li>• Import Tariffs</li> <li>• Reduce rents/rates</li> <li>• change legal controls: min wage, quality standards</li> <li>• grants/subsidies/cheap loans/finance</li> <li>• Advice</li> <li>• Training</li> <li>• Lower tax</li> <li>• Provide infrastructure</li> </ul>
<div>Pressure Group</div>	<p>A group made up of people who want to change business (or government) decisions; they take action such as organising consumer boycotts. (AKA: lobby group, campaign group, interest group or special interest group.)</p> <p><b>Lobbying:</b> (as done by pressure groups) a communication process used by members of a pressure group in order to persuade. Generally directed at politicians and people in positions of power.</p>	<div>Multinational business: the business</div>	<ul style="list-style-type: none"> <li>• new markets and increased sales</li> <li>• can obtain raw materials cheaper</li> <li>• avoid barriers to trade</li> <li>• low wage costs</li> <li>• spreads risks from more markets.</li> </ul>
<div>Consumer Boycott</div>	<p>Deciding not to buy from businesses that do not act in a socially responsible way.</p>	<div>Regulations on Business</div>	<p><b>Employment law:</b> min wage, redundancy and termination of employment, work conditions, pensions, leave, anti-discrimination laws,</p> <p><b>Consumer rights:</b> sale of goods act (as described, satisfactory quality, fit for purpose etc.), distance selling regulations (description of goods, p&amp;p info, cancellation rights, returns etc.)</p> <p><b>Competition law:</b> monopolies &amp; mergers, anti-competitive agreements, abuse of dominant market position</p> <p><b>Tax:</b> VAT, Corporation</p> <p><b>Safety standards:</b> of food, products, in the work place</p> <p><b>Intellectual property:</b> Trademarks, patents</p>
<div>Ethical Decisions</div>	<p>Decisions based on a moral code.</p> <p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>• attract customers who care</li> <li>• good publicity for business</li> <li>• may increase profits in the long-term</li> <li>• may attract workers and investors</li> <li>• less likely to be fined</li> <li>• may = future competitive advantage, e.g. high tech,</li> </ul> <p><b>Drawbacks</b></p> <ul style="list-style-type: none"> <li>• generally higher costs, which may = higher prices</li> <li>• lose price sensitive customers</li> <li>• drop in short-term profits</li> <li>• could mean huge company changes</li> </ul>	<div>Multinational Business: Producing Abroad</div>	<p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>• Cheaper labour/materials/production costs</li> <li>• Access to certain materials</li> <li>• Nearer to customer/better supply line</li> <li>• Benefits offered by the government</li> <li>• Possibly fewer laws/regulations/taxes</li> </ul> <p><b>Pitfalls:</b></p> <ul style="list-style-type: none"> <li>• More expensive to transport</li> <li>• Quota limits and Import taxes</li> <li>• Further from the market</li> <li>• More regulations/laws/taxes</li> <li>• Cultural/communication difficulties</li> <li>• Bad publicity</li> </ul>
<div>Sustainable Development: Laws</div>	<p>E.g</p> <ul style="list-style-type: none"> <li>• Cannot locate in environmentally sensitive areas such as National Parks</li> <li>• cannot dump waste products into rivers, seas etc.</li> <li>• make products that can be recycled.</li> </ul>	<div>Multinational Business: Producing Domestically</div>	<p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>• Cheaper/faster to transport</li> <li>• Nearer target market</li> <li>• Easier for mgmt to control the production process</li> <li>• Easier communication</li> <li>• NO extra laws/regulations/taxes to be aware of</li> <li>• good publicity</li> <li>• Already in trading zone</li> </ul> <p><b>Pitfalls:</b></p> <ul style="list-style-type: none"> <li>• expensive to import materials</li> <li>• Possibly more expensive labour/land/materials/taxes</li> <li>• More regulations and restrictions than some countries</li> </ul>

<div>Export</div>	<p><b>Pros:</b></p> <ul style="list-style-type: none"><li>• Larger market</li><li>• Increase revenue</li><li>• More competitive</li><li>• Effective way to expand</li><li>• Spreads risk if one economy goes into decline</li></ul> <p><b>Cons:</b></p> <ul style="list-style-type: none"><li>• Tariffs increase costs</li><li>• Quotas limit the amount being exported</li><li>• More competition</li><li>• A certain level of risk, due to entering a new market</li><li>• More regulations</li><li>• Cost of exporting</li></ul>		
<div>Import</div>	<p><b>Pros:</b></p> <ul style="list-style-type: none"><li>• Get products you can't get in home country</li><li>• Sometimes cheaper products/raw materials</li><li>• Sometimes better quality</li><li>• Sometimes more ethically or sustainably produced</li><li>• Importing some parts of a product can enable a co. to specialise (e.g. import engine, specialise in car design)</li></ul> <p><b>Cons:</b></p> <ul style="list-style-type: none"><li>• Can undermine home industries/employment</li><li>• Can be more expensive - exchange rate, tariffs</li><li>• Negatively effect balance of payments: £ going abroad</li><li>• Negative publicity from not using domestic suppliers.</li><li>• Increase delivery time, and maybe lower standard</li></ul>		
<div>Import Controls</div>	<p>Such as quotas and tariffs</p> <ul style="list-style-type: none"><li>- Protects:<ul style="list-style-type: none"><li>- jobs from cheap labour in other countries</li><li>- local business from low priced competition</li><li>- important national or strategic industries</li><li>- newly started/infant industries</li></ul></li><li>- Improves trade deficit</li><li>- Earns gov't more revenue from tariffs</li></ul>		