EXTERNAL INFLUENCES ON BUSINESS ACTIVITY

Main Unit Topics:

1) **Govt. Economic Objectives**
   I. Inflation
   II. Unemployment
   III. Economic Growth
   IV. Balances of Payments
2) **Govt. Economic Policies**
   I. Fiscal Policy
   II. Monetary Policy
3) **Life Cycles**
   I. Product Life Cycle
   II. Business Life Cycle
4) **Environmental and Ethical Issues**
5) **Pressure Groups**
   I. Ethical
   II. Governmental
6) **Globalization**
   I. Reasons
   II. Business Opportunities
   III. Threats
7) **Multinationals**
   I. Reasons
   II. Advantages for country
   III. Disadvantages for country
8) **Exchange Rate**
   I. Appreciation

II. Depreciation

The objectives of the government are not tailored specifically for businesses as that is not their prime aim.

Economic objectives of govt

1) Low inflation
2) Low unemployment
3) Economic growth
4) Balance of payments

Inflation
When the price of products or services goes up. It happens over a period of time. It is the **increase in the average price level of goods and services** over a period of time. The government wants to mitigate this. The real income/buying power of an individual decreases, **people buy less (bad).**
Real income:
The **real value** of the income. Their ability to buy *stuff*.

Example:
If a worker gains a 6% increase in salary, but he gets inflation of 10%, his real income decreases by 4% (6-10=-4)

Business effect
Inflation → slow down expansion → COGS (cost of goods sold) and overhead expenses increase, less money can be invested into business.

Unemployment
Fewer people getting employed. Will **decrease the country's output** – less people working. This reduces the GDP, making currency depreciate.

Economic growth
More goods and services are produced in the country, and your GDP (total value of goods and services in the country) will increase. **High unemployment reduces economic growth** as fewer people are working.

Balances of payment

Exports and imports mainly. Exports are the goods which you sell to other countries, but imports is what you buy from other countries
You always want more exports than imports.
If the **balance of payments is negative**, then the **currency depreciates**.

Government Economic Policies

We want to see how they affect a business (like TNS, it's underfunded working on maximum loansstip from BOP)

Business Cycle

1) **Product Life Cycle**

You are looking at the life cycle of a product

2) **Business Life Cycle**

You are looking at the life cycle of a business

The business cycle is in comparison to the growth of a country

If GDP increases then the business gets a "**boom**" because then the people have more buying power and they buy more.

If the GDP goes down the business gets a **recession**, and if it goes down more it gets a **slump**. Less buying power so they buy less.

GDP isn't ever stable, it repeats the cycle of increasing and decreasing.

Economic Policies made by the government:

3 Types

1. **Fiscal Policy**: Govt. sets **tax rates (**change every year) and decides how much they spend (**Govt. spending**).

2. **Monetary Policy:** Related to **interest rates**.

Detailed Description

Fiscal Policies:

- How the **government sets tax rates**, increasing and decreasing them. It **always changes**. Use tax on government spending, which can be allocated to the military, infrastructure, education, public transport, etc.

2 types of taxes:

1) **Direct** → taken from income, e.g. income tax

a) Corporate Tax → It is taken from business profits

2) **Indirect** → tax added into the price of goods e.g GST/VAT

Business effect:

More government spending (w/ the tax) = **more business activity** (they subcontract).
Less government spending = **less business activity** (less revenue)
More corporate tax → Less retained profit
All other tax → consumer less buying power
More tax → **higher** prices → workers ask for **raise** → gotta **pay more**

Monetary Policies:

*All about the interest rates that the gov sets. They set it for a certain year, called a **fiscal year.*** **Changes** yearly.

Less interest → Easier loans

More interest → **HarderRRR** loans

If the interest rate increases, then you pay ***more*** to the bank. Less profit.

Example
You planned to take a bank loan to buy machinery but interest is higher than you expected now you'll have to calculate the cash flow forecast again and may rethink your decision.

Consumers will also have less buying power as when they take a loan, they will lose some money, so they will **buy less** from the business

Government policy change	Possible business decision	Problems with this decision
Increase income tax – this reduces the amount consumers have to spend	Lower prices on existing products to increase demand Produce 'cheaper' products to allow for lower prices	Less profit will be made on each item sold (reduces gross profit margin) The brand image of a product might be damaged by using cheaper versions of it
Increase tariffs on imports	Focus more on the domestic market as locally produced goods now seem cheaper Switch from buying imported materials and components to locally produced ones	It might still be more profitable to export Foreign materials and components might be of higher quality
Increase interest rates	Reduce investment so future growth will be less Develop cheaper products that consumers will be better able to afford Sell assets for cash to reduce existing loans	Other companies might still grow so market share will be lost Depends on the product but could consumers start to think that the quality and brand image are lower? The assets might be needed for future expansion

Environmental and Ethical Issues

Let's look at both sides of the argument:

Argument A: **Business should produce goods and services profitably and not worry about the environment**	Argument B: **Businesses have a social responsibility towards the environment and this can benefit them too**
Protecting the environment can be expensive. Reducing waste, recycling waste and reducing polluting smoke all cost businesses money and this reduces profits.	Global warming and global pollution affect us all and businesses have a social responsibility to reduce these problems.
Firms might have to increase prices to pay for 'environmentally friendly' policies.	Using scarce natural resources which are non-renewable, such as rainforest timber, leaves less for future generations and raises prices.
This could make firms uncompetitive and they could lose sales to businesses, perhaps in other countries, that are not environmentally friendly.	Most scientists and environmentalists believe that business activity can damage the environment permanently.
Consumers will buy less if they have to pay higher prices.	Consumers are becoming more socially aware – they are increasingly demanding products from 'environmentally friendly' firms and this can become a marketing advantage
If pollution is a problem, then governments should pay to clean it up.	If business damages the environment, then pressure groups could take action to harm the firm's reputation and sales.
Some business owners claim there is not enough proof that business activity is doing permanent damage to the environment.	

Why we shouldn't help:
1) **Expensive** → recycling, reducing pollution 🗑️
2) **Increase prices** of products, less competitive and lose sales in non-environmentally friendly countries 💵
3) Less demand for **expensive products** 📉📉📉
4) **Government's job**, not us 💔
5) **Not enough proof** that businesses are doing permanent damage to the environment 🌲

However, May pay fines to court/govt 💰

Why we should help
1) **Social responsibility** of businesses 😄 (moral obligation towards the society)
2) Using limited resources **increases prices in the future** and makes life difficult for future generations 😡
3) Business activity can have **permanent damage** 😣

4) Customers are more aware and some demand “environmentally friendly” products, **marketing advantage** 😭
5) Not acting could ruin **reputation** 😨😱

Sustainability:
Doing something that will be maintained in the future

Sustainable development:

Development that does not put at risk the living standards of future generations,

1. You care about living standards.
2. Using non-biodegradable materials
3. Using recycled materials

Electricity Business Example:
You generate electricity with the intent to NOT harm future generations.

Pressure Groups

Environmental

Start **awareness about businesses if they do something unethical or wrong**
Such as BOYCOTTS, this can lead to a **decline in sales.**
That business would have to take some action, for example stop supporting something. This will **only work on big businesses.**
If business is doing something that is not illegal and there are still pressure groups then most likely no effect.

Government. Laws
E.g you can't make factories near xyz to help the environment, that can also affect how a business works as they would have to change location or plans.
Some governments say that some products have to be recycled, so the business would have to do something.

Ethics based

Potential benefits of ethical decisions – Company Y	Potential limitations of ethical decisions – Company Y
Consumers may be against buying clothing products made by children and increase purchases from Company Y and reduce purchases from Company X	Higher costs – adult workers will be paid more than child workers and good working conditions add to business costs too
Good publicity about Company Y's ethical decisions will provide 'free promotion' – Company X may suffer from bad publicity	Company Y's prices might have to be set higher than those of Company X because of higher costs
Long-term profits of Company Y could increase	If consumers are only interested in low prices – and not how products are made – then sales of Company Y could fall
Some workers and investors may want to be linked to an 'ethical' business – Company Y may find it easier to recruit the best workers and raise capital.	Short-term profits of Company Y might fall
There is less risk of legal action being taken against Company Y	It could be argued that, in some countries, if children are not employed the incomes of their families will fall to very low levels

Question: Child Labor or no Child Labor
Benefits of Ethical Decision
1) Consumers may want no child labor products
2) Good publicity → free promotion
3) Long-term profits may rise
4) Some workers or investors want to be in ethical business
5) Less chance of legal action against them

Benefits of Unethical
1) Children cheaper than adults 💸
2) Keep prices lower 👏
3) Some people who don't care about how it's made 🙅
4) Short-term profits could decrease 📉
5) Helps families → employed children = more money for families. Better. 🙂

For example, bribery, child labor, reducing your prices w/ your competitors to destroy everyone else.

2 perspectives
1) As long as they don't break the law it's fine, they want to make money so they should be allowed.
2) Even if it's legal we should take ethics into account and try to incorporate sustainable practices into the business.

Globalization

Increase in world-wide trade. Capital moves from one country to another.

Reasons
1) This has increased due to **free trade agreements** (no tariffs on exported goods).
2) **Trade routes** and **communication** have started to get better through air, road and sea, making it **easier** for trade to happen.
3) Many countries have started to **industrialize** quickly, resulting in many more **exports**.

Business Opportunities

Foreign markets
- You have access to foreign markets, where you can **introduce your product** to, resulting in more sales.

Think
- Will the product sell there well?

Multinationals
- Business can open factories in other countries, becoming a **multinational**. Can be **cheaper** than making it at home.

Think
- Will the quality be good? Will there be any ethical issues? Is it expensive over there?

Imports

- Businesses can import products from abroad and sell them there.

Think

- Will products need maintenance and repairs that can only happen in foreign countries?

Imported Materials

- Can import materials to transform it

Think

- Are suppliers reliable, will there be too much transport costs?

Threats:

1) Imports = more competitors. Cheaper products = less demand for yours.

BUT More competition = more innovation.

2) Multinationals enter the country = further competition. Big company = hard to compete with.

BUT You can become suppliers to them and get money.

3) Employees may leave to go to the multinationals that came as they will get more.

BUT Encourages local businesses to give motivation to employees.

Multinationals

Why become multinational?

1) Can **produce goods** in other countries **cheaper** (cheap labour and raw materials).
2) Can **spread risk** across other countries (e.g 1 country's economy falls, we have other countries).
3) Stay in **competition** with your rivals.

Advantages for country:

1) **Jobs** are created

2) Brings **investment** into the country → more country output → better **GDP**
3) Could bring new **technology**
4) Govt. gets more money through **tax**
5) More **options** for customer
6) Less chance of **monopoly**

Disadvantages for country:
1) Local businesses get **more competition** (multinationals are bigger and will reduce their sales)
2) Most of the profit is **sent back** to the origin country, capital taken out of the country (**withdrawal**).
3) More **usage** of non-renewable resources
4) Could influence the govt. and the economy of the country, **threaten** them.

Exchange rate

The value of a currency relative to another currency.

Business effect
1) If **business currency appreciates**, it would be **harder to sell** products abroad because you would have to **raise prices** to earn the same amount, **reducing demand**.
2) If **business currency depreciates**, then they will be **earning more** as less of the local currency would be required to convert into the same amount of business currency.