Edexcel GCSE BUSINESS STUDIES

SPOTTING A BUSINESS OPPORTUNITY

NAME _____

Unit 1: Section 5
Understanding the economic context

What you need to know

Topic 1.5 Understanding the economic context

The emphasis here is not macro-economics but the factors outside the control of the business that may prevent it from meeting its objectives (contextualisation will be particularly useful in delivery of this section).

What students need to learn	Guidance
Market demand and supply: • the prices of commodity markets are determined by the balance between supply and demand • the difference between commodity markets and normal markets • the effect on small firms of price changes in raw materials and energy costs	The focus on commodities is to avoid confusion over pricing in consumer markets, eg iPods. Commodities such as oil and copper can be very important to small firms such as plumbers.
Impact of changes in interest rates on small businesses: • how changing interest rates affect small firms which tend to rely on overdrafts and loans for finance • the impact of changing interest rates on consumer spending	If possible, visit a local builder, a car showroom or an estate agent to find out the impact of changing interest rates on their business.
Impact of changes in exchange rates*: • explain what exchange rates are • how changes in the £/$ or £/€ affect small firms that trade abroad or face competition from abroad • the impact of changing exchange rates on the price of imported and exported goods • how to calculate exchange rates on product prices (Questions will look only at £/$ and £/€)	Useful industries to look at are food manufacturers and retailers of products such as consumer electronics. Press coverage and other resources can provide up-to-date material.

What students need to learn	Guidance
How do business cycles affect small businesses? • understand that economic activity tends to rise and fall and that changes in the level of economic activity can have serious effects on small businesses	Students will not be expected to have an understanding of specific terms used in business cycles but will be expected to be familiar with the effects of changes in the rate of economic growth.
What effect do business decisions have on stakeholders? • that stakeholders are those groups or individuals with an interest in a business • recognise that business decisions have different effects on different stakeholders and the problems a business may face in meeting the demands of all stakeholders	Perhaps invite a local, business-related pressure group to come in to explain their objectives, methods and experiences.

Revision Review

Key term definitions

Supply	
Demand	
Commodity	
Raw Materials	
Costs	
Interest Rates	
Exchange Rates	
Imports	

Exports	
Business Cycle	
Recession	
Depression	
Economic Growth	
Stakeholders	
Profit	
Ethics	
Pressure Groups	

REMEMBER

INTEREST RATES

Interest rates going UP is BAD for the business and customer

Interest rates going DOWN is GOOD for the business and customer

EXHANGE RATES

Questions

Q1.

James, a sole trader, has been trading for five years. He provides containers for growing vegetables. These are called *Veggards*. They are for people who wish to grow vegetables but do not have either the space or land to grow them.

The wood James uses to make the Veggards comes from Germany.

A year ago the exchange rate was £1 = €1.11. It is now £1 = €1.23. The amount of wood James orders has remained the same. James has not changed his prices.

As a result of the change in exchange rates, which **one** of the following statements is true?

Select **one** answer.

☒ **A** Revenue will decrease

☒ **B** Costs will decrease

☒ **C** Costs will increase

☒ **D** Revenue will increase

(Total for Question = 1 mark)

Q2.

Read the information below and answer the question.

Tom Christie runs a plumbing business in the north of England.
Tom relies heavily on imports of copper piping from Germany for his business.
Tom buys 300 metres of copper pipe every month. The price of the piping is €15 per metre.

Changes in the business cycle can affect businesses such as Tom's.

Identify the **two most likely** effects on a small business, like Tom's, of increased economic activity in a country.

Select **two** answers:

☒ **A** Easier to recruit new staff due to rising unemployment

☒ **B** The need to reduce prices due to falling demand

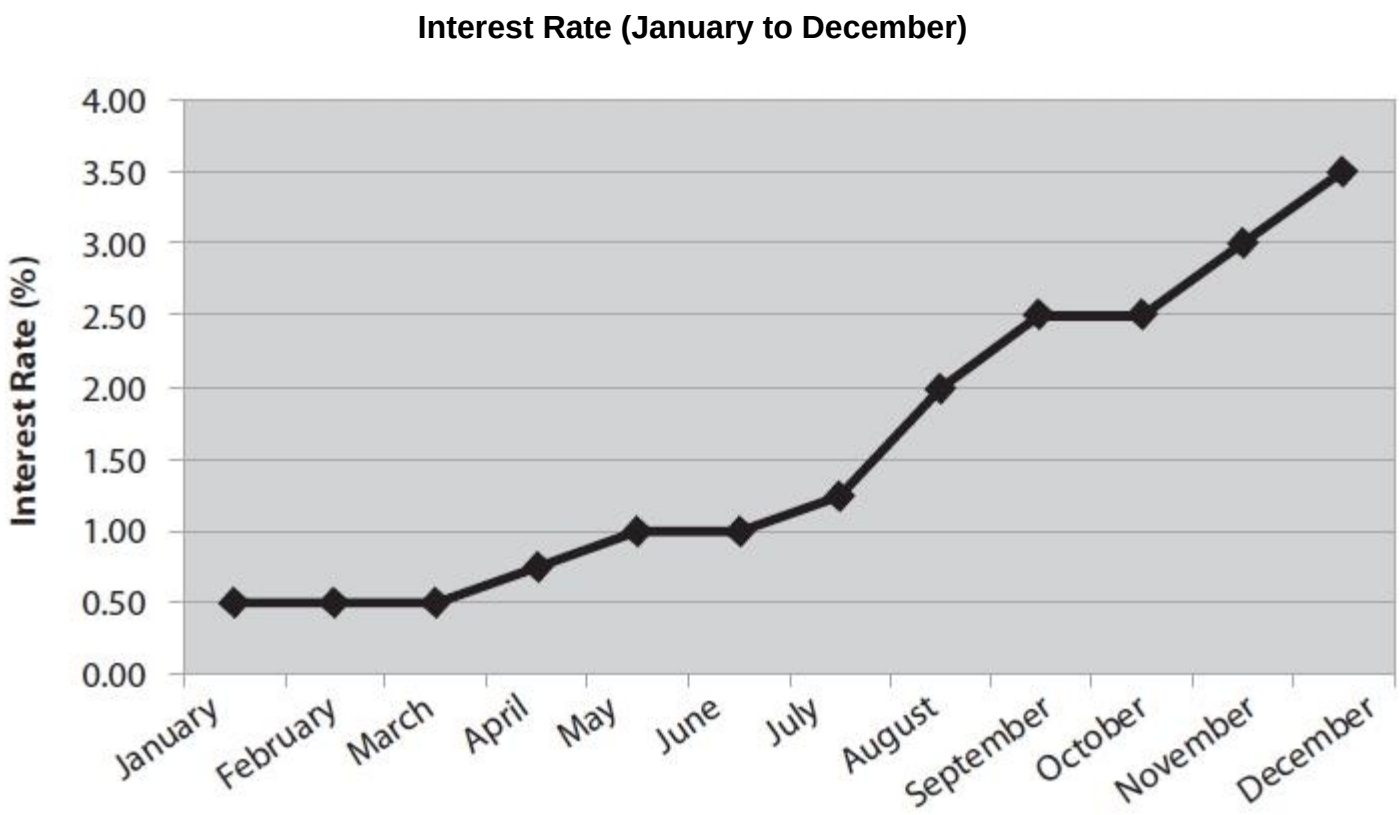
☒ **C** Greater risk of the business failing

☒ **D** Increased sales due to rising consumer incomes

☒ **E** A rise in variable costs due to rising demand for his service

(Total for Question = 2 marks)

Q3.



Identify the **two most likely** effects on small businesses of the changes in the interest rate shown in the graph.

Select **two** answers:

- ☒ **A** Increased consumer spending using credit
- ☒ **B** Lower costs for businesses with overdrafts
- ☒ **C** Less consumer spending with small businesses
- ☒ **D** Higher fixed costs for small businesses with bank loans
- ☒ **E** Higher variable costs for small businesses

(Total for Question = 2 marks)

Q4.

This question is based on the information below.

Smith's Pets Ltd is a pet care business which sells a wide range of pets and equipment. It also manufactures its own label pet foods and is considering changing its marketing mix in response to increased competition.

As part of *Smith's Pets Ltd*'s changes, it intends to cut pay by 2% to help reduce costs and increase profits further.

Which of the following **two** stakeholders are most likely to be directly affected by this decision?

Select **two** answers:

- ☐ **A** Customers
- ☐ **B** Shareholders
- ☐ **C** Suppliers
- ☐ **D** Employees
- ☐ **E** Local community

(Total for Question = 2 marks)

Q5.

Read the information below and answer the question.

Tom Christie runs a plumbing business in the north of England.
Tom relies heavily on imports of copper piping from Germany for his business.
Tom buys 300 metres of copper pipe every month. The price of the piping is €15 per metre.

In May the exchange rate is £1.00 = €1.50. How much does Tom pay for copper piping this month?

Select **one** answer:

- ☐ **A** £300
- ☐ **B** £3 000
- ☐ **C** £4 500
- ☐ **D** £6 750

(Total for Question = 1 mark)

Q6.

Gold, a commodity, is mined in countries such as South Africa, and traded across the world.

Which **two** of the following would increase the price of gold?

Select **two** answers:

☐ **A** Improved gold mining technology

☐ **B** Industrial disputes in gold mines

☐ **C** Increased costs of mining gold

☐ **D** Decreased levels of tax on gold

☐ **E** Falling income of consumers

(Total for question = 2 marks)

Q7.

Suhayl runs *Sandwiches to Go*, a business selling drinks and sandwiches near to a railway station. He has realised that there are certain peak times when people are more interested in buying drinks and other times food. He is keen to beat the competition of the shops in the railway station where people can buy food, drink and newspapers.

Stakeholders are an important part of any business.

Which **three** of the following are stakeholders in *Sandwiches to Go*?

Select **three** answers.

☐ **A** Owners of the railway station

☐ **B** Owner of *Sandwiches to Go*

☐ **C** Customers of *Sandwiches to Go*

☐ **D** Staff who work at *Sandwiches to Go*

☐ **E** Commuters who pass by *Sandwiches to Go*

☐ **F** Newsagent whose shop is near to *Sandwiches to Go*

(Total for Question = 3 marks)

Q8.

A UK business sells its product in Europe. The price per unit is £26.00.

The exchange rate between the pound and the euro is £1 = €1.25.

What would be the cost, in euros, of 425 units?

Select **one** answer:

- ☐ **A** €452.25
- ☐ **B** €531.25
- ☐ **C** €11 050.00
- ☐ **D** €13 812.50

(Total for question = 1 mark)

Q9.

Match the definition on the left with the correct term on the right.

The first one has been done for you.

	Definition
i	The value of one currency expressed in terms of another
ii	Treating employees differently based on age, race, gender or disability
iii	Something which is different to any other business and which reflects what the business does
iv	Raw materials such as tin, wheat and oil
v	The process of turning inventions into products that can be sold to customers
vi	A document outlining the skills and qualities needed in a job applicant

	Term
A	Discrimination
B	Interest rate
C	Person specification
D	Innovation
E	Exchange rate
F	Commodities
G	Patent
H	Added value
I	Unique selling point

(i) E

(ii) .....

(iii) .....

(iv) .....

(v) .....

(vi) .....

(Total for Question = 5 marks)

Q10.

Brownlow is a business that builds water features for gardens. It has recently experienced a fall in sales.

Brownlow records the following transactions between January and April 2015.

Money paid to *Brownlow* by its customers	£5 000
Money owed to *Brownlow* by its customers	£10 000
Cash outflow	£70 000

What is the most likely outcome for *Brownlow* based on the above information?

Select **one** answer:

☐ **A** Growth

☐ **B** Insolvency

☐ **C** Franchise

☐ **D** Expansion

(Total for question = 1 mark)

Q11.

Finishing Touches was started by Paul Russell in 2013. The business hires out chair covers and ribbons for weddings, school proms and other events.

In Paul's second year of trading the interest rate increased from 1.5% to 3%.

Identify **two** possible effects of this change in the interest rate on Paul's business.

Select **two** answers:

☐ **A** Greater competition from rivals

☐ **B** Increased variable costs

☐ **C** Lower sales

☐ **D** Higher loan repayments

☐ **E** Reduced fixed costs

Q12.

Economic activity is increasing. Martin, the owner of a printing business, wants to take advantage of this increase.

Which **two** actions should he take?

Select **two** answers.

- ☐ **A** Change the name of his business
- ☐ **B** Reduce orders to suppliers
- ☐ **C** Recruit more staff
- ☐ **D** Increase product range
- ☐ **E** Move to smaller premises

(Total for question = 2 marks)

Q13.

Nick Nocha moved from Italy with his family in 2010 to live in England. In 2012 he set up as a sole trader making unique ice creams, which he only sold to local retailers. His business soon prospered and he moved production to a small factory. Local retailers liked his ice cream as it was different. He realised that this could be the opportunity he was looking for to develop his business further.

Nick has seen the price of sugar, a commodity he uses, increase.

Which **three** factors are the **likely** causes of this increase?

Select **three** answers.

- ☐ **A** Lower demand for sugar
- ☐ **B** Bad weather reduces the sugar harvest
- ☐ **C** Government report showing the benefits of ice cream
- ☐ **D** Farmers increase sugar production
- ☐ **E** Nick's energy costs increase
- ☐ **F** Sugar farmers pay higher wages

(Total for question = 3 marks)

Q14.

Which **two** of the following could be the effects on small businesses if interest rates were to rise significantly?

Select **two** answers.

- ☐ **A** Improved net cash flow
- ☐ **B** Reduced consumer demand
- ☐ **C** Fixed costs will fall
- ☐ **D** Overdrafts will become cheaper
- ☐ **E** The risk of insolvency is greater

(Total for question = 2 marks)

Mark Scheme

Q1.

	Answer	Mark
	B	1

Q2.

Question	Answer	Mark
	D, E	2

Q3.

Question	Answer	Mark
	C, D	2

Q4.

Question	Answer	Mark
	B, D	2

Q5.

Question	Answer	Mark
	B	1

Q6.

Question	Answer	Mark
	B, C	2

Q7.

	Answer	Mark
	B, C, D	3

Q8.

Question	Answer	Mark
	D	1

Q9.

Question	Answer	Mark
	(i) = E; (ii) = A; (iii) = I; (iv) = F; (v) = D (vi) = C	5

Q10.

Question	Answer	Mark
	B	1

Q11.

Question	Answer	Mark
	C, D	2

Q12.

Question Number	Answer	Mark
	C, Recruit more staff (1) D, Increase product range (1)	**(2)**

Q13.

Question Number	Answer	Mark
	B, Bad weather reduces the sugar harvest (1) C, Government report showing the benefits of ice cream (1) E, Nick's energy costs increase (1)	**(3)**

Q14.

Question Number	Answer	Mark
	B, Reduced consumer demand (1) E, The risk of insolvency is greater (1)	**(2)**