

IB Business **Management SL**

Tuesday, October 22

ENTRY TASKS:

- Why are inflation and unemployment threats for businesses?
- Outline the purpose of a STEEPLE analysis

1.5 | Economic Opportunities and Threats

OBJECTIVE

AO3: Demonstrate application and analysis of the...

- consequences of a change in any of the STEEPLE factors for a business's objectives and strategy

1.5 | Economic Opportunities and Threats

Economic environment

The state of the economy in which businesses operate - determined by the government's ability to achieve four key economic objectives:

- Control inflation,
- To reduce unemployment,
- Achieve economic growth,
- Have a healthy international trade balance

1.5 | Controlled Inflation

Inflation

The continual rise in the general level of prices in an economy.

- Inflation that is not controlled becomes a threat to businesses due to higher costs and uncertainties
- Inflation also affects the international competitiveness of a country
- A nation with higher inflation rate tends to be less price-competitive when trading overseas
 - Which leads to a fall in export earnings, lower national output, and higher unemployment
- Inflation is caused by excessive demand in the economy or higher production costs
 - Any factor that causes a rise in consumption, investment government spending or international trade earnings will increase the economy's aggregate demand

1.5 | Controlled Inflation

Examples (negatively affected by inflation):

- Air transport
- Food retail
- Appliances
- Newspapers
- Enterprise shipping
- Mining
- Consumer electronics

1.5 | Inflation

Case study for Inflation

Zimbabwe suffered immensely from the impacts of hyperinflation for almost a decade, with annual rates reaching 231,000,000% in July 2008.

- The price of goods and services in the country were more than doubling each week
- 100000 Zimbabwean dollars were less than 1 USD at the time.
- The Zimbabwean dollar was eventually abandoned in favor of the US dollar as the nation's official currency.
- An estimated 10.5 million Zimbabweans (around 80% of population) live below the poverty line (IB-book).

1.5 | Inflation

Think-Pair-Share

Turn to an elbow partner

1. State three factors that could have caused inflation
2. Discuss the impact of uncontrollable inflation for businesses in Zimbabwe

1.5 | Reduced Unemployment

Traits of Unemployment:

- Unemployment measures the proportion of a country's workforce
- Governments put effort to solve unemployment due to the high social costs
- Burden on taxpayers increase due to money spent on welfare
- Various solutions to fix high unemployment

1.5 | Reduced Unemployment

Types of Unemployment (Box 1.5a)

- Frictional Unemployment
 - occurs when people change jobs and is the “time lag” between leaving and finding another job
- Seasonal Unemployment
 - caused by periodic and recurring changes in demand for a product
 - e.g. beach resorts tend to suffer from a lack of tourists during winter months
- Technological Unemployment
 - results from the introduction of labor-saving technologies which can cause mass-scale unemployment

1.5 | Reduced Unemployment

Types of Unemployment (Box 1.5a)

- Regional Unemployment
 - refers to the different countries unemployment rate in different areas of a country
 - remote rural areas tend to have higher levels of unemployment than bust urban districts
- Structural Unemployment
 - occurs when demand for products produced in a particular industry continuously falls resulting in long term changes in demand
- Cyclical Unemployment
 - caused by lack of demand in the economy
 - most severe type of unemployment

1.5 | Reduced Unemployment

Case Study for Unemployment

In 2013, the number of unemployed people in Spain exceeded 6 million (27.2%) for the first time in the country's history. The number of people considered long-term unemployed (those not employed for over a year) increased to 3.5 million. The youth employment rate (those under 25) was at 57%.

1.5 | Economic Growth

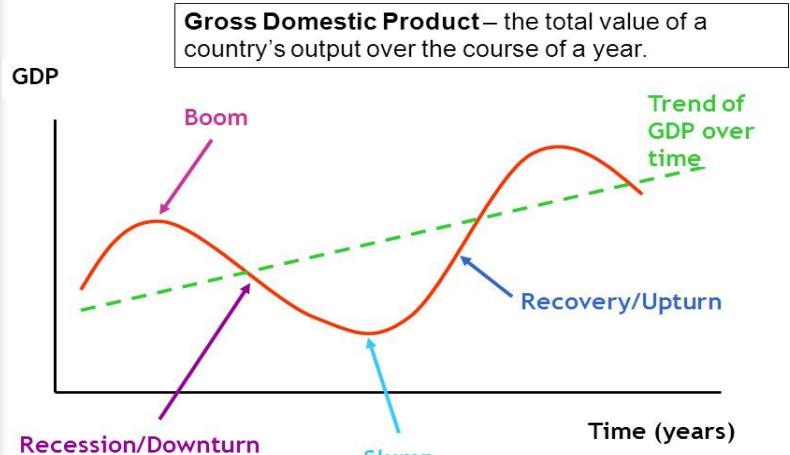
Economic Growth

Increase in a country's economic activity over time.

- Measured by the change in value of the economy's total output (GDP)
- **Business Cycle:** The pattern of fluctuations in economic growth.



The Business Cycle



1.5 | Business Cycle

- **Boom:** economic activity rises and peaks, investment and export earnings all increase.
 - Higher levels of profit for businesses, lower rates of unemployment.
- **Recession:** Fall in the GDP for two consecutive quarters (half a year)
 - Lower investment, falling export sales and rising unemployment
 - Businesses that are most likely to suffer are those with small range of products.
- **Trough/Slump:** bottom of the recession, last stage of decline in the business cycle.
 - High unemployment, very low levels of consumer spending, investment and export earnings.
 - Businesses will suffer from poor cash flow.
 - Many will have already closed down due to poor liquidity
- **Recovery:** when GDP begins to rise again after the economy has suffered a slump.
 - Investment, exports ,unemployment will gradually rise creating opportunities for businesses.

1.5 | Coping with Recession

- Cost reduction to improve cash flow (e.g. efforts to cut energy bills)
- Price reductions to sustain or increase sales
- Non-pricing strategies to sustain the volume of sales (e.g. special offers or special after-sales care)
- Branding to maintain sales and ensure customer loyalty
- Outsourcing production overseas where costs are lower to help the business gain a competitive price advantage

1.5 | Economic Growth

Examples of industries affected by the most recent recession:

- Furniture
- Newspapers/publishing/print items
- Cement and concrete manufacturers
- Motor vehicle dealers
- Lumber and construction wholesalers
- Stationery gift stores/office suppliers

1.5 | Economic Growth

Opportunities with Technology:

Technological advances have helped businesses worldwide experience improved operations and lower business costs. For example, simply a few technicians can control an entire manufacturing system. Trouble with communication over long distances has also been resolved due to the Internet and various media platforms, allowing for many businesses to do their work more efficiently.

1.5 | International Trade Balance

Internal Trade Balance: Records the value of a country's export earnings and its import expenditure

What is the Government's Role in the International Trade Balance?

- Governments strive to avoid a deficit on their international trade balance
 - Alter the Exchange Rate
 - Set up International Trade Barriers

1.5 | International Trade Balance

Exchange Rate: Measures the value of a domestic currency in terms of foreign currencies

Higher exchange rate: Export prices will be relatively higher, thereby reducing the exporter's price competitiveness

Lower exchange rate: Gives domestic firms a relative price advantage, thereby resulting in higher import prices

1.5 | International Trade Balance

Why can altering the exchange rate present a threat?

- Business planning and forecasting becomes very impractical and complex
- International Trade deals can be postponed until the business benefits from a more favorable exchange rate

1.5 | International Trade Balance

International Trade Barriers

Protectionist Measures: Government policies are used to safeguard domestic business from foreign competitors

- This measure poses a threat to foreign business trying to establish themselves in an overseas market

Examples:

- Tariffs: Taxes on imported products
- Quotas: Quantitative limits on volume/value of imports
- Subsidies: Payments made by a government to domestic businesses as a form of financial aid
- Embargos: Physical bans on international trade with a certain country