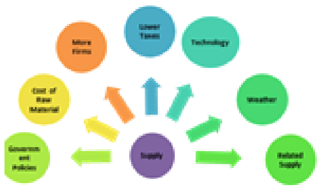
OCR ALevel Business: External Influences 1

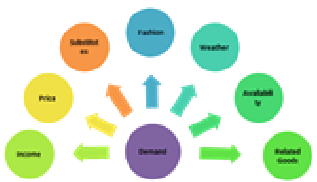
Knowledge Organiser: External Influences

Features of the four market structures

A market is a place where buyers and sellers can meet to facilitate the exchange or transaction

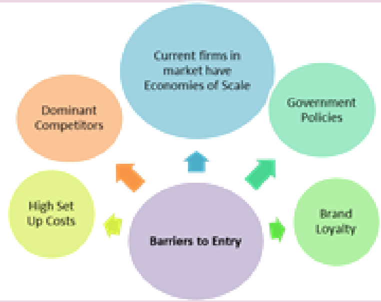
Type of market	Number of firms	Freedom of entry	Nature of product	Examples	Implications for demand curve faced by firm
Perfect competition	Very many	Unrestricted	Homogeneous (undifferentiated)	Cabbages, carrots (approximately)	Horizontal: firm is a price taker
Monopolistic competition	Many / several	Unrestricted	Differentiated	Builders, restaurants	Downward sloping, but relatively elastic
Oligopoly	Few	Restricted	Undifferentiated or differentiated	Cement cars, electrical appliances	Downward sloping. Relatively inelastic (shape depends on reactions of rivals)
Monopoly	One	Restricted or completely blocked	Unique	Local water company, train operators (over particular routes)	Downward sloping: more inelastic than oligopoly. Firm has considerable control over price



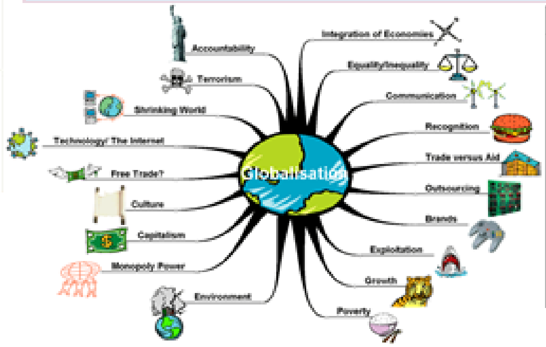


Physical Markets - Physical market is a set up where buyers can physically meet the sellers and purchase the desired merchandise from them in exchange of money.

Non Physical Markets/Virtual markets - In such markets, buyers purchase goods and services through internet. In such a market



The Competition and Markets Authority (CMA) is a non-ministerial government department in the United Kingdom, responsible for strengthening business competition and preventing and reducing anti-competitive activities.



Opportunities	Threats
- Access to cheaper raw materials and supplies, which would help to reduce costs. - Access to cheaper labour - e.g. multinationals can open a factory abroad, outsourcing or using local producer to manufacture the product. - Possible export markets therefore increased sales - high sales growth in emerging markets. - Possible to create a 'global brand' or become a multi-national - Economies of scale are increased	- It may damage the firm's image if working practices are seen to be unethical. - It may be difficult to control quality standards in the local factory. - More competition from foreign firms. This puts pressure on firms to be more efficient and firms lose control over price, i.e. demand becomes more elastic. - Growth can lead to diseconomies of scale, e.g.: communication problems, co-ordination problems. Less efficiency and increasing average costs.

explain factors which facilitate globalisation including the Internet, communication technologies, e-commerce, trade liberalisation, transport infrastructure and multinationals

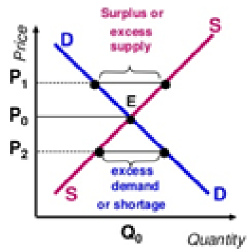
International Trade

Free trade is a trade policy that does not restrict imports or exports; it can also be understood as the free market

Trading blocs are usually groups of countries in specific regions that manage and promote trade activities. Trading blocs lead to trade liberalisation (the freeing of trade from protectionist measures) and trade creation between members, since they are

MARKET FORCES

Market Equilibrium and Disequilibrium



→ If price were below P_0 there would be excess demand
consumers wish to purchase more than producers wish to supply

→ If price were above P_0 there would be excess supply
producers wish to supply more than consumers wish to purchase

evaluate factors to be considered by a business when trading internationally including language, culture and customs, logistics, currency and buying habits

Import Quotas and Tariffs

- Many countries use import quotas and tariffs to keep the domestic price of a product above world levels
  - Import quotas: Limit on the quantity of a good that can be imported
  - Tariff: Tax on an imported good
- This allows domestic producers to enjoy higher profits
- Costs to consumers is high

OCR ALevel Business: External Influences 2

Knowledge Organiser: External Influences

POLITIC	ECONOMIC	SOCIAL
Examples include: Government policy, political stability or instability, bureaucracy, corruption, foreign trade policy, tax policy, trade restrictions, labor/environmental/copyright/consumer protection laws, competition regulation, funding grants & initiatives, etc.	Examples include: Economic trends, growth rates, industry growth, seasonal factors, taxation, inflation, interest rates, international exchange rates, international trade, labor costs, consumer disposable income, unemployment rates, availability of credit, monetary policies, raw material costs, etc.	Examples include: Attitudes and shared beliefs about a range of factors including health, work, leisure, money, customer service, imports, religion, cultural taboos, the environment; population growth and demographics, family size/structure, immigration/emigration, lifestyle trends, etc.

TECHNOLOGY	LEGAL	ENVIRONMENTAL
Examples include: Technology and communications infrastructure, consumer access to technology, emerging technologies, automation, legislation around technology, research and innovation, intellectual property regulation, competitor technology and development, technology incentives, etc.	Examples include: Laws regarding consumer protection, labor, health & safety, antitrust, intellectual property, data protection, tax and discrimination; international and domestic trade regulations/restrictions, advertising standards, product labeling and safety standards, etc.	Examples include: Weather, climate change, your carbon footprint, environmental regulations, pollution laws and targets, recycling and waste management policies, endangered species, support for renewable energy, etc.

Gross Domestic Product (GDP) is the monetary value, in local currency, of **all final economic goods and services produced within** a country during a specific period of time.

It is the broadest financial measurement of a nation's total economic activity.

The total goods and services bought by consumers encompasses **all private expenditures, government spending, investments, and exports** but excludes imports that take place within a designated country.

Direct and Indirect Taxation

- **Direct taxation** is levied on income, wealth and profit
  - Direct taxes include income tax, inheritance tax, national insurance contributions, capital gains tax, and corporation tax (a tax on company profits)
  - The burden of a direct tax cannot be passed on
- **Indirect taxes** are taxes on spending
  - Examples of indirect taxes include excise duties on fuel, cigarettes and alcohol and Value Added Tax (VAT) on many different goods and services
  - Producers may be able to pass on an indirect tax – depending on price elasticity of demand and supply

Government Subsidies for Producers and Consumers

A subsidy is defined as any form of government support—financial or otherwise—provided to producers or (occasionally) consumers

Key Economic Indicators:

- Unemployment
- GDP
- Inflation
- Balance of Payments

- **Monetary policy** involves the use of interest rates and other monetary measures to :
  - Influence bank lending
  - Control the growth of aggregate demand
  - Control the demand for and supply of money
  - Influence the external value of the currency
- The Bank of England operates UK monetary policy on behalf of the governmen
- The main objective of monetary policy is **price stability** and the main policy weapon is interest rates

Opportunities of Technology	Threats of Technology
⇒ Efficiency	⇒ Cost of implementation and maintenance
⇒ Productivity	⇒ Quickly outdated
⇒ Use technology instead of people	⇒ Security risk
⇒ Competitive advantage	⇒ Training need ed

Typical shape of the business cycle

S Stronger
P Pound
I Imports
C Cheaper
E Exports
D Dearer

Problems/Challenges of EU

- **Loss of benefits-** The benefits of free trade between countries in different blocs is lost.
- **Distortion of trade-** Trading blocs are likely to distort world trade, and reduce the beneficial effects of specialization and the exploitation of comparative advantage.
- **Inefficiencies and trade diversion-** Inefficient producers within the bloc can be protected from more efficient ones outside the bloc.
- **Unemployment-** due to prolong recession.
- **Prolonged Fall in GDP-** Economic stagnancy
- **More bureaucracy less democracy-** EU has created extra layers of bureaucracy whilst taking away decision making process further from local communities.

Benefits of EU

- **European harmony-** Europe has managed to heal the divisions which were so painfully exposed in the World War –II. EU was awarded the Nobel Peace Prize in 2012 for helping to promote peace and international co-operation.
- **Free trade within the bloc-** Free trade and removal of non-tariff barriers have helped reduce costs and prices for consumers.
- **Market access and trade creation-** Easier access to each other's markets & high cost domestic producers to be replaced by lower cost, and more efficient imports.
- **Flexible Economy-** Free movement of labour and capital have helped create a more flexible economy & the immigration of workers helped to fill labour market shortages.
- **Protection-** Firms inside the bloc are protected from cheaper imports from outside, such as cheap imports from China and Vietnam.

Emerging Market: A developing economy experiencing faster economic growth than developed economies but with less-developed infrastructure. BRAZIL, RUSSIA, INDIA, CHINA

Benefits of being environmentally and ethically aware	Drawbacks of being environmentally and ethically aware
Marketing Opportunity Staff recruitment and retention USP Part of organisational culture	Cost of increased wages Increased costs of raw materials Do customers care?

Drivers of Change

Internal	External
• Capabilities • Resources • Inventions • Dissatisfaction • Desire	• Customers • Competitors • Investors • Technology • Government

LEWIN'S CHANGE MODEL

Lewin's Three Stage Change Process – Practical Steps

Unfreeze	change	refreeze
•Determines what needs to change •Ensure there is strong support from management •Create the need for change •Manage and understand the doubts and concerns	•Communicate often •Dispel rumors •Empower action •Involve people in the process	•Anchor the changes into the culture •Develop ways to sustain the change •Provide support and training •Celebrate successes

McKinsey 7S Framework