

Unit 38: Business and the Economic Environment

Unit code:	T/502/5500
QCF Level 3:	BTEC National
Credit value:	10
Guided learning hours:	60

● Aim and purpose

The aim of this unit is to introduce learners to the interaction between the general economic environment and business activity and how the interactions generate national wellbeing. Learners will study how government activities regulate and influence business activities and how business activities influence government action and policy.

● Unit introduction

Businesses operate in an environment shaped by the government. Government seeks to control the general level of prices (inflation), employment levels, economic growth and the balance of payments. A range of techniques is used to influence these variables but changes made by the government have a direct impact on individual businesses. Raising interest rates may reduce demand as it becomes more expensive for consumers to borrow. This means that businesses will have to reduce output and possibly make staff redundant. The cost of borrowing to pay for new investment goes up so implementing newer technologies might be delayed, reducing an organisation's competitiveness. Changes in the business environment will impact on individual organisations.

Government spending has a significant impact on business as it is such a high proportion of the gross domestic product. Spending on infrastructure projects such as upgrading the west coast main railway line or building new sports facilities for the Olympic Games have a multiplier effect at both the national and local level. Suppliers of related goods and services prosper. In recession, the government uses spending as a means of stimulating economic activity.

Fiscal and monetary policies are two of the main tools available to government for regulating most economic activity. Fiscal policy uses taxation and spending to influence the economy. The annual spending review and budget identify spending plans and how they will be financed from the public purse. Fiscal policy aims not only to raise revenue for spending but it is also used to re-distribute income. Deflation and reflation are controlled through monetary policy and the supply of money using interest rates. Monetary policy provides the means for ensuring macroeconomic stability.

In the UK, government and business have to operate within the legal and regulatory framework established by both UK, Government and the European Union (EU) and other trans-national institutions. Harmonising legislation and regulations has ensured the adoption of the working time directive limiting how many hours employees can work. In many parts of the economy there are employees who have migrated to the UK to work, one of the most obvious impacts of belonging to the EU and something which benefits many employers who have needed to fill vacancies in boom times.

● Learning outcomes

On completion of this unit a learner should:

- 1 Understand the impact on businesses of changes in the economic environment
- 2 Know how government spending impacts on businesses
- 3 Understand fiscal and monetary policies and the effects on spending
- 4 Know how the international economy affects UK businesses and competition.

Unit content

1 Understand the impact on businesses of changes in the economic environment

Economic environment: business cycle (growth, recession); indicators, eg changes in gross domestic product (GDP), rates of inflation and deflation, employment rates, trade surpluses/deficits; balance of payments; conflicting objectives; 'ripple effects' of downturns in particular industries eg housing, construction and manufacturing; structural adjustments; welfare considerations

Government policy: economic policy; industrial policy; competition policy; fiscal policy; social policy; education and training policy; transport policy; regional policy; environmental policy

2 Know how government spending impacts on businesses

Government spending: public services via central and local government agencies; private and voluntary sector business organisations; deficit funding; government spending and the multiplier mechanism; local impacts of funding; private finance initiatives

3 Understand fiscal and monetary policies and the effects on spending

Fiscal policy: direct and indirect taxation; capital allowances; impact of changes on costs, aggregate demand and tax free allowances; potential annual revision; public finances; public sector borrowing; comprehensive spending review; pre-budget report; budget; re-distribution of income

Monetary policy: aggregate demand and trading conditions; monetary policy; interest rate changes; inflation, employment levels; investment decisions; impacts of actual and anticipated changes

4 Know how the international economy affects UK businesses and competition

European factors: role of European Union (EU); performance of European Union economies; European policies eg agriculture (CAP), business, growth, employment, education, economics and finance, employment, environment, science and technology, regional, external relations, social; the European Monetary Union (EMU)

Global factors: World Trade Organisation (WTO); trading blocs; stock market fluctuations; credit availability; global warming; political stability, war; industry-specific developments (oil, gas, motor); environment, eg Kyoto Protocol, Rio Earth Summit; genetically modified products; outsourcing; globalisation; emerging economies (tiger economies, BRIC economies)

Assessment and grading criteria

In order to pass this unit, the evidence that the learner presents for assessment needs to demonstrate that they can meet all the learning outcomes for the unit. The assessment criteria for a pass grade describe the level of achievement required to pass this unit.

Assessment and grading criteria		
To achieve a pass grade the evidence must show that the learner is able to:	To achieve a merit grade the evidence must show that, in addition to the pass criteria, the learner is able to:	To achieve a distinction grade the evidence must show that, in addition to the pass and merit criteria, the learner is able to:
P1 explain the effects, of changes in the economic environment on a selected business [IE]	M1 analyse the implications of government policies for a selected business	D1 evaluate the impact of changes in the economic environment on a selected business
P2 identify how government policies impact on a selected business [IE, RL]		
P3 identify the impact of government spending on a selected business [IE, CT]		
P4 explain how both fiscal and monetary policy decisions have affected a selected business [IE]	M2 analyse the effects of fiscal and monetary policies for a selected business in terms of the market it operates in	D2 suggest and justify elements of fiscal and monetary policies that would help a selected business achieve its objectives.
P5 describe the impact of international factors on a selected business. [IE]	M3 assess the impact of changes in the global and European business environment on a selected business.	

PLTS: This summary references where applicable, in the square brackets, the elements of the personal, learning and thinking skills which are embedded in the assessment of this unit. By achieving the criteria, learners will have demonstrated effective application of the referenced elements of the skills.

Key	IE – independent enquirers	RL – reflective learners	SM – self-managers
	CT – creative thinkers	TW – team workers	EP – effective participators

Essential guidance for tutors

Delivery

Businesses operate in a national and international context. The role of government and international institutions in establishing and maintaining the business climate to ensure organisations prosper is considered. Emphasis should be placed on showing how businesses operate against this background by looking at current issues. These should be related to some of the theoretical issues. For example, the short-term cut in value added tax assumed that spending would be stimulated as prices fell. However, the consequences were mixed not least because households wanted to increase their savings and reduce their level of debt. This sort of issue occurs infrequently and receives extended coverage in the press, on the radio and on television.

Business activity is cyclical and encapsulated by the phrase 'boom and bust'. Consideration should be given to the business cycle and the associated economic indicators. Governments try to manage the cycle but governments of different political persuasions have different priorities. A conservative chancellor once remarked, 'Rising unemployment and the recession have been the price we have had to pay to get inflation down. That price is well worth paying.' The broad objectives of policy are articulated consistently but they are not always compatible. Examples of the tensions between policy objectives should be examined as should the mechanisms that are used to ensure objectives are met. Account needs to be taken of the current economic perspectives of government as these will impact differently on business. A wide range of policies exist that define the business landscape and these will shape what businesses do, whether coercively – such as land fill tax to encourage better waste management, or voluntarily – by labelling drinks glasses with the number of units of alcohol the glass contains. Learners need to be aware of current business developments and these are well covered in the financial pages of the broadsheet press and in specialist publications such as the Economist. Encourage learners to look at what is going on around them locally. Asking learners to consider regional and local development plans by listening to staff from the local authority or attending meetings will indicate how the broad national issues are worked out locally. Local newspapers will provide useful information sources in identifying specific local or regional case studies, especially where local councils change hands.

Government spending has a major impact on business. It accounts for around 45 per cent of gross domestic product. Education, health, policing and defence are four major areas of government expenditure with significant consequences for employment and for the associated supplier businesses. Learners can be introduced to the multiplier effect of spending in a non-technical way. There will be local examples of the multiplier effect as businesses open up or shut down. The construction of Olympic facilities has a major multiplier effect, particularly in London. The decision to locate government departments in Bootle and Washington had a significant impact on the north east and north west of the country. The slimming down of the civil service through the Gershon review will have a negative effect in the areas affected.

Fiscal policy is the government's use of taxation as a measure to stabilise the economy, raise revenue and fund government expenditure. Learners can examine spending reviews, the pre-budget report and the budget, which the Chancellor of the Exchequer usually announces in March each year. The significance of the measures can be examined in terms of the impact on national and local organisations. Taxation also has an impact on particular industries. Alongside tax and allowance regimes that are not specific to particular businesses there are others that are industry specific such as purchase taxes on new vehicles, fuel duty and alcohol duty. Studying particular businesses will indicate the impact of tax policies on these activities.

Monetary policy affects macroeconomic variables, such as output, employment and inflation. The Bank of England (Monetary Policy Committee) meets monthly to look at the Retail Price Index (RPI) and Consumer Price Index (CPI), along with other indicators, and attempts to keep the economy stable through changes in interest rates. This then affects the level of spending in the UK. Learners should identify the effects that rising and falling interest rates have on businesses. After each monthly meeting of the MPC there is wide coverage of the news media which learners should follow.

Businesses will also be affected by a wide range of external influences. The decisions of the European Union, and the obligation to enshrine EU requirements in UK law, have an obvious effect on business. UK households will have to adopt energy efficient lighting from 2010 so there are obvious implications for companies that manufacture lighting, as well as for businesses that have to meet the revised requirements. Remaining outside the EMU has implications for businesses trading with EU partners as the pound moves against the Euro.

On a global level, the business climate is affected by decisions taken by cartels, such as OPEC to regulate the flow of oil, and by world events such as initiatives to stem global warming. The Intergovernmental Panel on Climate Change (IPCC) was set up by the World Meteorological Organization (WMO) and the United Nations. It will influence business activity in a myriad of ways, some of which are clear and some less clear and will only become apparent in years to come.

Outline learning plan

The outline learning plan has been included in this unit as guidance and can be used in conjunction with the programme of suggested assignments.

The outline learning plan demonstrates one way in planning the delivery and assessment of this unit.

Topic and suggested assignments/activities and/assessment
Introduction to unit and structure of the programme
Introduction to the significance of the economic and business environment to organisations
<p>Pair work (group work) on the business cycle over the recent past. This will be supported by tutor input on technical topics. Learners:</p> <ul style="list-style-type: none"> • investigate the business cycle and the reasons for fluctuations in the cycle. • identify the aims of government policy in managing the business cycle • explain how the aims of government policy need to be reconciled • consider how changes in the business cycle affect particular businesses. • examine the range of government policies that have an impact on business • explain how specific government policies affect individual businesses. <p>There will be formal input during individual, paired and group work.</p>
Assignment 1 – Impact Of Economic Change on a Selected Business
Investigation, discussions and presentations on the business cycle and how government policy affects businesses
<p>Pair work on the role of government spending in the economy and its impact on businesses. This will be supported by tutor input on technical topics. Learners:</p> <ul style="list-style-type: none"> • investigate the size of and trends in government spending • investigate the nature of government spending • identify the importance of government spending to businesses and communities • consider the multiplier effect of government spending by considering national and local examples • explain the role of private finance initiatives. <p>There will be formal input during group work</p>
Investigation, discussions and presentations on national and local government spending.

Topic and suggested assignments/activities and/assessment

Pair work on the role of fiscal and monetary policies and the significance for individual businesses. This will be supported by tutor input on technical topics. Learners:

- define fiscal policy and its components
- identify the role of fiscal policy
- explain the need to raise revenue to fund expenditure
- examine the importance of deficit financing
- explain the budgetary process
- examine the impact of fiscal policy on business
- define monetary policy and its components
- identify the role of monetary policy
- explain how the government manages monetary policy
- examine the impact of monetary policy on businesses.

There will be formal input during group work.

Assignment 2 – Fiscal and Monetary Factors

Investigations, discussions and presentations on the role of fiscal and monetary policies and their impact on businesses.

Pair work on the impact of European and global factors on business activity. This will be supported by tutor input on technical topics. Learners:

- identify the impact of EU membership on UK business activities
- explain how EU policies affect businesses
- identify the impact of global issues on UK business activities
- explain how global developments affect businesses.

There will be formal input during group work.

Assignment 3 – Impact of International Economic Change on a Selected Business

Investigations, discussions and presentations on the impact of European and global factors on businesses.

Supervised assignment time

Non-supervised study time and completion of assignments

Assessment

For P1, learners should explain the likely effect of variations in the economic environment on a selected business, by examining the business cycle and indicators that describe it, such as inflation, employment, growth and international trade. Learners should choose an appropriate business in order to examine the impact of any changes. A local example or a major national example will help ensure sufficient information is available.

For P2, learners need to consider the wide range of government policies that impinge on business and select those that have a significant effect on the selected business. The impact of policies will vary between businesses depending on their size, location and type of activity. It makes sense to use the same organisation as used for P1.

For P3, learners should consider the impact of changes to government spending on a selected business at a local, national or European level. If government spending is declining, demand for a business's products or services will fall. This will have predictable consequences on the revenues, profits and employment for both the individual business and the economy as a whole. Learners can also analyse the likely impact on a selected business organisation of a significant change in the level of public spending in terms of altered demand and the adjusted output, purchases, overheads and long-term growth. Learners should trace the knock-on effects in response to these changes and explain the multiplier effect.

For P4, learners must examine fiscal and monetary policies in relation to a chosen business. This will involve analysing the possible impact of changes in the tax regime, as well as interest rate changes, on a selected business's operations. The range of possibilities is extensive and will vary over time so care will be needed in identifying what is relevant at any one time.

For P5, learners should describe the implications for a selected business of European and global factors. Again, these will vary between types of business and over time. However, some developments are long term. European requirements will continue to be incorporated into UK legal and regulatory frameworks. Global warming will involve a continuing series of initiatives to reduce carbon emissions.

For M1, learners should analyse the impact that government policies have on a selected business and the possible reactions of the business to the decisions. Planning approval for a high speed rail link has allowed the local train operating company to run services that use the same track as Eurostar trains. This requires the train operating company to buy new rolling stock and power cars. New engineering facilities and additional staff training from local providers will be needed and people will move in to the areas affected by the upgraded train services.

For M2, learners are required to analyse the effects of fiscal and monetary policy decisions have on business. The "credit crunch" saw a temporary reduction in VAT and a fall in interest rates to historically low levels designed to stimulate demand. These changes illustrate the impact of fiscal and monetary policy at both a national and local level.

For M3, learners can assess the impact on a business of changes in European and global factors. This will show an awareness of the implications for business of an international environment where many factors are beyond the control of the business. This might mean restructuring operations and modifying products but businesses will need to be quick to exploit changes in the international environment.

For D1, learners should evaluate the impact of changes in the economic environment on a selected business in relation to government decisions, policies, spending and economic management. Learners need to examine the information and draw justified conclusions as to how the business might respond.

For D2, learners should suggest and justify elements of fiscal and monetary policies that government could use that would help a selected organisation achieve its objectives

Programme of suggested assignments

The table below shows a programme of suggested assignments that cover the pass, merit and distinction criteria in the grading grid. This is for guidance and it is recommended that centres either write their own assignments or adapt any Edexcel assignments to meet local needs and resources.

Criteria covered	Assignment title	Scenario	Assessment method
PI, P2, P3, MI, DI	Impact of Economic Change on a Selected Business	A case study of a selected local or national business.	Case study.
P4, M2, D2	Fiscal and Monetary Factors	You are been commissioned to conduct research on the impact of current Fiscal and Monetary policy on a selected business.	Report.
P5, M3	Impact of International Economic Change on A Selected Business	You are making a presentation to the local Chamber of Commerce on the impact of international economic factors on a selected business.	Presentation.

The assignments will cover:

- describing the effects of changes in the economic environment on a selected business
- identifying how government policies impact on a selected business
- identifying the impact of government spending on a selected business
- outlining how both fiscal and monetary policy decisions have affected a selected business
- describing the impact of international factors on a selected business.

Links to National Occupational Standards, other BTEC units, other BTEC qualifications and other relevant units and qualifications

This unit forms part of the BTEC Business sector suite. This unit has particular links with the following unit titles in the Business suite:

Level 3
The Business Environment
International Business

Essential resources

For this unit learners should have access to a suitable business teaching environment and access to current resources about government policies and the economy. Current and specific information is easy to come by. Government websites and departments of state provide up to date detailed information. Various references books provide details about UK business and the economy. The EU website provides comprehensive information on all EU activities. Local organisations and businesses can provide information about the impact of government from a personal perspective.

Employer engagement and vocational contexts

Centres should develop links with local employers who are affected by government policy and the associated economic environment. Many businesses look to employ business learners when they finish their programmes of study.

Indicative reading for learners

Textbooks

Gillespie A – *Business in Action* (Hodder Arnold, 2002) ISBN 0340848200

Marcouse I et al – *Business Case Studies, 2nd Revised Edition* (Hodder Arnold, 2003) ISBN-10 0340811102

Sawyer M – *The UK Economy, 16th Revised Edition* (OUP Oxford, 2000) ISBN-10 0199266514

Whitaker's Almanack 2009 141st Revised Edition (A & C Black Publishers Ltd) ISBN-10 1408104229

Journals

Business sections of broadsheet newspapers.

The Economist

The Financial Times

Websites

www.bized.co.uk

business studies resources for teachers and students

www.britishchambers.org.uk

the British Chambers of Commerce site for exporting

www.businesslink.gov.uk

the Business Link site for importing and exporting

www.direct.gov.uk

follow the links to information for businesses which then has links to specific information at the Department for Business and Regulatory reform (BERR)

europa.eu

is the website of the European Union

news.bbc.co.uk/1/hi/country_profiles/default.stm

provides up to date country profiles

www.thetimes100.co.uk

business studies resources for teachers and students

Delivery of personal, learning and thinking skills

The table below identifies the opportunities for personal, learning and thinking skills (PLTS) that have been included within the pass assessment criteria of this unit.

Skill	When learners are ...
Independent enquirers	<ul style="list-style-type: none"> describing the effects of the business cycle on business activity identifying how government policies affect business identifying the impact of government spending on business outlining how fiscal policy affects business outlining how monetary policy affects business describing the impact of international factors on business
Creative thinkers	<ul style="list-style-type: none"> considering how government policies might affect businesses
Reflective learners	<ul style="list-style-type: none"> reviewing and reflecting on their work in examining the impact of government policy on national and local business.

Although PLTS are identified within this unit as an inherent part of the assessment criteria, there are further opportunities to develop a range of PLTS through various approaches to teaching and learning.

Skill	When learners are ...
Independent enquirers	<ul style="list-style-type: none"> planning and carrying out research into the business cycle planning and carrying out research into government policies and how they affect businesses planning and carrying out research into the significance of government spending for national and local business planning and carrying out research into the impact of fiscal and monetary policy on business planning and carrying out research into the impact of international factors on business
Creative thinkers	<ul style="list-style-type: none"> looking at how the multiplier effect works its way through the local and national economy reviewing how businesses might respond to international factors using questioning skills when interviewing people about the impact of government decisions on business
Reflective learners	<ul style="list-style-type: none"> considering the consequences of the changing business context for business activity inviting feedback on their own performance when researching and obtaining information evaluating their experiences and learning to inform future progress

Skill	When learners are ...
Team workers	working in a group to discuss ideas, obtain information and prepare materials agreeing roles with others in a carrying out research taking responsibility for own role managing activities to reach agreements and achieve results
Self-managers	seeking out challenges or new responsibilities and showing flexibility when priorities change dealing with competing pressures, including personal and work-related demands responding positively to change, seeking advice and support when needed
Effective Participators	Planning and working with others with integrity.

● Functional Skills – Level 2

Skill	When learners are ...
ICT – Use ICT systems	
Select, interact with and use ICT systems independently for a complex task to meet a variety of needs	researching government and business information from a range of sources
Use ICT to effectively plan work and evaluate the effectiveness of the ICT system they have used	collating and tabulating information about the business cycle, government policy and business responses producing materials used in discussion and presentations
ICT – Find and select information	
Select and use a variety of sources of information independently for a complex task	finding current data on government, business and international activities analysing the interaction of economic variables on business activity
Access, search for, select and use ICT-based information and evaluate its fitness for purpose	exploring, extracting and assessing the relevance of information from websites with business-related information
ICT – Develop, present and communicate information	
Enter, develop and format information independently to suit its meaning and purpose including: <ul style="list-style-type: none"> • text and tables • images • numbers • records 	bringing together a variety of materials gathered through research preparing summaries of information, presentations and other material to explain business responses to changes in the business environment
Bring together information to suit content and purpose	
Present information in ways that are fit for purpose and audience	
Evaluate the selection and use of ICT tools and facilities used to present information	
Select and use ICT to communicate and exchange information safely, responsibly and effectively including storage of messages and contact lists	communicating with business agencies and business staff communicating with other learners when researching information

Skill	When learners are ...
Mathematics	
Understand routine and non-routine problems in a wide range of familiar and unfamiliar contexts and situations	using numerical data in analysing government policies and the possible impact on business. This may involve making predictions based on an analysis of historic data or using simple business models
Identify the situation or problem and the mathematical methods needed to tackle it	
Select and apply a range of skills to find solutions	
Use appropriate checking procedures and evaluate their effectiveness at each stage	
Interpret and communicate solutions to practical problems in familiar and unfamiliar routine contexts and situations	
Draw conclusions and provide mathematical justifications	
English	
Speaking and listening – make a range of contributions to discussions and make effective presentations in a wide range of contexts	<p>carrying out group work when investigating government and business policies and responses to these policies</p> <p>asking questions when carrying out research</p> <p>testing the validity of ideas</p>
Reading – compare, select, read and understand texts and use them to gather information, ideas, arguments and opinions	<p>reading about government policy, international factors and business activities</p> <p>reviewing the legal and regulatory requirements in response to government policies and international factors that govern business activity</p> <p>considering ideas about the effectiveness of fiscal and monetary policies</p>
Writing – write documents, including extended writing pieces, communicating information, ideas and opinions, effectively and persuasively	<p>preparing abstracts of information from government and business sources</p> <p>preparing materials to be used in presentations</p> <p>producing questions to be asked at interviews when obtaining information.</p>