

Cambridge TECHNICALS LEVEL 3

Cambridge
TECHNICALS
2016

BUSINESS

Unit 10

Economics for business

L/615/1128

Guided learning hours: 90

V1

LEVEL 3

UNIT 10: Economics for business

L/615/1128

Guided learning hours: 90

Essential resources required for this unit: None

This unit is externally assessed by an OCR set and marked examination.

UNIT AIM

Businesses do not operate in a vacuum; they are affected by changes in the local, national and international economic environment. A business may be influenced by fluctuations in the local market for its goods, but also for all UK goods and services and also for globally produced goods and services. In this unit you will learn how to recognise when these economic changes occur and how businesses adapt to them.

You will be introduced to the basic economic principles of demand and supply and will apply these to a range of markets. You will also explore different competitive market structures and learn how businesses behave within each structure.

This unit also helps you to understand how changes in the national economy and government policies, impact on businesses. You will gain an insight into the importance of unemployment, inflation and exchange rates and the methods to control them. In addition, you will increase your awareness of how international economic events and organisations influence UK businesses.

TEACHING CONTENT

The teaching content in every unit states what has to be taught to ensure that learners are able to access the highest grades.

Anything which follows an i.e. details what must be taught as part of that area of content. Anything which follows an e.g. is illustrative.

For externally assessed units, where the content contains i.e. and e.g. under specific areas of content, the following rules will be adhered to when we set questions for an exam:

- a direct question may be asked about unit content which follows an i.e.
- where unit content is shown as an e.g. a direct question will not be asked about that example.

Learning outcomes	Teaching content	Exemplification
<p>The Learner will:</p>	<p>Learners must be taught:</p>	
<p>1. Understand how microeconomic factors can impact on UK businesses</p>	<p>(When introducing this learning outcome, teachers should cover how microeconomics is the study of the way product markets work and examples of areas of microeconomic study, such as competition and prices.)</p> <p>1.1 the behaviour of buyers and sellers in the marketplace, i.e.</p> <ul style="list-style-type: none"> • market demand curve • market supply curve • market equilibrium <p>1.2 determinants of demand, i.e.</p> <ul style="list-style-type: none"> • complements and substitutes • income • tastes and fashion • advertising • interest rates • future expectations 	<p>1.1 A market being a place where buyers and sellers meet and where equilibrium prices are determined. Learners will be expected to interpret diagrams and to be able to draw new curves on a diagram to show an increase or decrease in demand or supply but will not be expected to construct new diagrams from scratch.</p> <p>1.2 To include the difference between movements along the demand curve caused by price changes and the factors which cause an increase/decrease in demand and consequently a shift in the curve.</p>

Learning outcomes	Teaching content	Exemplification
The Learner will:	Learners must be taught:	
	<p>1.3 determinants of supply, i.e.</p> <ul style="list-style-type: none"> • improvements in productivity • costs of production, i.e. <ul style="list-style-type: none"> ○ labour ○ machinery ○ rent ○ materials • government policy, i.e. <ul style="list-style-type: none"> ○ health and safety regulations ○ subsidies and grants • other factors (e.g. weather/climate, unexpected events) <p>1.4 the impact of changes in demand and supply on the market equilibrium and UK businesses, i.e.</p> <ul style="list-style-type: none"> • higher or lower selling price • increased or reduced output <p>1.5 the extent of the change in market equilibrium, i.e.</p> <ul style="list-style-type: none"> • price elasticity of demand • income elasticity of demand • cross elasticity of demand • price elasticity of supply • how business behaviour might be affected by elasticities 	<p>1.3 To include the difference between movements along the supply curve caused by price changes and the factors which cause an increase/decrease in demand and consequently a shift in the curve.</p> <p>1.4 It is not necessary to be able to construct diagrams from scratch but to be able to amend diagrams by drawing new positions for demand or supply curves and identifying how the market equilibrium has changed.</p> <p>1.5 Elasticity of demand or supply affects how steep the curves will be. If there is a shift in demand or supply, the extent of change in the market equilibrium will depend on the gradient/elasticity of the curves.</p> <p>It is not necessary to be able to calculate elasticities, but to interpret whether the figure is elastic or inelastic. For example, if a business has a price elasticity of demand of (-) 4, this is price elastic and it would be less willing to put its prices up due to a larger</p>

Learning outcomes The Learner will:	Teaching content Learners must be taught:	Exemplification
	<p>1.6 economies of scale and their effect on UK businesses, i.e.</p> <ul style="list-style-type: none"> • internal, i.e. <ul style="list-style-type: none"> ○ marketing ○ purchasing ○ financial ○ technical ○ managerial ○ risk bearing • external, i.e. <ul style="list-style-type: none"> ○ industry concentration ○ pool of skilled labour ○ supporting services ○ location of suppliers ○ sharing resources and knowledge • the effects of economies of scale, i.e. <ul style="list-style-type: none"> ○ lower unit costs ○ higher production ○ less likely to relocate if already in an area benefiting from external economies <p>1.7 the types of competition in the market and its effect on businesses, i.e.</p> <ul style="list-style-type: none"> • types of market structure, i.e. <ul style="list-style-type: none"> ○ monopoly ○ oligopoly 	<p>proportional fall in sales. It is also possible to interpret curves with gentle gradients as elastic and steep gradients as inelastic.</p> <p>1.6 To include the difference between internal and external economies of scale. Internal being the benefits from the growth within the business itself; external being benefits from growth within the industry. A business which benefits from economies of scale will have lower costs per unit.</p> <p>1.7 Learners should appreciate how barriers to entry help to determine how easy it is for new businesses to enter the market. Therefore the lower the barriers to entry, the more competitive the market. The Internet has reduced barriers to entry by giving easy access to markets for many small businesses.</p>

Learning outcomes	Teaching content	Exemplification
The Learner will:	Learners must be taught:	
	<ul style="list-style-type: none"> ○ monopolistic competition ● barriers to entry, i.e. <ul style="list-style-type: none"> ○ high capital costs ○ high sunk costs ○ a strong brand image ○ a patent ● the effects of more competition, i.e. <ul style="list-style-type: none"> ○ more rivals ○ price wars ○ price takers versus price leadership ○ use of non-price competition 	
<p>2. Understand how macroeconomic factors can impact on UK businesses</p>	<p>(When introducing this learning outcome, teachers should cover how macroeconomics is the study of the way the economy works as a whole and examples of areas of macroeconomic study, such as unemployment and inflation.)</p> <p>2.1 economic growth, i.e.</p> <ul style="list-style-type: none"> ● Gross Domestic Product (GDP) ● phases of the business cycle, i.e. <ul style="list-style-type: none"> ○ boom ○ bust ○ recession ○ recovery ● the effects on businesses, i.e. <ul style="list-style-type: none"> ○ sales and profitability ○ production and recruitment ○ investment ○ congestion, pollution and transport issues 	<p>2.1 To include how rises and falls in the rate of economic growth impact on businesses. For example, a fall in the rate of growth of GDP (a recession) is likely to cause a fall in car sales. Learners should be able to look at a graph of GDP over time and identify the phases of the business cycle.</p>

Learning outcomes	Teaching content	Exemplification
The Learner will:	Learners must be taught:	
	<p>2.2 unemployment, i.e.</p> <ul style="list-style-type: none"> • the rate of unemployment, i.e. <ul style="list-style-type: none"> ○ the Labour Force Survey (LFS) ○ the Claimant Count (CC) ○ the differences between unemployment rates which use the LFS and the CC (different sampling methods, burden of proof and inclusion of non-claimants) • causes of unemployment, i.e. <ul style="list-style-type: none"> ○ cyclical unemployment ○ structural unemployment ○ frictional unemployment • impacts of unemployment, i.e. <ul style="list-style-type: none"> ○ ease of recruitment ○ changes in wage rates ○ changes in sales <p>2.3 inflation, i.e.</p> <ul style="list-style-type: none"> • measures of inflation <ul style="list-style-type: none"> ○ the consumer price index (CPI) ○ the retail price index (RPI) • causes of inflation, i.e. <ul style="list-style-type: none"> ○ demand-pull inflation ○ cost-push inflation • the impacts of inflation, i.e. <ul style="list-style-type: none"> ○ menu costs ○ 'shoe leather' costs ○ administrative cost ○ uncertainty 	<p>2.2 To include current rates of unemployment and the difference between the LFS and Claimant Count (i.e. the LFS includes non-claimants in a sample of 60,000 households who say they are looking for work, whereas the CC includes all people who have proven they are looking for work and claim benefits). To include how unemployment affects UK businesses in terms of size of labour force and market.</p> <p>2.3 To include how the CPI and RPI are calculated and their advantages and disadvantages. Also to include how rising inflation causes problems for UK businesses in terms of the practical costs of rising prices and the effect on investment decisions.</p>

Learning outcomes The Learner will:	Teaching content Learners must be taught:	Exemplification
	<p>2.4 exchange rates, i.e.</p> <ul style="list-style-type: none"> • simple calculations which involve sterling against other currencies • determinants of sterling exchange rate, i.e. <ul style="list-style-type: none"> ○ demand for sterling ○ supply of sterling ○ interest rates ○ market equilibrium • impacts of exchange rate changes, i.e. <ul style="list-style-type: none"> ○ prices ○ costs ○ competitiveness 	<p>2.4 Exchange rates are the price of one currency in terms of another. Exchange rates affect the price of goods a business buys and sells. Sterling is British currency (£). A rise in the exchange rate value of sterling means that a greater amount of foreign currency is needed to buy each pound. This also means that the pound has become stronger. When sterling becomes weaker, or its exchange rate value falls, less foreign currency is needed to buy each pound. To show how exchange rates are determined by the market demand and supply of that currency (learners will not be expected to construct market demand and supply curves for currencies, but they may be asked to comment on them).</p>
<p>3. Understand how UK government policies can impact on UK businesses</p>	<p>3.1 the objectives of UK government policy, i.e.</p> <ul style="list-style-type: none"> • acceptable levels of economic growth • acceptable level of inflation • achieving target rates for unemployment • to have a stable currency <p>3.2 fiscal policy and its impact on UK businesses, i.e.</p> <ul style="list-style-type: none"> • taxation <ul style="list-style-type: none"> ○ direct, i.e. <ul style="list-style-type: none"> ▪ corporation tax, income tax ○ indirect tax, i.e. <ul style="list-style-type: none"> ▪ VAT, current rates of VAT ○ the role of HMRC ○ the role of taxes in redistributing income ○ disposable income • government spending • the multiplier effect 	<p>3.1 To include some recent government policy objectives and their impacts on businesses.</p> <p>3.2 To include the difference between progressive, proportional and regressive methods of taxation.</p> <p>To include the concept of the multiplier and interpretation of the figures. Though there is no need to include multiplier calculations, nor to consider the marginal propensities to consume and save.</p> <p>To include what is meant by government borrowing and national debt and how they are linked to government spending and taxation.</p>

Learning outcomes	Teaching content	Exemplification
<p>The Learner will:</p>	<p>Learners must be taught:</p> <ul style="list-style-type: none"> • government borrowing • national debt • impacts of fiscal policy, i.e. <ul style="list-style-type: none"> ○ the effect of changes in disposable income (due to changes in income tax) on the demand for a business' goods or services ○ different levels of income tax result in changes to income distribution, affecting sales of luxuries and necessities ○ the effect of changes in the rate of VAT on the demand for goods and services ○ the effect of changes in corporation tax on businesses' retained profits and investment plans ○ changes in government spending that have an impact on those businesses where the money is being spent (e.g. medical equipment suppliers for the NHS) <p>3.3 monetary policy and its impact on UK businesses, i.e.</p> <ul style="list-style-type: none"> • interest rates <ul style="list-style-type: none"> ○ Monetary Policy Committee (MPC) and inflation targeting • money supply <ul style="list-style-type: none"> ○ the role of the Bank of England as a central bank ○ quantitative easing • impacts of monetary policy, i.e. <ul style="list-style-type: none"> ○ changes to interest rates that affect the cost of borrowing for businesses, their customers and their debtors ○ changing planned investments due to changes in interest rates 	<p>3.3 To include how monetary policy uses government targets for interest rates to prompt the MPC to change interest rates rather than direct action by politicians.</p>

Learning outcomes	Teaching content	Exemplification
The Learner will:	Learners must be taught:	
	<ul style="list-style-type: none"> ○ interest rates fluctuations due to changes to exchange rates and the value of sterling <p>3.4 supply side policies and their impact on UK businesses, i.e.</p> <ul style="list-style-type: none"> ● supply side policies, i.e. <ul style="list-style-type: none"> ○ changes to the benefits system and income tax ○ national wage rates (e.g. the National Minimum Wage and The National Living Wage) ○ trade union legislation ○ national funding for public security, infrastructure, training and education ○ incentives for research and development policies ○ locally targeted public investment (e.g. schools, colleges, local training centres and skills, local health centres and local infrastructure) ● impacts of supply side policies, i.e. <ul style="list-style-type: none"> ○ better skills training leading to increased productivity ○ increased offers of contractual work in the public sector ○ finding recruitment easier as lowering benefits pushes people into work ○ better quality applicants through investment in education ○ increased innovation and competitive advantage 	<p>3.4 To include how supply side policies involve methods to improve the production of goods in the UK economy as a whole and on a local scale. Both of which often involve improving the factors of production, especially the quantity and quality of labour.</p>

Learning outcomes The Learner will:	Teaching content Learners must be taught:	Exemplification
	3.5 the UK competition regulator and its impact on businesses' behaviour	3.5 UK competition regulators, currently the CMA Competition and Markets Authority. Teaching should reference the current body. To include examples of how competition policy has been used to alter businesses' behaviour, such as preventing mergers and consumer protection.
4. Understand how the international economy can impact UK businesses	<p>4.1 the benefits to businesses of trading internationally, i.e.</p> <ul style="list-style-type: none"> • wider access to markets • extended product lifecycles • increased market share/market penetration • able to overcome domestic limitations (e.g. increased competition, domestic legislation and market saturation) • access to more suppliers and lower prices • more competitive <p>4.2 the costs to businesses of international trade, i.e.</p> <ul style="list-style-type: none"> • increased competition • duplication of resources when selling abroad • time taken to build foreign partnerships • need to adapt your brand to the foreign market • cost of licensing • difficulties of dealing with foreign suppliers or customers • transportation distance and cost • impact of using foreign supplies and/or services on brand image 	4.1 and 4.2 To consider UK businesses that export a large proportion of their sales, those that rely on imports from other countries and UK businesses in competition with foreign imports.

Learning outcomes	Teaching content	Exemplification
<p>The Learner will:</p>	<p>Learners must be taught:</p> <p>4.3 the EU and how it impacts on UK businesses, i.e.</p> <ul style="list-style-type: none"> • a single market • the Eurozone and the Euro • the impact of changes in EU policies on UK businesses, i.e. <ul style="list-style-type: none"> ○ new entrants providing larger markets ○ increased competition from new entrants' businesses ○ standardisation of products <p>4.4 how global factors impact on UK businesses, i.e.</p> <ul style="list-style-type: none"> • factors that have led to globalisation, i.e. <ul style="list-style-type: none"> ○ mobile/communication technologies ○ free trade ○ Transport infrastructure, i.e. <ul style="list-style-type: none"> ▪ containerisation ▪ pipelines ▪ aviation ▪ ports ▪ rail ▪ road • major economies and organisations in the world economy, i.e. <ul style="list-style-type: none"> ○ Major economies ○ International Monetary Fund (IMF) and its role ○ World Trade Organisation (WTO) and its role • the impact of globalisation on UK businesses, i.e. <ul style="list-style-type: none"> ○ opportunities for market expansion ○ threats from increased foreign competition 	<p>4.3 To include how a single market, such as the EU, operates (e.g. free movement of goods and people across borders and common health and safety and technical standards. The Euro as a single European currency makes comparing prices between Euro countries easier for UK businesses. New members entering the EU can provide opportunities and threats to UK businesses).</p> <p>4.4 Globalisation should be explored from the perspective of UK businesses. It is therefore not necessary to look at the impact on foreign firms or foreign economies.</p> <p>To focus on those countries to which UK businesses exports the most and who are the greatest threat to UK businesses operating internationally. To include emerging markets.</p> <p>Current major economies (e.g.</p> <ul style="list-style-type: none"> ▪ USA ▪ EU ▪ JAPAN ▪ BRIC (Brazil, Russia, India and China) ▪ MINT (Mexico, Indonesia, Nigeria and Turkey)) <p>The IMF and WTO have roles in helping to promote business activity in global markets (e.g. the IMF helps to support currencies and the WTO helps to resolve trade disputes).</p>

Learning outcomes The Learner will:	Teaching content Learners must be taught:	Exemplification
<p>5 Understand how businesses might respond to changes in the local, national and international economic environment</p>	<p>5.1 how the functional areas of a business might respond to changes in the economic environment.</p>	<p>5.1 The depth of suggested changes to the functional areas is more important than the breadth of ideas. Suggested changes can be proactive as well as reactive.</p> <p>Possible changes in finance could be linked to:</p> <ul style="list-style-type: none"> • reducing dividend payments • finding new sources of finance • improvements in record keeping <p>Business support services might change their:</p> <ul style="list-style-type: none"> • provision of IT support • maintenance of equipment • administrative support <p>The functional areas may overlap and interrelate.</p>

LEARNING OUTCOME (LO) WEIGHTINGS

Each learning outcome in this unit has been given a percentage weighting. This reflects the size and demand of the content you need to cover and its contribution to the overall understanding of this unit. See table below:

LO1	15-35%
LO2	10-25%
LO3	10-25%
LO4	10-25%
LO5	10-25%

ASSESSMENT GUIDANCE

All Learning Outcomes are assessed through an externally set written examination paper worth a maximum of 90 marks and 2 hours in duration.

The assessment comprises:

- a number of short and medium answer questions, and
- two extended answer questions all based on a single business scenario. Some of the questions will require the skills of analysis and evaluation.

SYNOPTIC ASSESSMENT

It will be possible for learners to make connections between other units over and above the unit containing the key tasks for synoptic assessment, please see section 6 of the centre handbook for more detail. We have indicated in this unit where these links are with an asterisk and provided more detail in the next section.

*OPPORTUNITIES FOR APPLYING LEARNING ACROSS UNITS

This identifies opportunities for developing links between teaching and learning with other units in the business suite.

Name of other unit and related LO	This unit and specified LO
Unit 1 The business environment LO2 Understand how the functional areas of businesses work together to support the activities of businesses LO6 Understand the external influences and constraints on businesses and how businesses could respond	LO2 Understand how macroeconomic factors can impact on UK businesses LO3 Understand how UK government policies can impact on UK businesses LO5 Understand how businesses might respond to changes in the local, national and international economic environment
Unit 3 Business decisions LO1 Understand factors to be taken into account when making business decisions LO2 Be able to use financial data to inform business decisions LO6 Be able to use information to make and justify business decisions	LO1 Understand how microeconomic factors can impact on UK businesses LO2 Understand how macroeconomic factors can impact on UK businesses LO3 Understand how UK government policies can impact on UK businesses LO4 Understand how the international economy can impact UK businesses
Unit 13 Management accounting LO1 Understand business costs and pricing methods used by businesses	LO1 Understand how microeconomic factors can impact on UK businesses
Unit 14 Resource management LO2 Understand factors that influence how physical resources are managed by businesses LO3 Understand how resource management can contribute to business performance	LO1 Understand how microeconomic factors can impact on UK businesses LO2 Understand how macroeconomic factors can impact on UK businesses
Unit 15 Change management LO1 Understand the drivers of change	LO1 Understand how microeconomic factors can impact on UK businesses LO2 Understand how macroeconomic factors can impact on UK businesses LO3 Understand how UK government policies can impact on UK businesses
Unit 18 Business operations LO1 Understand how business decisions influence business operations LO2 Understand how factors which influence location and supply chain management impact on business operations	LO1 Understand how microeconomic factors can impact on UK businesses LO2 Understand how macroeconomic factors can impact on UK businesses

Name of other unit and related LO	This unit and specified LO
<p>Unit 19 International business</p> <p>LO1 Understand the impact of globalisation on businesses, employees and consumers</p> <p>LO2 Understand the opportunities and challenges that businesses face when operating internationally</p> <p>LO3 Understand the international trading environment in which businesses operate</p>	<p>LO2 Understand how macroeconomic factors can impact on UK businesses</p> <p>LO4 Understand how the international economy can impact UK businesses</p> <p>LO5 Understand how businesses might respond to changes in the local, national and international economic environment</p>
<p>Unit 22- Delivering a business project</p> <p>LO1 Be able to scope a project</p>	<p>LO1 Understand how microeconomic factors can impact on UK businesses</p> <p>LO5 Understand how businesses might respond to changes in the local, national and international economic environment</p>

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