

## Unit 1.5 External environment

### Task 1: Complete the missing words

STEEPLE analysis stands for the S \_\_\_\_\_, T \_\_\_\_\_, E \_\_\_\_\_, E \_\_\_\_\_, P \_\_\_\_\_, L \_\_\_\_\_ and E \_\_\_\_\_ factors that affect businesses, all of which are beyond an individual firm's control. STEEPLE analysis gives managers an overview of the \_\_\_\_\_ business environment.

STEEPLE analysis provides a simple brainstorming framework of the external opportunities and \_\_\_\_\_ faced by a business. It promotes proactive and forward thinking, rather than static opinions based on \_\_\_\_\_ (gut feelings). Hence, STEEPLE analysis enables managers to be more informed and prepared to deal with external influences.

### Task 2: Explain why ...

- a. a higher exchange rate can present both economic opportunities and threats to a domestic business.

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- b. sustainable inflation (which makes prices rise) does not necessarily make a person poorer.

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- c. the introduction of a national minimum wage may be both a threat and an opportunity for businesses.

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- d. businesses that do not initiate change are still at risk in the external business environment.

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### Task 3: STEEPLE analysis

- a. The table below shows examples of different external factors that affect businesses. In each case, identify the correct category of STEEPLE for each of the examples below. An example has been done for you.

Example	External factor	Example	External factor
Ageing population	Social	Tariffs and quotas	
Average family size changes		Consumer protection rights	
Consumer confidence levels		Oil price changes	
E-commerce developments		Scientific development	
Employment laws		Interest rates changes	
Exchange rate fluctuations		Moral business behaviour	
Fiscal and monetary policies		Natural disasters	

- b. Identify the type of external factors (i.e. the STEEPLE factors) that affect businesses from the clues below.

Type of external influence	Examples
	Consumers go 'green' and recycle in order to conserve the planet.
	Decision to spend more money on education and public health care services.
	Increasing number of older and retired people in the country.
	Interest rate hikes dampen purchase of private and commercial property.
	More businesses devote money to developing their e-commerce strategies.
	Smoking bans in restaurants, shopping malls and public parks.
	Businesses choose to adopt environmental practice and to meet their corporate social responsibilities.

### Task 4: True or false?

		True/False
a.	If the exchange rate between the British pound and the Hong Kong dollar changes from £1 = \$11 to £1 = \$12, then the pound has strengthened.	
b.	An appreciation of the British pound (£) against the euro (€) will tend to lead to a fall in UK exports to the rest of Europe.	
c.	Chinese importers will benefit from bilateral trade if the US dollar appreciates against the Chinese yuan.	
d.	The Central Bank can boost economic growth by cutting interest rates.	
e.	A government is likely to raise interest rates during times of inflationary pressure.	
f.	Falling rates of inflation will lead to lower prices in the economy.	
g.	Inflation will tend to damage a country's international competitiveness.	
h.	Deflation is good for the economy as prices are falling.	
i.	France has a maximum working week of 35 hours. This is an example of an economic constraint on businesses in the country.	
j.	If a government attempts to reduce unemployment, it could consider cutting interest rates and/or reducing taxes.	

## Task 5: Vocabulary quiz

All the key terms below refer to external factors that present either threats or opportunities for businesses. Identify the key term from the given definitions. *Hint*: all key terms appear in reverse alphabetical order.

	Key term	Definition
a.		As a form of protectionism, this tax is imposed on imported products (foreign goods and services). It is levied by a government to reduce the competitiveness of imports.
b.		Occurs when there has been a decline in the level of economic activity for at least two consecutive quarters (half a year), caused by lower levels of consumption and investment expenditure in the economy.
c.		Any form of government measure used to defend domestic businesses (and hence jobs) from international competition, e.g. imposing a tariff on imports.
d.		A government policy designed to control the economy by managing the money supply, mainly via changes in interest rates and exchange rates.
e.		The cost of money to consumers and firms. The higher this is, the lower the amount of borrowing tends to be, as firms delay investment projects due to the higher costs.
f.		A macroeconomic objective which measures the percentage change in the general price level of a country over the preceding 12 months.
g.		A category of tax that is charged on the sale of goods and services, e.g. VAT, GST and excise duties.
h.		An increase in the value of a country's total output of goods and services (GDP), per year.
i.		A type of tax that is paid straight from the income, wealth or profit of an individual or a business, e.g. income tax and corporate tax respectively.
j.		The series of fluctuations in the GDP of an economy over time. The phases ('recession', 'slump', 'recovery', and 'boom') are dependent on the level of employment, income and wealth in a country.

## Task 6: The economic environment

- a. Describe how an increase in interest rates should dampen the rate of inflation in the economy.

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- b. Explain why a higher exchange rate is not necessarily good for the economy.

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c. Explain the positive correlation between a change in interest rates and a change in the exchange rate.

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d. Outline why inflation might make a country less internationally competitive.

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e. Describe how an increase in income tax rates could help to reduce inflationary pressures in a country.

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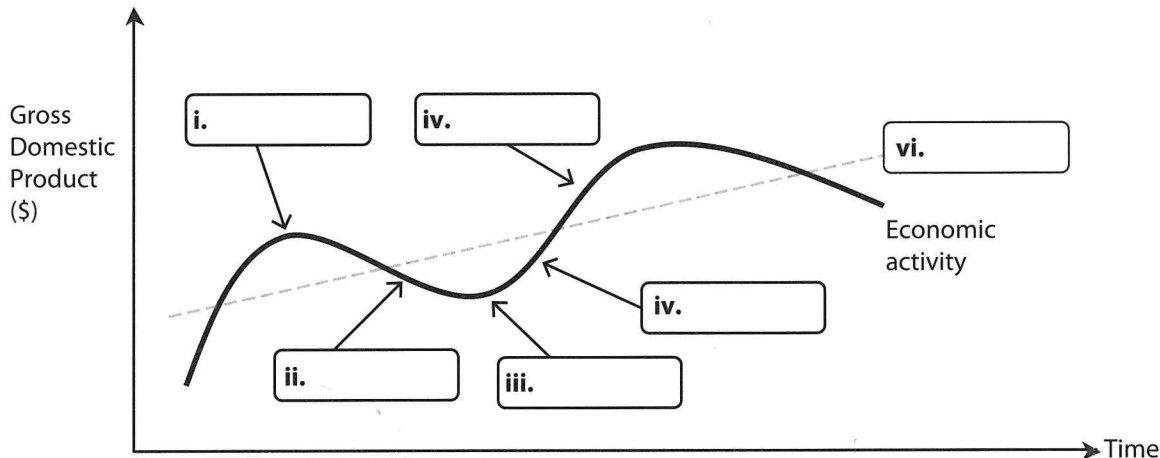


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f. Identify the missing labels in the diagram below:



### Task 7: Multiple choice

1. Political factors that affect businesses do not directly include
  - A. Legislative changes
  - B. Import taxes
  - C. The government's relationship with other nations
  - D. Floating exchange rates

2. Social factors in the external business environment take account of changes in
  - A. Exchange rates
  - B. Corporate tax rates
  - C. Customs, habits and tastes
  - D. Business cycles
  
3. Economic variables affecting businesses exclude changes in the level of a country's
  - A. Education and training
  - B. Inflation
  - C. International trade
  - D. Unemployment
  
4. The study of population structures and population trends and their likely impact on business activity is known as
  - A. Social-cultural studies
  - B. Social trends
  - C. Demography
  - D. Ageing populations
  
5. An ethical business is least likely to
  - A. Pay attention to the natural environment
  - B. Treat its employees with respect
  - C. Pay huge bonuses to its board of directors
  - D. Minimise waste
  
6. Which of the following strategies could be best used to deal with the problems caused by a short-term recession?
  - A. Reducing the size of the workforce
  - B. Moving to cheaper premises
  - C. Redesign products to cater for price-sensitive customers
  - D. Lowering prices to maintain sales revenue
  
7. Deregulation is
  - A. Imposing regulation to control the activities of businesses
  - B. The fall in manufacturing output
  - C. The removal of controls in a particular industry
  - D. Privatising businesses in the public sector

8. Which of the following is a direct tax?
- A. Excise duties
  - B. Sales taxes
  - C. Alcohol, tobacco and petrol taxes
  - D. Taxes on income from interest and dividends
9. Corporate tax is an example of
- A. Indirect tax
  - B. Direct tax
  - C. Import tariff
  - D. Excise Duty
10. Which of the following taxes is least likely to directly affect a business in the hotel and catering industry?
- A. Excise duties
  - B. Income tax
  - C. Corporate tax
  - D. Local government taxes
11. If the exchange rate of the pound (£) changes from £1: \$1.6 to £1:\$1.8, then the currency has
- A. Weakened
  - B. Strengthened
  - C. Deflated
  - D. Floated
12. Which of the following is not a valid reason for government intervention in business activity?
- A. To encourage healthy competition between firms in a market
  - B. To protect consumers through legislation
  - C. To protect the environment through imposing fines on polluters
  - D. To supply services such as health care to compete with private sector providers
13. Fiscal policy is about
- A. Increasing the level of aggregate demand in an economy
  - B. Changing exchange rates to influence business activity
  - C. Taxation and government spending policies
  - D. Using exchange rates to affect spending in the economy

14. Gross domestic product measures
- A change in prices of a representative basket of goods and services
  - The level of unemployment in an economy
  - The amount of a country's production each year
  - The total value of a country's output during a year
15. Business ethics are not concerned with
- Moral codes of practice
  - Providing a safe working environment
  - Interest rates
  - Social responsibilities
16. Inflation can be caused by
- A rise in the price of vital imported raw materials
  - An increase in a nation's productivity rate
  - An increase in a nation's productive capacity
  - A fall in business and consumer confidence levels
17. What is the most likely result of higher interest rates in the economy?
- More applications for bank loans
  - Higher levels of investments
  - An increase in the volume of exports
  - Weakened consumer spending
18. Study the table below and calculate the amount of direct tax revenue collected by the government:

	\$ million
Corporation tax	52 350
Customs duties	32 550
Excise duties	42 250
Goods and Services Sales tax	63 505
Income tax	245 500

- \$245 500 million
- \$297 850 million
- \$361 355 million
- \$372 650 million

19. If a government wants to stimulate economic growth, which policy would it be most likely to increase?
- A. Government spending
  - B. Exchange rates
  - C. Income tax
  - D. Interest rates
20. Which of the following is not a stage in the business cycle?
- A. Boom
  - B. Decline
  - C. Recovery
  - D. Recession
21. Which of the following is not considered to be an external constraint?
- A. An oil crisis raises the production costs for most industries
  - B. Cash-flow problems harming international expansion plans
  - C. The outbreak of a war
  - D. Higher than expected unemployment causing a fall in domestic sales
22. Employment practices that take a more positive attitude towards women in terms of pay and promotional opportunities is an example of
- A. Economic change
  - B. Demographic change
  - C. Political change
  - D. Social change
23. Calculate the unemployment rate in a country with a population of 60 million people, of which 30 million are employed and 2 million are unemployed.
- A. 3.33%
  - B. 5.33%
  - C. 6.25%
  - D. 6.66%
24. Using the data from Question 23 above, what is the number of people in the workforce?
- A. 28 million
  - B. 30 million
  - C. 32 million
  - D. 60 million



25. Which of the policies below would not be used to combat inflation?
- A. Appreciate the domestic currency
  - B. Raising the minimum wage
  - C. Raising labour productivity
  - D. Subsidise production costs of domestic firms
26. One drawback of economic growth is
- A. Increased employment
  - B. Increased investment in the economy
  - C. Increased resource depletion
  - D. Increased consumption expenditure
27. A key difference between quotas and tariffs is that the latter method
- A. Is seen as less aggressive as a means of protectionism
  - B. Is more effective in reducing demand for goods and services
  - C. Raises prices of imports for customers and businesses
  - D. Raises revenue for the domestic government
28. Views on the rights of women, children, animals and religions are examples of which STEEPLE factor?
- A. Political
  - B. Ethics
  - C. Social
  - D. Economic
29. Changes in social attitudes towards climate change is an example of which STEEPLE factor?
- A. Ethics
  - B. Legal
  - C. Technological
  - D. Environmental
30. Anti-discrimination laws are an example of which type of legislation affecting business activity?
- A. Consumer protection legislation
  - B. Employee protection legislation
  - C. Competition laws
  - D. Environmental protection legislation