

# Business Ethics

## Ethical Policy

**Definition:** This sets out the actions that a business will take to ensure that its decisions and actions are ethical.

## Social Responsibility

**Definition:** An approach to managing business in which the interests of all groups in society are taken into account when making decisions.

## Animal Rights

**Definition:** Refers to the idea that animals should be treated humanely and protected from exploitation and abuse.

## Business Ethics

**Definition:** Involve a business doing what is morally right for its stakeholders.

### Why do businesses have strong ethical policies?

- **Ideology of owners** → beliefs/mission statements/aims
- **Consumer pressures**, as they become more aware of environmental issues and to do business with those who share their ideas → this is all important for the image of business, marketing/commercial reasons → aiming to promote sales and profit, can make more profit by being ethical
- **Meeting government targets** e.g. CO2 emissions/litter/waste → avoids fines/reduces costs
- **Avoids bad publicity** → loss of customers
- **Concern for employees with need for safe working environment/fair pay and treatment** → improves worker morale/motivation → improves company performance e.g. sales, customer satisfaction etc.
- **Concern for producers e.g. fair trade** → improves reputation → boost sales/number of customers
- **Attracts workers** → improves quality of staff

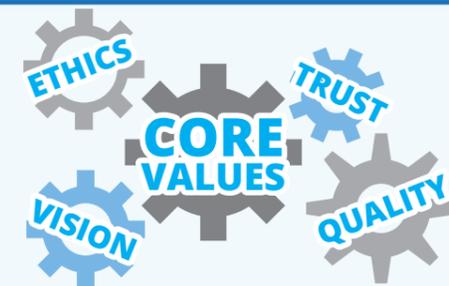
## Ways to Operate Ethically:

- **Using fair trade goods** → producers get a higher price
- **Using biodegradable/recyclable packaging** → which will eventually rot away
- **Recycling schemes/reducing waste** → bins near their shops/signage
- **Food miles** → distance food travels from farm to consumer
- **Giving food away to charities** → food banks or charitable donations
- **Marketing** → advertising/sponsorships
- **Treatment of workers** → wages/conditions
- **Animal welfare** → the way animals are treated
- **Less packaging** → less to throw away
- **Reducing CO2 emissions/carbon offsetting** → not polluting the environment

## Ways in which a business can be deemed as acting unethically

- **Not behaving in a morally correct manner** → unfair → not being fair trade, unfair treatment of workers, non-recyclable, environment effects, waste
- **Exploiting the small businesses**/taking advantage of the business/workers/customers
- **Forcing businesses to close/go bankrupt** → creating unemployment → creating poverty
- **Making it hard for smaller business to break-even/survive** → big businesses paying lower prices so the smaller business can't cover costs

**THERE IS NO  
RIGHT WAY  
TO DO A  
WRONG THING.**



# Business Ethics

## Protests Resulting from Unethical Behaviour could mean:

- Customers with ethical principles could be put off from purchasing from the business → sales revenue may fall
- Competition may benefit as customers switch from non-ethical business to ethical business → sales may increase for businesses not involved
- Businesses may be forced to behave in a more ethical manner → this could see costs rise → possible increased prices if the costs are passed on to the customer
- Poor reputation → could lose customers/ market share
- Suppliers difficult to obtain → less stock → loss of sales revenue/profit

## Evaluate whether or not it is good for the business to have such ethical policies

### Advantages:

- ☑ **Benefit from improved worker morale** → concern for employees, with need for safe working environment / fair pay and treatment → less absenteeism / lower labour turnover
- ☑ **Showing concern for producers, in third world countries / fair trade** → important for the image of the business / marketing or commercial reasons → leading to increased sales with those that share concerns
- ☑ **Consumer pressures** → as they become more aware of ethical issues → more likely to recommend business → all important for the image of business → leads to increased sales
- ☑ **Pressure groups** → less likely to give unfavourable attention to businesses who follow ethical principles
- ☑ **Premium prices for ethical products** → increased revenue
- ☑ **Matches beliefs of owners** → who have a concern for interests of suppliers / workers / customers → want to make sure they do right thing

### Disadvantages:

- ☒ **Business costs of being ethical** e.g. distribution of unsold food, increased price of fair trade goods → impact negatively on profit margins
- ☒ **Difficulties in being ethical** → e.g. food miles / transportation costs → can they be sustained?
- ☒ **Staff issues such as training / supervision may be required** → leading to increased costs
- ☒ **Problems re customers** → bad publicity → when errors made → not selling to some for ethical reasons
- ☒ **Price of fair trade goods** → cost e.g. carbon replacement → growing trees
- ☒ **Packaging issues** → cost/alternatives/hygiene



## Consumer Legislation

### Consumer Laws

**Definition:** Laws that have been introduced to prevent businesses from treating their customers unfairly.

Businesses can treat their customers unfairly in a number of ways, such as:

- by selling goods and services that are not as described – for example, incorrect quantities stated on the packet
- by selling products that are unsafe – for example, toys containing unsafe chemicals
- by selling products of poor quality or at unfair prices
- by selling information about consumers to other businesses without their permission



### Legal Responsibilities a Business has to its Customers

- **Must ensure customer environment is safe** → otherwise they may get hurt / they may sue for damages
- **Condition of goods** → must be fit for sale / fit for purpose / as described
- **Redress for customers**
- **Description of good / service** → must be accurate / businesses can be prosecuted
- **Weights / measures** → must be accurate

### The Consumer Rights Act 2015

**Definition:** This law provides consumers with clear rights and protection when buying goods and services. It states that all products sold to consumers must be of a satisfactory quality, fit for purpose and as described.

The Consumer Rights Act covers:

- product quality
- returning goods
- repairs and replacements
- delivery rights.



### Consumer Protection Act 1987

**Definition:** This law prevents firms from selling dangerous products to consumers. It makes businesses liable for any illness or injury to consumers caused by using their products.

### Unfair Trading Regulations 2008

**Definition:** This law replaced the Trade Descriptions Act. It makes it illegal to give consumers incorrect information on packaging and labels. It also outlines aggressive selling tactics by door to door sales people.



### Consumer Credit Act 1974

**Definition:** This law stops a business charging very high rates of interest to consumers if they take out a loan when buying expensive products such as cars. It also allows consumers a week during which they have the right to change their minds about agreeing to a loan.

### Data Protection Act 1998

**Definition:** This law controls the use of consumers' information. Businesses that store information about consumers must do so securely and avoid any theft or loss. It prevents consumers' personal details being sold or given to other businesses without the consumers' agreement.



### Computer Misuse Act 1990

**Definition:** This Act prevents people looking at information stored on computers that they have no right to read.

### Food and Drugs Act 1984

**Definition:** This law lists those things that can, and cannot, be added to food products. The law also makes it illegal to make or sell food in unclean buildings.

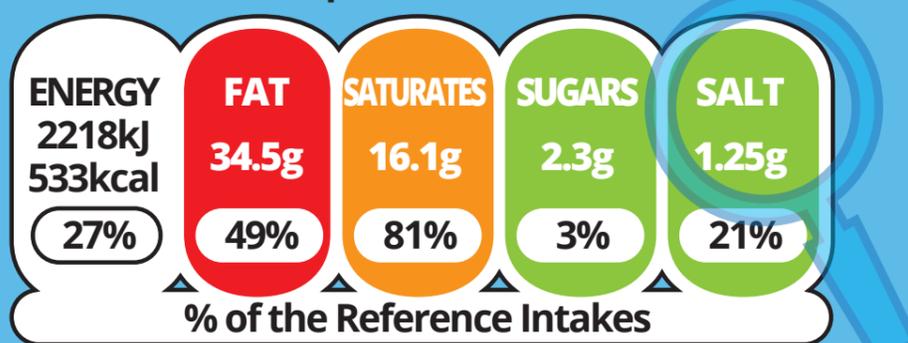
### Food Safety Act 1990

**Definition:** This law makes it illegal to sell food to consumers that is unsafe and may cause illness. The Act covers farmers as well as restaurants and shops.

### Labelling of Food Regulations 1970

**Definition:** This law states that packaged food must contain the ingredients listed on the label.

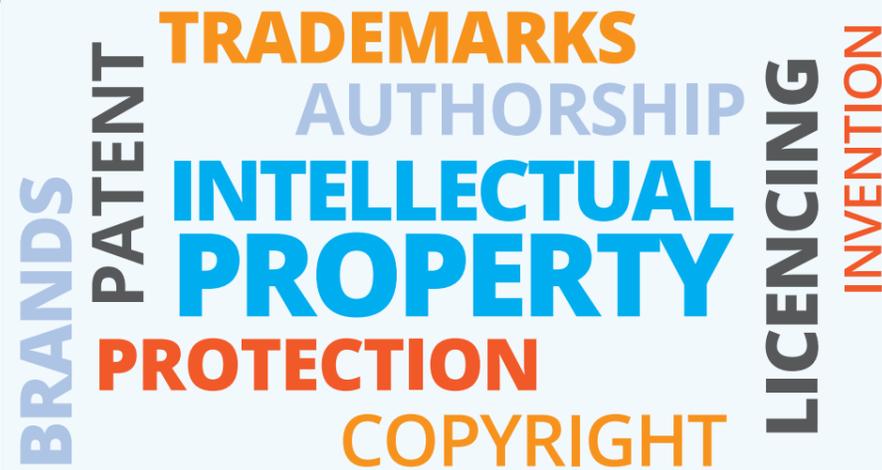
#### 1/3 of a pie (oven cooked)



Typical values per 100g: Energy 1210kj/291kcal

### Weights and Measures Act 1986

**Definition:** This law states that weights and measures must be stated on packets or containers. It also states that the measure must be correct.



### Intellectual Property

**Definition:** Property which cannot be seen or touched but is the result of the creativity of an individual or group.

This can include:

- businesses' names, or the names of their brands
- inventions – for example, a new type of battery
- the design of a business' products
- books, paintings and music

Just as goods need to be protected from theft and damage, intellectual property is protected by patents and copyrights.

### Patents

**Definition:** This gives its holder the right to be the only user or producer of a new invention for a stated period of time.

### Copyright

**Definition:** This describes the rights that writers and artists have over their works.



### Trademarks

**Definition:** This is a logo or symbol that distinguishes the products or brands of one business from those of others.

### The Advertising Standards Authority (ASA)

**Definition:** The Advertising Standards Authority (ASA) is a self-regulated organisation that aim to regulate the content of advertisements, sales promotions and direct marketing offered by businesses in the UK to ensure they are obeying the advertising standards code.

They monitor and control marketing by investigating complaints made about ads, sales promotions or direct marketing, and deciding whether such advertising complies with its advertising standards code.

**Most ads are legal, decent, honest and truthful.**

In 2017, the ASA removed 7,099 that weren't.

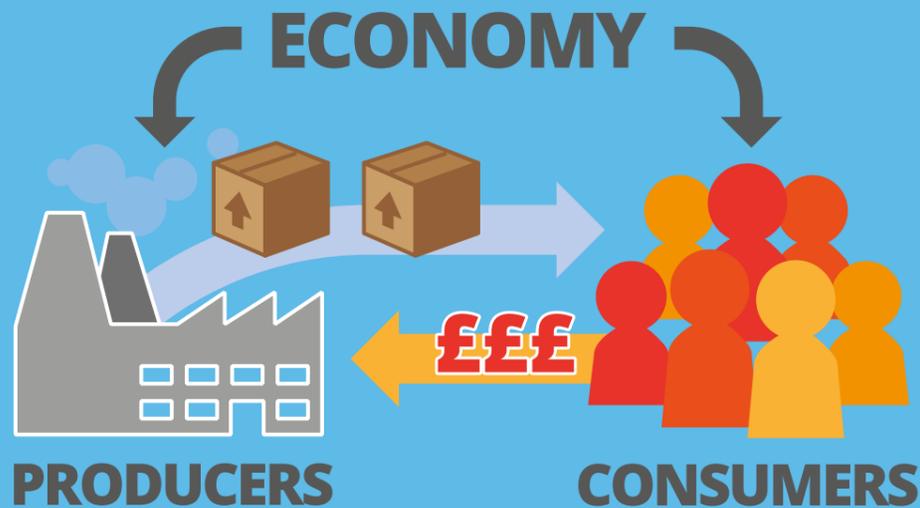
ASA.org.uk



## Economic Factors

### The Economy

**Definition:** Made up of millions of individual consumers, many thousands of businesses and governments. All take decisions on what to buy and produce.



### Economic Climate

**Definition:** Describes the state of key factors within a country such as the level of goods and services produced and the number of jobs available.

### Producers

**Definition:** Suppliers of goods and services.

### Consumers

**Definition:** Individuals who buy goods and services from businesses. The final users of goods and services. They are at the end of the distribution channel.

## Unemployment

**Definition:** Exists when someone is looking for a job, but is unable to find one.

Unemployment causes problems for consumers, businesses and the government:

- **Consumers** → reduction in income if they become unemployed → resulting in a fall in living standards → the stress of finding a new job if businesses are not recruiting and the social and emotional effects of being unemployed
- **Businesses** → the fall in consumer incomes results in a fall in demand for their goods and services → financial problems if they are a small business or a business with no or little savings/retained profit
- **Government** → a fall in revenue from Income Tax, VAT and Corporation Tax and an increase in welfare payments (less income and more outgoings)



## Unemployment Rate

**Definition:** The number of people who are unemployed as a percentage of those working or looking for work.

## Employment Rate

**Definition:** The percentage of people of working age who are in employment.

## GIG Economy

**Definition:** Refers to businesses that use mainly temporary workers who do not receive benefits such as guaranteed hours of work or holiday or sick pay.



## Consumer Spending

**Definition:** Refers to the value of goods and services bought by consumers over a time period, usually a month or year.

## Income Elastic Products

**Definition:** Those products whose sales are sensitive to changes in consumers' incomes.

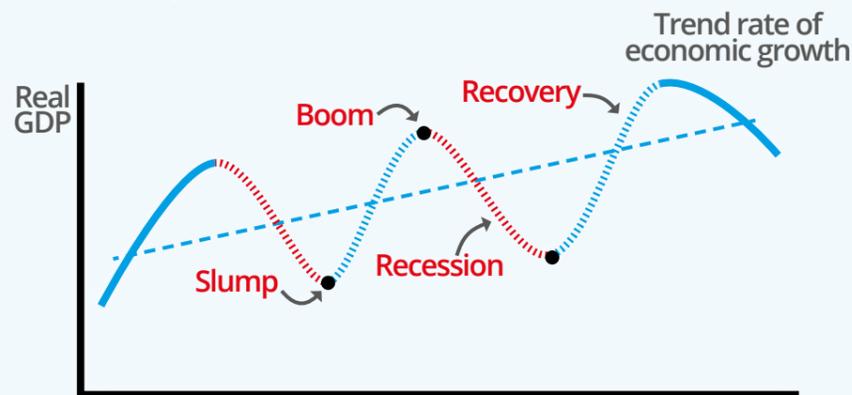


## Employment Levels and Economic Activity

Employment levels tend to rise and fall as the economy grows and declines; this has both benefits and drawbacks for business:

### Economic growth

- Consumer demand for goods and services is high.
- Businesses need employees in order to meet consumer demand.
- Most people who want a job are already employed.
- In order to attract new employees businesses have to offer higher wages.
- Businesses will find it increasingly difficult to recruit someone with the right skills and qualities for the job.



### Recession/slump

- Consumer demand for goods and services is low, as people have less disposable income to spend.
- A large number of people are unemployed and looking for work.
- If businesses decide to take on new workers, they will be able to choose from a wide pool of applicants.
- Wages will remain low as long as unemployment remains high.



## Interest Rates

**Definition:** The price of borrowed money, expressed as a percentage rate.

**Low interest rates** lead to increased spending → when the interest rate is cut it is cheaper to borrow money but you get less interest when you save money at a bank

**High interest rates** lead to decreased spending → borrowing money becomes more expensive but savers get good returns on their investments

### The impact of a fall in interest rates:

- **Lower costs** → businesses may use extra money on range of alternatives → e.g. machinery/paying off debts etc.
- **Pay back less on borrowed money** → may lead to increased profit
- **Customers may have more disposable income/money to spend** → increased sales opportunities for businesses
- **Business may seek loans/borrow money** → for e.g. expansion/investment
- **Business receive less return** → on investments/savings



Way in which a fall in interest rates might have led this business to recruit extra production workers:

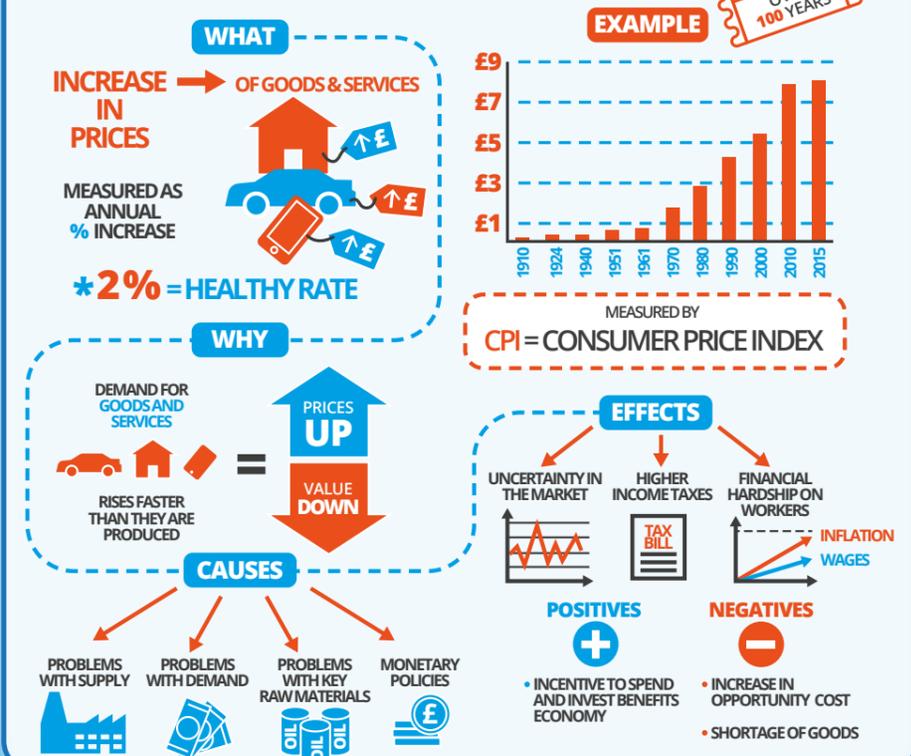
- **Customers pay less interest** → more likely to buy
- **Less money paid on loans** → so more money to expand/buy machinery/employ workers → more money gained by spending → than saving

## Saving

**Definition:** Income received by consumers or businesses which is not spent.



## INFLATION



## Inflation

**Definition:** Measures the rate of change of prices over a period of time, often one year.



A slow increase in prices over time is not a problem for most consumers and businesses.

- Businesses can enjoy rising sales and revenues if prices are increased slowly.
- Consumers may also respond to a low rate of inflation by spending money immediately rather than waiting until prices are higher in the future.

High rates of inflation cause uncertainty and as a result businesses will often postpone new investments in machinery or employing more workers. This can cause the business in the longer term to become less efficient. In addition businesses will face demands from workers for higher wages as they need more money to pay for the rising costs of goods and services.

## Taxation

**Definition:** Exists when governments require payments from individuals and businesses based on factors such as their income or spending.



## Direct Taxes

**Definition:** Taxes which are paid on income or profit, for example, income tax.

## Indirect Taxes

**Definition:** Taxes paid on spending by individuals and businesses, for example, Value Added Tax (VAT).

## Corporation Tax

**Definition:** A tax on company profits, it is paid before shareholders are paid their dividend. The tax is calculated from the net profits earned by a company.

**The effect of an increase in corporation tax paid by a business:**

- Retained profits may fall → an extra expense is taken from company profits
- Businesses may increase prices to compensate for the increase in tax → sales revenue may fall/rise
- Less money to invest/pay out to shareholders → may affect share price/lose shareholders
- More tax paid by the business → this could leave the business with less overall profit

## Income Tax

**Definition:** A tax on a person's income, this form of tax is a statutory (this must be paid) deduction from an employee's wages. Each person has an income tax personal allowance, and income up to this amount in each tax year is free of tax.

**The effect of an increase in income tax paid by customers:**

- Less income for people/lower disposable income / they have less to spend → so businesses sell less → make less profit
- Businesses selling cheaper goods may sell more → and earn greater profits
- Some businesses may be affected more than others
- Some may not be affected → perhaps selling necessities such as bread, milk etc.



**NATIONAL  
INSURANCE  
NUMBERCARD**

**XX 01 01 01 X**

## National Insurance

**Definition:** Individuals have to pay these contributions in order to pay for state benefits including the state pension, the NHS, unemployment benefit, and sickness and disability allowances.

## VAT (Value Added Tax)

**Definition:** A tax on the purchase of goods and services. The standard rate of VAT is 20%. VAT is charged on most goods and services that consumers purchase (such as trainers and cinema tickets) and on goods and services that businesses purchase (such as accounting services and printer ink).

**GOING OUT OF  
BUSINESS**

**LAST  
DAY**

**CLOSING  
DOWN**

## The Impact of the Closure of a Business on their Local Communities

**Positive Effects:**

- ✓ Environmental benefits → less traffic → less noise and/or dirt
- ✓ Other businesses may be attracted to area → increased customer choice
- ✓ Benefits to other businesses e.g. bigger pool of labour → less competition → smaller/independent stores may gain customers → increased sales → smaller/independent stores may expand

**Negative Effects:**

- ✗ Job losses → less to spend on existing businesses → other businesses may have to close
- ✗ Less footfall → less customers for existing businesses
- ✗ Local businesses may have to find supplies from different business → increased costs/travel further
- ✗ Government will lose out on income → taxation → less money to spend on public services
- ✗ Multiplier effect
- ✗ Local people (customers) travel further to a store → increased costs
- ✗ Less competition/choice → increased prices
- ✗ Visual appearance

## Employment Law

### Employment Law

**Definition:** Laws protecting the rights of employees which must be obeyed by the employers.

### Legal responsibilities a business has to its employees

- **Must ensure work environment is safe / Health and Safety Laws** → make it an offence to allow employees to work in dangerous conditions → otherwise employees may get hurt /they may sue for damages
- **Ensure employees do not work over their working hours under the Working Time Directive** → employees can't be asked to work more than 48 hours a week on average
- **Contract of employment** → conditions of work / job description → time based
- **Unfair dismissal** → rules which must be followed before anyone can be dismissed
- **Equality laws** → on gender / age / race / disability / covering recruitment / pay / promotion / treatment of employees
- **Minimum Wage / Living Wage** → based on age
- **Provide a pension**
- **Ensure employees have the right to time off**

### Contract of Employment

**Definition:** A legal document stating hours, rate of pay, duties and other conditions under which a person is employed.

The contract of employment should include details of things such as:

- rates of pay and how often the employee will be paid
- length of holidays and normal working hours
- normal place of work
- details of the business pension schemes.

### \*\* National Living Wage \*\* Right to a Minimum Wage

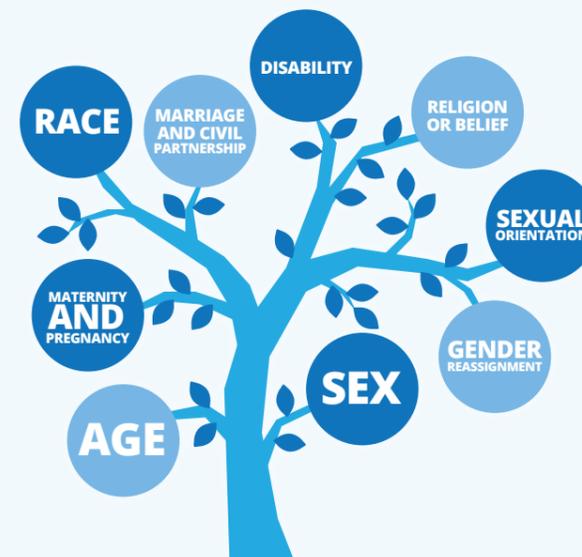
**Definition:** An hourly rate of pay which is set by the government. All employees above a certain age must receive at least this rate of pay.

### \*\* The Equality Act 2010 \*\* No Discrimination in the Workplace

**Definition:** Discrimination is treating one person differently from another without having good reason to do so.

**The Equality Act 2010:** This piece of law says that employees cannot be treated differently in the workplace on the basis of any of the following factors:

- age
- disability
- gender reassignment
- marriage or civil partnership
- religion or lack of religion
- sex / gender
- sexual orientation
- pregnancy or maternity leave
- race / ethnic background / nationality.



### Protection Against Unfair Dismissal

**Definition:** Dismissal takes place when an employer ends an employee's contract of employment with the business.

Dismissal can be fair for a number of reasons:

- because the job no longer exists – this means the employee is made redundant
- because an employee cannot do the job properly – maybe they do not have the right skills
- because of long-term illness
- for “gross misconduct” such as theft or violence at work
- for other “substantial” reasons, such as the employee has been sent to prison



### \*\* Health and Safety at Work Act \*\* Safe Working Conditions

**Definition:** Employers must ensure that they safeguard all their employees' health, safety and welfare at work.

The Act covers many business activities, such as:

- the installation and maintenance of safety equipment and clothing
- providing protection against dangerous substances
- fitting guards on dangerous machinery
- writing and displaying a safety policy.

The Act also requires employees to follow all health and safety procedures and to take care of their own and others' safety.

## Environmental Factors

### External Costs

**Definition:** These arise when a business' activities result in harmful effects on other people not directly involved in production.



### Environment

**Definition:** The natural world in which we live. It is the landscape and its natural features such as the seas, rivers, forests and mountains.

### Environmental Influences on a Business

The production, distribution and selling of goods and services has negative effects on the natural environment.

These environmental costs include:

- noise pollution
- air pollution
- water pollution
- light pollution
- litter
- congestion
- waste
- climate change
- use of finite resources.



### Finite Resources

**Definition:** A large-scale, long-term shift in the planet's weather patterns or average temperatures.

### Climate Change

**Definition:** A large-scale, long-term shift in the planet's weather patterns or average temperatures.



### Renewable Energy

**Definition:** Produced using resources which are not finite, such as wind turbines or wave power.

## Sustainability

**Definition:** Businesses acting in a responsible manner and to ensure that our environment and resources are available for future generations to enjoy.

## Sustainable Production

**Definition:** Takes place when producing goods and services does not result in future generations being affected, for example, using up non-renewable resources such as oil.

Businesses are under increasing pressure from consumers and governments to act in a responsible manner and to ensure that our environment and resources are available for future generations to enjoy.

There are many ways that businesses can act in a sustainable manner:

- reduce the amount of packaging on products
- increase recyclability of packaging and the introduction of biodegradable packaging
- promote recycling schemes
- encourage the reuse of carrier bags
- introduce energy saving schemes
- use alternative sources of energy
- use more energy efficient equipment
- reduce water consumption
- reduce their carbon footprint
- encourage smarter use of transport
- eliminate unnecessary business activities
- switch to more sustainable suppliers.



## Environmental Responsibility

**Definition:** Refers to the taking of decisions by businesses, consumers, governments and other groups with the intention of protecting the environment.

Implementing environmentally friendly policies can bring a number of advantages:

- reduced business costs
- avoiding legal penalties
- improved business and brand reputation – environmental friendliness can be a highly effective marketing tool
- recruitment and motivation of employees who commit themselves to ethical company objectives
- greater customer loyalty from growing number of ethical consumers
- reduced wastage.

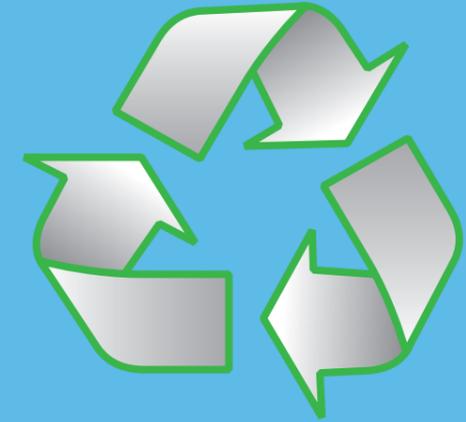
## Environmental Reports

**Definition:** Publications describing a business' environmental performance for the business' stakeholders.



## Recycling

**Definition:** The reuse of raw materials used in making products, often for many times. Examples include reuse of glass, paper and metals.



## Evaluate whether or not it is good for the business to have such environmental policies

### Advantages:

- ✓ **Reducing waste** → leading to lower costs in the long-term → impacting positively on profit
- ✓ **Meeting government targets** → avoids having to pay fines → reducing costs and potentially increasing profits → avoids bad publicity
- ✓ **Showing concern for the environment** → important for the image of the business / marketing or commercial reasons → leading to increased sales with those that share concerns
- ✓ **Consumer pressures** → as they become more aware of environmental issues → more likely to recommend business → all important for the image of business → leads to increased sales
- ✓ **Pressure groups** → less likely to give unfavourable attention to businesses who employ environmental policies

### Disadvantages:

- ✗ **Business costs of being environmentally friendly** e.g. litter clearance → impact negatively on profit margins
- ✗ **Packaging issues such as cost / finding alternatives / hygiene** → increased business costs → impacting negatively on profits or pricing flexibility
- ✗ **Staff issues such as training / supervision may be required** → leading to increased costs

## Possible Environmental Costs of Business Activity

Businesses and consumers can accept greater responsibility for their impact by changing their behaviour.

Environmental Considerations	Businesses e.g.	Consumers e.g.
Traffic congestion	<ul style="list-style-type: none"> <li>Timings of deliveries to and from stores</li> <li>Car share schemes for employees and closer parking for customers</li> <li>Efficient online ordering and delivery services</li> </ul>	<ul style="list-style-type: none"> <li>Car share</li> <li>Use public transport</li> </ul>
Recycling	<ul style="list-style-type: none"> <li>Providing facilities e.g. collection of Christmas cards, recycling bins</li> <li>Reduced use of packaging</li> <li>Recycling materials within the production process</li> </ul>	<ul style="list-style-type: none"> <li>Buy refillable products</li> <li>Recycle waste</li> <li>Look for recycled products</li> <li>Reusing carrier bags</li> <li>Favouring environmentally friendly producers</li> </ul>
Disposal of waste	<ul style="list-style-type: none"> <li>Safe disposal of waste generated in the production process</li> <li>Finding alternative uses for waste e.g. breweries using waste to feed animals</li> </ul>	<ul style="list-style-type: none"> <li>Safe disposal of domestic waste</li> <li>Reducing waste e.g. not buying more food than will be eaten by the household</li> </ul>
Noise and air pollution	<ul style="list-style-type: none"> <li>Reduce carbon emissions e.g. sourcing supplies locally or electric delivery vans</li> <li>Safe practices to ensure environmental disasters don't happen</li> <li>Using filters</li> </ul>	<ul style="list-style-type: none"> <li>Reducing carbon footprint e.g. buying from local business, reducing food miles</li> <li>Low emission cars or alternative methods of transport</li> </ul>

## Assess the likely impact on the local community and its environment of having fast food outlets in the town centre.

### Advantages:

- ✓ **Increase in the number of people in area** → might attract custom for other businesses → will lead to greater income / profit for these → more investment in area
- ✓ **More jobs in area** → increased spending power for local residents
- ✓ **Other businesses may be attracted** → with positive effect on community
- ✓ **Fast food outlets / other businesses will need to train workers** → new skills for community
- ✓ **Improvement in community appearance** → better than having boarded up businesses
- ✓ **May increase house prices** → people feeling better off → good for people moving out of area

### Disadvantages:

- ✗ **Decrease in number of customers for competitive businesses** → as customers are attracted towards fast food outlets
- ✗ **Health issues** → obesity → demand on NHS
- ✗ **Negative effect on infrastructure of area** → e.g. congestion
- ✗ **Social consequences** → open at unsociable hours → may disturb residents
- ✗ **Environmental effects** → litter → increased cost of street cleaning / bins, also bright displays outside businesses
- ✗ **Similar businesses might be attracted** → problems multiplied
- ✗ **Other businesses may not be attracted** → not wanting to be associated with fast food outlets
- ✗ **Suitable jobs for locals may not be provided** → low-paid / unskilled / part time / temporary
- ✗ **May increase house prices** → difficult / more expensive to "move upwards" / to move into area
- ✗ **May decrease house prices** → difficult to move



## European Union

### THE EUROPEAN UNION

The European Union (EU) is a political and economic grouping that currently has 27 member countries. These countries have given up part of their sovereignty in exchange for political, business, economic and monetary membership of the world's largest free trade area. It operates as an internal (or single) market which allows free movement of goods, capital, services and people between member states.



### THE MAIN FEATURES OF THE SINGLE MARKET

- No barriers to trade between member states, this means there are no quotas (limits on number, value or quantities) on imports and exports.
- No tariffs (taxes on imports and exports) on goods and services traded within the single market.
- Free transfer of resources from one country to another, these resources include capital and labour.
- Consistent standards from one country to another (a good, service or professional qualification that is valid for sale or for use in one member state, is free to be sold or used in all member states).
- Common external tariff on imports into the EU from countries not in the EU.



### BEING IN A SINGLE MARKET MEANS THAT:

- There are **no customs duties** to be paid when goods move from one member to another.
- There are **no border posts**, so goods are able to pass easily between member countries.
- There is **easy movement of people** (workers) from one European country to another.
- Investments also move easily across European borders.



### ADVANTAGES OF THE SINGLE MARKET FOR BUSINESSES

- **Increased levels of demand** results from access to a larger marketplace.
- **Lower costs** through increased economies of scale.
- Larger markets result in larger scale production, **lowering average costs of output**.
- **Freeing of capital markets**.
- Businesses will be able to **access the best finance and capital-raising deals** throughout Europe.
- **Greater employer access** to labour markets – workers from all member states are potential employees.
- **Growing wealth in poorer parts** of the single market could drive future demand.
- Single market legislation has **deregulated markets, increasing opportunities** for competitive businesses to enter these markets.

### ADVANTAGES OF THE SINGLE MARKET FOR CONSUMERS AND WORKERS

- **Increased wealth as trade and competition increases.** Lower prices mean higher 'real income', and increased economic activity leads to more employment.
- **Increased consumer choice.** There is access to all manufacturers and service providers. Why not take out a mortgage or loan with a German bank if the interest rates offered are lower?
- **Greater employment opportunities** for those with 'marketable skills'. Employment anywhere in Europe is available to anyone living in one of the member states.
- EU competition law has **increased choice and forced down prices**.

# International Trade and Globalisation

## International Trade - Selling Goods Abroad



**Definition:** The selling of goods and services across the world.

**Advantages:**

- ✓ **Bigger market/increase brand awareness** → more potential customers in an international market → leading to higher sales → and greater profits
- ✓ **Economies of scale** → purchasing/bulk buying and marketing → reduces average costs to generate more profit from sales
- ✓ **Wider range of customers/various market segments** → greater spreading of risks → downturn in one segment can be compensated by sales of others
- ✓ **Exchange rate fluctuations** → may benefit with rise in value of GBP



**Disadvantages:**

- ✗ **Higher transport costs** → products may be sent over greater distance/longer time → impact negatively on profits
- ✗ **Other transport problems** → such as availability of mode/weather/strikes at ports → can restrict distribution
- ✗ **Language problems in trading** → for handbooks/marketing → translation costs of actual products (magazines, catalogues, etc.)
- ✗ **Currency conversion/exchange rate fluctuations** → may increase costs
- ✗ **Costs of different laws/customs** → e.g. following environmental laws
- ✗ **Lack of knowledge of foreign markets** → demands/tastes
- ✗ **Problems of getting paid** → more difficult to resolve over distance
- ✗ **Trade barriers** → embargoes/quotas
- ✗ **Political factors** → wars/conflict/external events
- ✗ **Competition from foreign firms established abroad**



## Multinational Business

**Definition:** Businesses with their headquarters in one country but which operate in other countries through their offices, factories and shops. A company which just sells goods abroad is not a multinational company.

**Advantages:**

- ✓ **Well known around world** → more customers in a wider market → greater profits → money to invest → encourages shareholders/investors
- ✓ **Easier to compete on foreign markets** → when based locally
- ✓ **Economies of scale** → one example
- ✓ **Lower production costs** → e.g. wages, rent → so lower costs → greater profit
- ✓ **Take advantage of exchange rate movements**
- ✓ **Tax advantages** → grants → less capital from business
- ✓ **Removal of trade barriers**

**Disadvantages:**

- ✗ **Size of business** → difficult to manage → communication problems → increased costs
- ✗ **Language barriers** → increased costs
- ✗ **Laws in other countries** → any examples from legal systems → consumer rights/employee rights/planning/environmental issues/ax → political systems → e.g. unrest
- ✗ **Exchange rate movements may go against** → lower revenue/higher costs
- ✗ **Lower morale of home workers** → jobs may be "exported" abroad → example of effects of demotivation
- ✗ **Competition from domestic businesses**
- ✗ **Set-up costs** → premises/infrastructure/relevant examples
- ✗ **Negative public image** → seen as unethical

### Tariff

**Definition:** A tax on an import. It is usually expressed as a percentage of the import's price.

### Imports

**Definition:** Goods and services that are bought from producers overseas.

### Exports

**Definition:** Goods and services which are produced in one country and sold in another one.



