p423.
Business Analysis 15.1

Figure 15.2 suggests that the UK has been up to 4 per cent below its potential output. Why do you think this might be, and what do you think are possible consequences of this?

Answers might include:
Lack of aggregate demand; likely to cause excess capacity, rising stock levels, higher unemployment and lower inflation.

p424.
Think About It 15.1

1. Why are some countries so rich and others so poor?
Depends on factors such as natural resources, investment, government policy, trade barriers.

2. Why do growth rates vary across countries and over time?
Past investment in areas such as infrastructure, capital, technology and training plus access to resources and trade.

3. What are the policies that can change growth in the short and long run?
Answers might include:
Demand side policies can help get the country back on to the PPF e.g. expansionist fiscal policy and expansionist monetary policy to boost aggregate demand.
In the long run supply side policies may help boost aggregate supply and shift the PPF outwards e.g. changes to tax system, benefit system, changes to training provisions, making more information about vacancies available.

p425.
Think About It 15.2

Why might managers be reluctant to invest in research and development?

Answers might include:
Rewards are long term and they may not be there to see them! Also high level of risk- rewards may never occur. May be easier/better to focus on short term and deliver higher short term rewards to investors.

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Business Analysis 15.2

1. Explain India’s rapid growth in recent years

Answers might include:
- Large labour force- investment in education system
- Investment
- More open to trade and learning from other countries
- Large natural resources e.g. land
• Relatively low income per person base so rapid growth easier than income per head is high to start with

2. What do you think will determine its ability to continue to grow fast in the future?

Answers might include:
Rate of growth may be difficult to sustain as the income per person rises e.g. 10% of £3000 is a lot less in absolute terms than 10% of £30,000.
It will depend on e.g.
• Investment
• Technological developments
• Growth of size and skills of labour force

p428.
Business Analysis 15.3

To what extent do you think the growth of the UK economy can be controlled by the government?

Answers might include:
• Can influence it e.g. through fiscal and monetary policies.
• Can affect both demand and supply and the general trading environment which affects households and businesses decisions e.g. regarding work and investment.
• However, there are external shocks that happen to any economy e.g. problems in the economies of trading partners and in a global world the success of any one economy is linked to others.
• Plus it is not always easy to intervene due to time lags, information problems (e.g even identifying where the economy is at any moment); sometimes intervention makes it worse and less not more stable.

Business Analysis 15.4

Why does it matter whether the recession is V-shaped, U-shaped, or L-shaped?

Answers might include:
Affects the duration and severity of the recession affecting demand, sales, growth and unemployment. Expectations of what it might look like may affect decisions and what it actually looks like e.g. fears of an L shaped recession may lead to less investment and bring about slower recovery.

p431.
Think About It 15.3

1. How might the economic cycle affect business planning?

• It will affect willingness to invest e.g. if you think the economy is about to enter a recession you may invest less.
• It will also affect e.g. hiring decisions, pricing decisions, stock levels, the target segment, growth plans etc.
• All the functional areas will be affected by the state of the economy and the expectation of where it heads next.
2. Which other businesses can you think of that might benefit in a recession?

Those targeting low price segments e.g. Aldi; cash for gold type shops, pawnbrokers, specialists in businesses closures. These are known as contra cyclical businesses.

3. Find the growth figures for your own economy. At what stage of the economic cycle do you think this is?

Over to you.

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Business Analysis 15.5

1. How might a government encourage investment?

Answers might include:
• Through lower interest rates
• By building confidence in its ability to create growth
• Tax incentives for investment

2. How could a government make a country a better place to start, finance, and grow a business?

Answers might include:
• Incentives for start ups
• Tax systems to aid smaller businesses
• Advice and support for start ups
• Access to cheap finance
• Promoting entrepreneurship
• Not punishing failure e.g. if bankrupt not making it too difficult to start up again

3. How can government develop a better educated workforce?

Answers might include:
• Investment in education
• Regulation of qualifications
• Investment in teachers and teacher training
• Enabling access to education

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Think About It 15.4

The UK’s ability to achieve some of its environmental targets is likely to have been helped by the recession. Why might this be?

Answers might include:
• With less output there is less likely to be pollution
• With less consumption there may be less waste
Think About It 15.5

Do you think that your country should aim to grow more quickly? Justify your answer.

Answers might include:
- Depends on the environmental impact, the effect on the quality of life, how important it is felt to have more income.
- Depends on the values of the citizens and the existing wealth of the country.

Business Analysis 15.6

1. How might the UK government help British businesses to export more to China?

Answers might include:
- Advice
- Political links and breaking down barriers to trade
- Encouraging e.g. learning of Mandarin
- Investment in relevant industries; subsidies to these industries

2. How might the UK government encourage more inward investment from China to Britain?

Answers might include:
- Reduce trade barriers
- Provide incentives
- Improve infrastructure

Business Analysis 15.7

1. These two economies are very different in terms of economic success. Why do you think this might be?

Answers might include:
- Natural resources
- Government policy
- Political system
- Past investment
- Level of technology
- Training and education system
- Openness to trade

2. What type of business might have an export market in Singapore?

Depends on local demand e.g. for imported components and products.

3. What problems might you have trading in Zimbabwe?

The problems could be trade barriers, political and economic uncertainty and...
cumbersome systems of regulations and laws.

4. How might the success of Singapore and the problems in Zimbabwe affect businesses in your economy?

- May affect your exports; may affect the quality and costs and reliability of supplies of materials
- High inflation - making exports uncompetitive
- High exchange rate - making exports relatively expensive
- Low unemployment suggesting incomes are high and so imports will be high

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Business Analysis 15.8

All other things being equal, which one of the combinations A, B, C and D, shown in table 15.1, is most likely to worsen the UK’s current account problem?

High inflation makes us uncompetitive; a high pound makes products more expensive in foreign currencies; and low unemployment may lead to high spending on products including imports. So the answer is B.

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Think About It 15.6

What determines the effectiveness of a tax on foreign producers in terms of reducing spending on imports?

Depends on the price elasticity of demand for these products and what is happening to other factors e.g. price of domestic products.

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Think About It 15.7

If the Marshall–Lerner condition is not met, what do you think happens to a country’s current account position on the balance of payments if its currency falls? Explain your answer.

The current account position will worsen; the spending on imports will increase as demand is price inelastic and the revenue from exports will not increase significantly leading to a worsening of the position overall.

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Data Analysis 15.1

A 10 per cent increase in the value of a currency leads to a 5 per cent fall in export sales and a 2 per cent increase in import sales.

1. What are the price elasticities for exports and imports?

Price elasticity of demand for exports: \( -5/10 = -0.5 \)
Price elasticity of demand for imports: \( +2/10 = +0.2 \)
2. Is the Marshall–Lerner condition met?

No

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Think About It 15.8

What might the consequences be of the key government economic objectives of:

1. Boosting aggregate demand to reduce unemployment?

May lead to growth, less unemployment but also more imports and higher prices

2. Reducing aggregate demand to reduce spending in imports?

May reduce spending on imports and dampen inflationary pressures but lead to unemployment and slower economic growth.

Data Analysis 15.2

How useful do you think the data in Figure 15.9 is to managers operating in the UK?

Answers might include:
May help with planning e.g. investment, likely sales. This may affect operation, HR, marketing and financial decisions. However the forecasts have different degrees of confidence so need to plan for different possible outcomes; also external shocks can significantly change the actual outcomes so these forecasts need constant monitoring and decisions need reviewing.

Suggested Answers to Short Answer Questions

1. Gross Domestic Product; national income of an economy.
2. May mean less demand; may reduce sales; may lead to job losses.
3. May boost demand; may lead to supply shortages; may lead to waiting lists. Demand side policies focus on aggregate demand; supply side focus on changing aggregate supply.
4. May encourage investment; may encourage new technology; may improve infrastructure.
5. Measures the value of transactions between one country and the rest of the world over a given time period.
6. The exchange rate will change in value to equate the demand for pounds from abroad and the supply of pounds to the foreign currency markets; the number of pounds leaving the country equals the value of pounds coming in.
7. The spending on exported goods and services and income flows into a country in a given period is greater than the spending in imports.
8. Expenditure switching get consumers to switch to domestic products away from imports; expenditure reducing policies reduce spending on all products including imports.
9. If the price elasticity of demand for exports plus the price elasticity of demand for imports is greater than 1 combined then a depreciation of the currency will improve the current account of the balance of payments.