

Knockout.Economics by Kru P'Eve & Kru P'Da

IGCSE -Business studies

How business activity can impact on the environment 🔍

- Executive summary IGCSE Business studies
- Series of exam questions each chapter
- Exam Strategies and exclusive tips to achieve A* from Knockout.Economics
- Exclusive Key Terms for IGCSE Business studies exam



Overviews

1. Example of how business activities impacts on the environment
2. Advantages and disadvantages of concerning about environmental issues to businesses



1. Example of how business activities impacts on the environment

Example of how business activities impacts on the environment :

- Air pollution
- Water pollution
- Noice
- Waste disposal



2. Advantages and disadvantages of concerning about environmental issues to businesses

| Advantages of concerning environment to business | Disadvantages of concerning environment to business |
|---------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| 1. It reduces environmental problems such as global warming. | 1. Protecting the environment may increase cost to businesses and reduce profit. |
| 2. It is to reserve scarce natural resources for the next generation. | 2. Firms may have to increase prices to compensate for the cost of protecting the environment. which may reduce competitiveness. |
| 3. Consumers are willing to pay a high price for environmentally friendly products. | 3. Firms may face lower sales revenue if they increase price. |
| 4. If business damages environment, it creates a bad reputation and consumers may reject buying the business's products. | |

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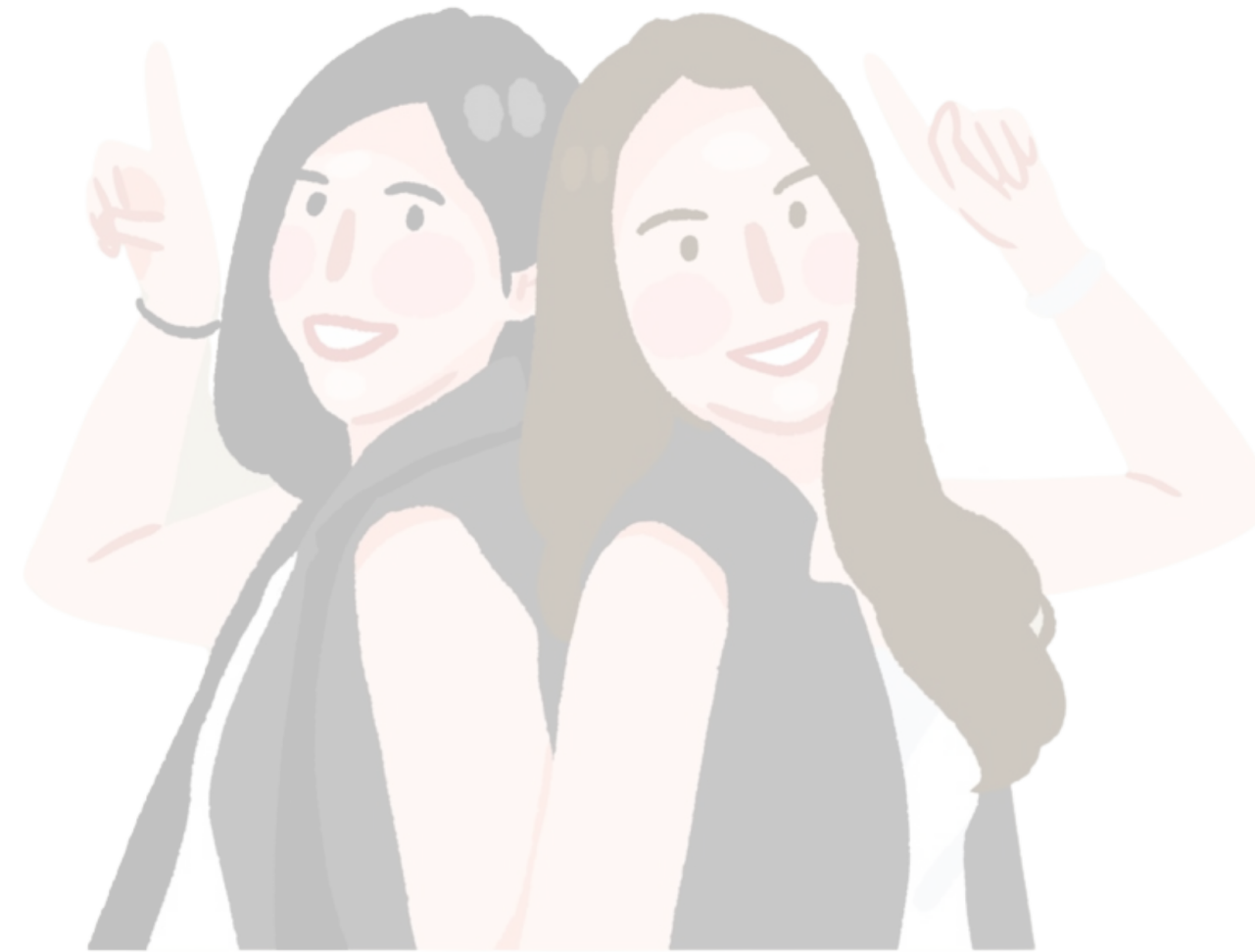
The concept of externalities 🔍

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Overviews

1. The concept of externalities
2. Possible external costs and external benefits of business decisions



1. The concept of externalities

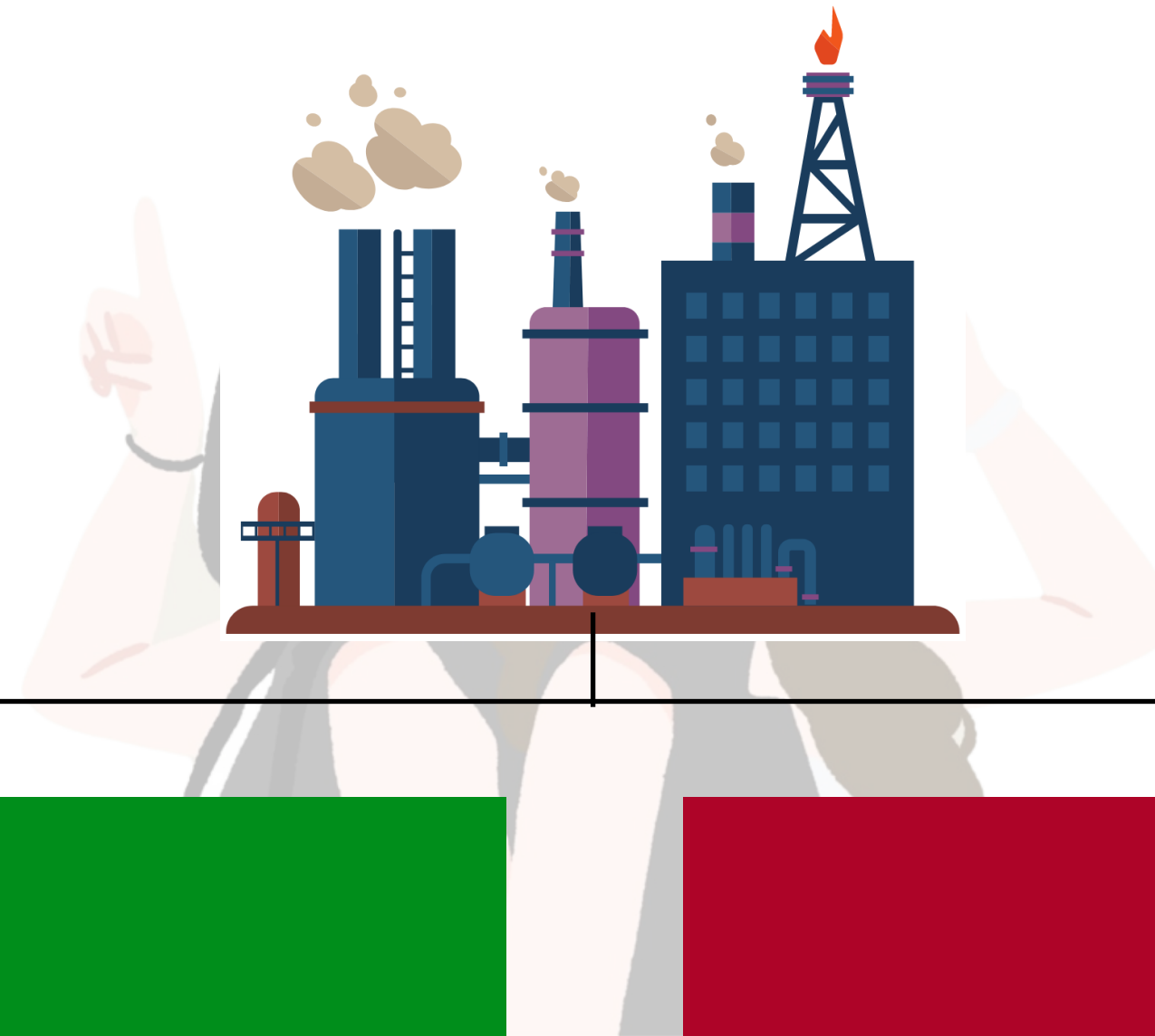
Externalities: positive and negative effects to the third party

- **Private cost:** Cost to businesses e.g. raw material / rent / equipment
- **Private benefits:** Benefits to businesses e.g. money received from selling products
- **External cost:** Negative effects to the third party or the rest of society e.g. pollution
- **External benefit:** Positive effects to the third party or the rest of society e.g. creating jobs

$$\begin{aligned}\text{Social cost} &= \text{Private cost} + \text{External cost} \\ \text{Social benefit} &= \text{Private benefits} + \text{External benefits}\end{aligned}$$

1. The concept of externalities

Private sector concern only private costs and private benefits.



Private Cost

Cost to a firm from its business activities

Eg.

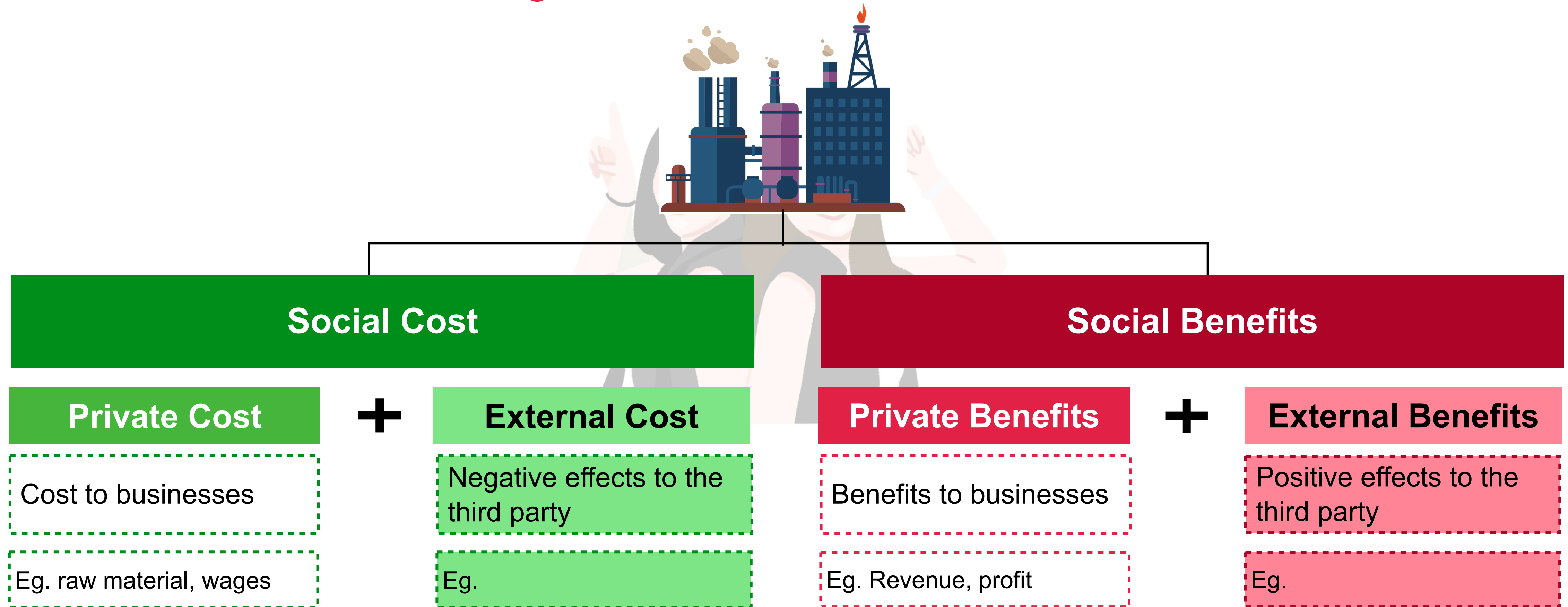
Private Benefits

Benefits to a firm from its business activities

Eg.

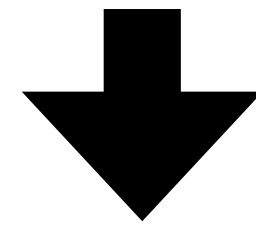
2. Possible external costs and external benefits of business decisions

Private sector *ignore* external costs and external benefits



2. Possible external costs and external benefits of business decisions

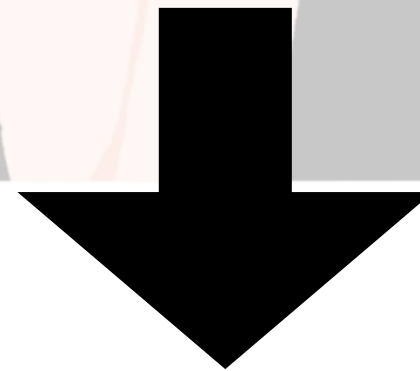
*Businesses **concern only** private costs and private benefits.*



*Businesses **ignore** external costs and external benefits.*



Externality problems arise when there is no government intervention.



Business activities contribute positive and negative effects to the third party.

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Sustainable development 🔍

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Overviews

1. Sustainable development
2. What can business do sustainable development



1. Sustainable development

Social responsibility: business decision benefit “stakeholder” other than shareholder - decide to protect environment by reducing pollution

Sustainable development: economic growth which does not harm environment and future generations.



2. What can business do sustainable development

Sustainable development

: economic growth which does not harm environment and future generations.

Using renewable energy

Recycling waste

Using fewer resources

Developing environmental friendly products

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IGCSE -Business studies

The role of pressure group and government controls over business activity affecting the environment

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Overviews

1. Pressures group
2. Laws pass by government
3. Financial penalties / pollution permits



1. Pressures group

1. Pressure group: is made up of people who want to change business decisions and they take action such as organizing consumer boycotts.

Consumer boycott: is when consumer decide not to buy products from businesses that do not act in a socially responsible way.

Pressure group is like to change business behavior when...

- Businesses damages environment by
- Businesses exploit consumers by
- Businesses exploit workers by

Pressure group can change business behavior by promoting boycott, creating negative publicity, influencing government decision and protesting.

2. Laws pass by government

2. Laws pass by government

Some business activities can be restricted by laws ...

- Locating factories in national parks
- Releasing air pollution or water pollution into the environment



3. Financial penalties / pollution permits

3. Financial penalties / pollution permits

3.1) Pollution permit : a licence to pollute up to a certain level

⇒ If a business polluted beyond the limit, they need to pay for an extra permit.

⇒ For low polluters, they can sell the leftover permit to high polluters.

3.2) Tax on pollution :

⇒ It increases cost to firms which generate pollution.

⇒ It makes incentive for firms to invest in clean technology.

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Ethical issues a business might face 🔍

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Overviews

1. Ethical issues
2. Impacts on business of ethical decision



1. Ethical issues

Ethical decisions: based on moral code. Sometimes referred to as doing the right thing.

Example of unethical decisions of business

- Employing child labour
- Providing very low wage and poor working condition to workers
- Damaging environment
- Exploiting consumers by fixing high price with competitors

2. Impacts on business of ethical decision

Benefits and limitations of ethical decisions

| Benefits of ethical decisions | Limitations of ethical decisions |
|----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| 1. Consumers may not buy products made by child labour. Being ethical can gain high sales . | 1. It has a higher cost of employing adult workers than child labour. |
| 2. It creates a good reputation for ethical businesses. | 2. In the short run a business may face high cost and gain lower profit . |
| 3. It contributes long term profit to the ethical businesses. | 3. The business may increase price and become less competitive in the market. |
| 4. Ethical businesses can attract many workers and it is easier for them to raise funds. | 4. If consumers are sensitive to price, it can cause a fall in demand and sale revenue . |
| 5. There is less risk of legal action against unethical businesses. | 5. If children are not employed, their families income will fall a lot . |

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Exercise: Environmental and ethical issues 🔍

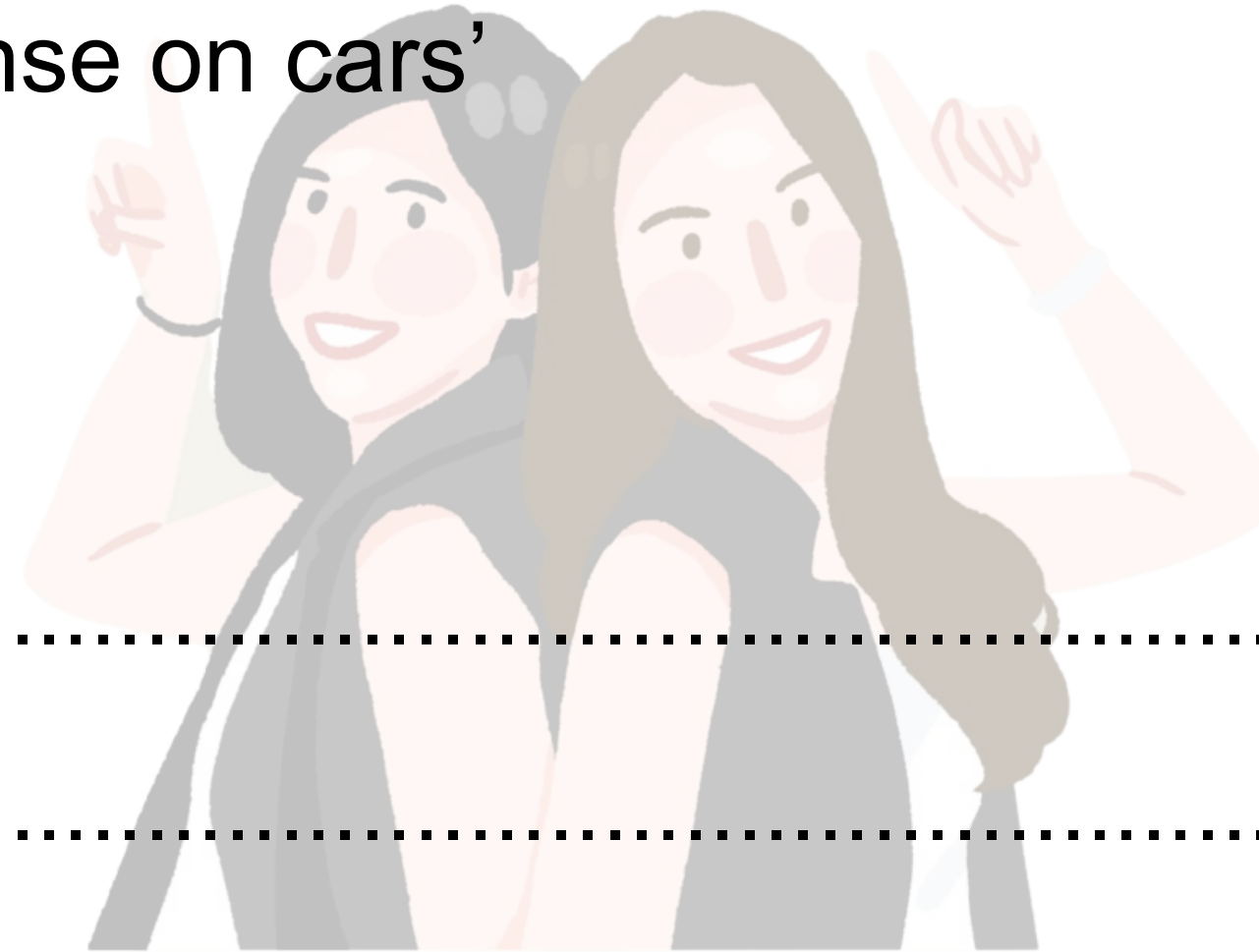
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Exercise

1 ABC is a car producer based in Thailand. It is a public limited company. ABC is planning to build a new factory. The company needs permission from the Government. Environmental pressure groups are concerned about effects on environment. A board of director of ABC said: 'ABC will create 2000 skilled jobs and reduce import expense on cars'

- (a) Define 'pressure group' [2]



Exercise

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- (a) Define 'pressure group' [2]

Group of people with a common interest who take action to change business decisions or government policies. [2]



Exercise

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- (b) Identify and explain **two** ways a pressure group might try to influence the actions of ABC. [4]

Way 1:

Explanation:.....

.....

Way 2:

Explanation:.....

.....

Exercise

1 ABC is a car producer based in Thailand. It is a public limited company. ABC is planning to build a new factory. The company needs permission from the Government. Environmental pressure groups are concerned about effects on environment. A board of director of ABC said: 'ABC will create 2000 skilled jobs and reduce import expense on cars'

• (b) Identify and explain **two** ways a pressure group might try to influence the actions of ABC. [4]

• **Creating negative publicity**.....

• **Organising customer boycotts**

• **Protests**

• **Influencing government to prevent planning**.....

Exercise

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- (c) 2 effects on ABC company when become more ethical [4]

Effect 1:

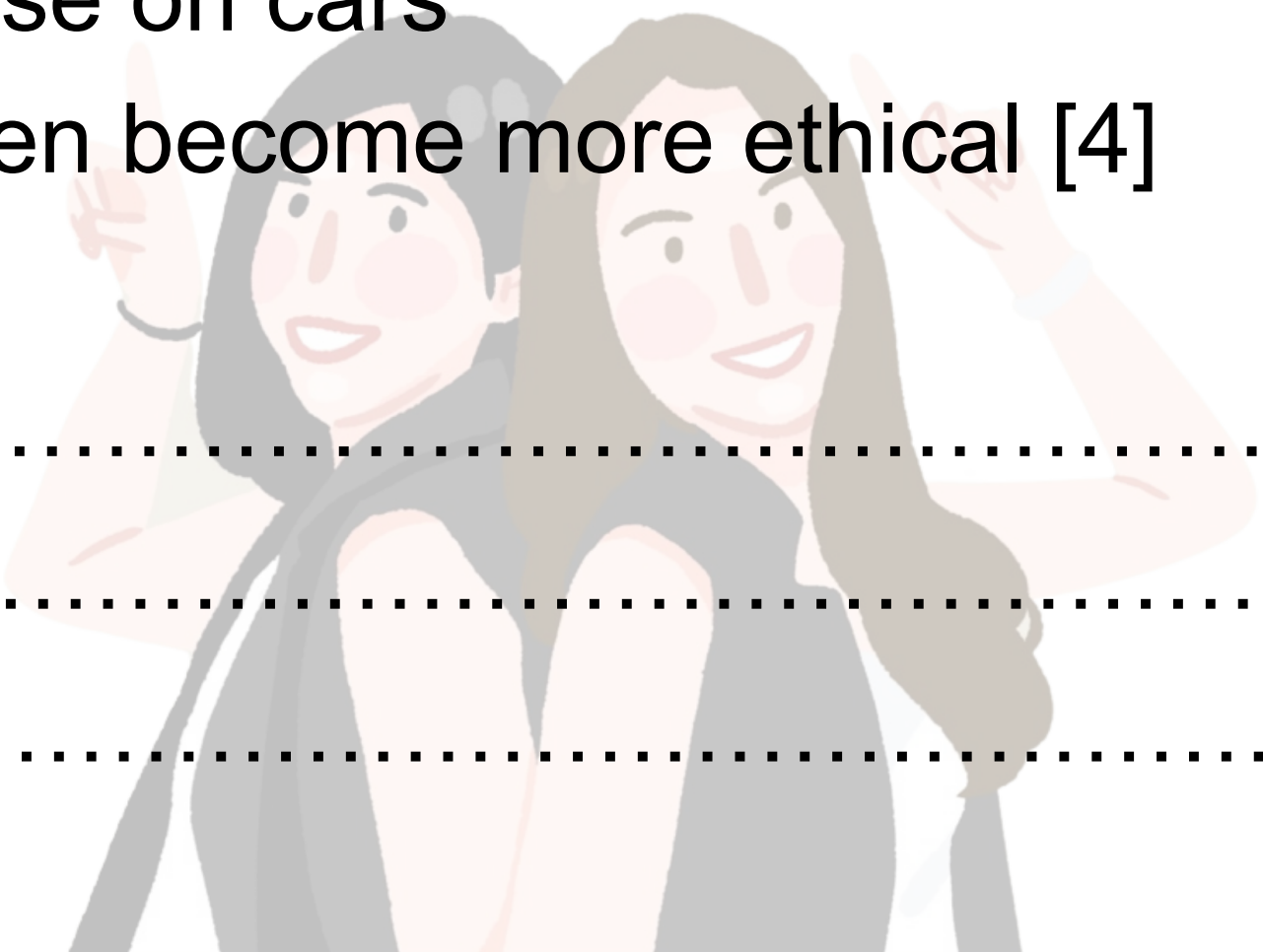
Explanation:.....

.....

Effect 2:

Explanation:.....

.....



Exercise

1 ABC is a car producer based in Thailand. It is a public limited company. ABC is planning to build a new factory. The company needs permission from the Government. Environmental pressure groups are concerned about effects on environment. A board of director of ABC said: 'ABC will create 2000 skilled jobs and reduce import expense on cars'

• (c) 2 effects on ABC company when become more ethical [4]

- *Customers would like to support ethical businesses*.....

- *Ethical businesses can attract many workers*.....

- *Being ethical such as employing adult workers may increase cost to ABC*.....

- *ABC may have to increase price to compensate higher cost*.....

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