

Impact on business changes in the economic environment essay sample

[Economics](#)



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Introduction

In this report I will describe and then explain how the GDP, inflation, interest rates and employment rates are affected by the growth and recession stage of the business cycle. I will also explain how the balance of payments is and how Tesco's contributes to trade surpluses/deficits. I will also be stating what the conflicting objectives are of Tesco's and how they affect them as a business whilst describing, the ripple effects and providing an example of the industries it affects. This report will also contain a description of structural adjustments and explain the business sector Tesco's fits in. what the welfare considerations are and how Tesco's contributes to the welfare state.

GDP (Gross Domestic Product)

GDP is the value of everything the country makes in the economy. The indicator is used to measure how much is being made in the UK is known and Gross Domestic Product. Changes in the GDP indicate which stage of the business cycle the UK economy is in. GDP is the measure of the business activity in the country as a whole for a particular quarter. GDP would be affected by the growth of a business cycle as if businesses within the country are doing well the country will be making more growth and money to invest within the UK spending budget without having to borrow from banks as people will have enough money to be paying there taxes, VAT etc. If the UK GDP is high in the UK within 2013, Tesco super market will gain more profit, as businesses will be doing good and people will have more money to spend on within the super market store.

Inflation

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Inflation is a rise in the general level of prices of goods and services in an economy over a period of time. Inflation is affected by the growth of a business cycle as if inflation rates are high prices of petrol etc. inflation effects the business cycle in various ways both positive and negative. Negative affects could be that there would be no uncertainty of the future as rates will be high, also inflation will discourage investments and saving that people will have saved up for starting up businesses. Customers at Tesco will also be hoarding out of concerns that prices will increase within the future and will want to stop spending money. Inflation effects the business cycle in a positive way as well as it ensure banks that they can adjust to real interest rates to mitigate recession and encourage investments in non-monetary capital projects.

Interest rates

The interest rate is the percentage charged, or paid, for the use of money. It is charged when the money is being borrowed, and paid when it is being loaned. This will affect the business cycle as for those who want to borrow a loan from the bank will have to pay interest on top when they will pay the bank back therefore this will effect the growth of the business cycle as people will be paying a percentage on top of what they borrowed, meaning the money coming in from their businesses will be not only used to repay the bank but a interest rate will also be taken. This will effect Tesco as a business as if they where to borrow a loan they will have to pay interest on top.

Employment rates

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The employment rate is an important indicator of the health of the economy. A very high positive relation exists between the variation in amount of goods and services produced in the economy during any given time period and the variability in the employment level shortly after that time period and. In essence, the greater the level economic production, the greater business cycle and recession stage as if there is unemployment within the UK and the employment rates are low there will be a lot of people unemployed and people that are unemployed will have no money to spend, this means that businesses will not be generating enough money to pay their staff wages therefore, it does affect the business cycle and recession stage as, the UK recession will be in recession due to businesses not doing well. If businesses aren't doing well neither are they able to pay bank loans or interest rates. GDP will also be low due to recession and it will effect the business cycle tremendously.

Balance of payments and how Tesco contributes to surpluses/deficits

The surpluses and deficit indicator is a measurement of how the UK economy is doing with trade surpluses or trade deficits with other countries. A trade surplus is when the value of exports from the UK is greater than the value of imports. A trade deficit means that the value of exports from the UK is less than the value of imports. The balance of payment s is the difference between the money coming into the country against the money going out. The balances of payments are all the financial imports and exports including those that are trade as well as investments. A negative balance of payment indicates that more money is flowing out of the country then is flowing in.

Tesco would contribute to trade surplus and trade deficit if they were to get some of their products from abroad and other countries as England's primary sector of producing raw goods and farming has been finished long ago.

Farmers no longer farm and produce a lot of things therefore, Tesco will import most of these goods from abroad this is why if a country like the UK, has a negative balance of payments, this means that the outflow of money is greater than the inflow. For a business like Asda they are well established in the UK, this may mean that it is harder for them to export their product to other countries.

Conflicting objectives and how they affect Tesco

Some of the indicators are interlinked and that positively affecting one indicator may have a negative effect on the other. This is a challenge that the UK government face. If the government will increase the number of people within employment that are able to pay taxes, it must also be in mind that full employment can lead to inflation as more people will be in work and therefore demanding products or there are a few people to work and might ask for more wages, this is why this will affect Tesco as the government will always conflict between the indicators therefore, these indicators will affect Tesco in many ways this is why the business will have to tackle with these.

Ripple effects and an example of the industries it affect for Tesco

The ripple effect is the notion that a single action has an effect over several different entities. When you drop a pebble in a pond, it creates a series of ripples that span out over the water to move surface plants around and

disrupt the animals that may be on the water. Businesses will need to understand how the ripple effect can affect your business and how the actions you take affect the businesses and people connected to your company. An example of the industry that will effect Tesco's are the housing industry as this industry has a big impact o the UK economy as around two-thirds of people in the UK own their own home. If there is downturn in the prices of houses this has a knock on effect on the wider economy. If prices of houses fall, people may lose confidence in spending and therefore, this will affect demand for goods and services at Tesco's as people will either save money or they will stop purchasing goods. This is why the housing industry affects Tesco.

Structural adjustments and the business sector Tesco fits in

Whilst looking at the economy as a whole they often refer to its structure this is the overall make-up of the company, this is divided into three sectors primary, secondary and tertiary. Tesco fits under the tertiary sector as it consists of activities that relate to services, such as banking, education, communications, catering, transport and selling. Welfare considerations and how Tesco contributes to the welfare state- Employment rates greatly impacts on businesses, and during economically challenging times businesses need to cut costs and offer more services or produce more goods in order to be competitive. This is the way economic environment affects the way that businesses operate. This is why these type of considerations will affect businesses including Tesco, in order to control these issues the business must already plan out the business for the up coming years and

how to resolve issues to do with the economic changes, they can also do this by strategically planning and understand the risks of the potential risks of this to avoid it happening and affecting the business.

Conclusion

I have described and then explained how the GDP, inflation, interest rates and employment rates are affected by the growth and recession stage of the business cycle. I have also explained how the balance of payments is and how Tesco's contributes to trade surpluses/deficits. I have also stated what the conflicting objectives are of Tesco's and how they affect them as a business whilst describing, the ripple effects and providing examples of the industries it affects. This report contains a description of structural adjustments and explains the business sector Tesco's fits in. what the welfare considerations are and how Tesco's contributes to the welfare state in order to tackle situations that will occur within the economic environment.

Bibliography

Business B-Tech Level 3 Book 2