

## 1.5: Understanding the economic context

Q1.

Suhayl runs *Sandwiches to Go*, a business selling drinks and sandwiches near to a railway station. He has realised that there are certain peak times when people are more interested in buying drinks and other times food. He is keen to beat the competition of the shops in the railway station where people can buy food, drink and newspapers.

Stakeholders are an important part of any business.

Which **three** of the following are stakeholders in *Sandwiches to Go*?

Select **three** answers.

- A Owners of the railway station
- B Owner of *Sandwiches to Go*
- C Customers of *Sandwiches to Go*
- D Staff who work at *Sandwiches to Go*
- E Commuters who pass by *Sandwiches to Go*
- F Newsagent whose shop is near to *Sandwiches to Go*

(Total for Question = 3 marks)

Q2.

A business has the following cost and revenue information during one month:

**Costs:**

- £10 000 - raw materials imported from the USA
- £ 7 000 - raw materials from the UK
- £11 000 - fixed costs

**Revenue:**

- £39 000
- In this month the exchange rate between the pound and the dollar was £1 = \$1.50

In the next month the business imports the same amount of raw materials from the USA. The exchange rate has changed to £1 = \$1.60.

Assuming all other data remains the same, what effect does this change have on the profit level?

Select **one** answer:

The profit level will:

- A  decrease by £1 350
- B  remain the same
- C  increase by £625
- D  increase by £1 600

(Total for Question = 1 mark)

Q3.

Marcus Borega is a sole trader. His business imports high quality toy cars from the USA. His main customers are collectors and sports car enthusiasts in the UK. The

exchange rate is very important for the business. When Marcus started the business the exchange rate was £1 = \$2.

After one year in business, the exchange rate changed to £1 = \$1.70. Marcus decided to keep the prices he charged his customers the same.

Identify **two** possible effects of the change in the exchange rate on the business.

Select **two** answers:

- A Lower fixed costs for the business.
- B The costs of buying the toy cars from the USA will rise.
- C Makes it easier for Marcus to sell his toy cars in the UK.
- D Increased added value on each toy car sold by Marcus.
- E Marcus will make lower profits on each sale.

**(Total for Question = 2 marks)**

**Q4.**

Which **two** of the following are examples of commodities which might be used by a bakery?

Select **two** answers:

- A  Wheat used in producing bread
- B  Rent of premises
- C  Electricity used by ovens
- D  Sugar used to produce biscuits
- E  Wages paid to workers

**(Total for Question = 2 marks)**

**Q5.**

For each of the scenarios below, identify the **two** stakeholder groups that are **most likely** to be in conflict as a result of the decision.

Scenario 1 – a business decides that it will increase the wages of its lowest paid workers from £6.70 an hour to £7.50.

Which stakeholder groups are **most likely** to be in conflict with each other as a result of this decision?

Select **one** answer.

- A Shareholders and local residents
- B Customers and competitors
- C Suppliers and local residents
- D Shareholders and workers

**(Total for Question = 1 mark)**

**Q6.**

Scenario 2 – a UK manufacturing business decides to buy its raw materials from a German company and not from its usual UK supplier.

Which stakeholder groups are **most likely** to be in conflict with each other as a result of this decision?

Select **one** answer.

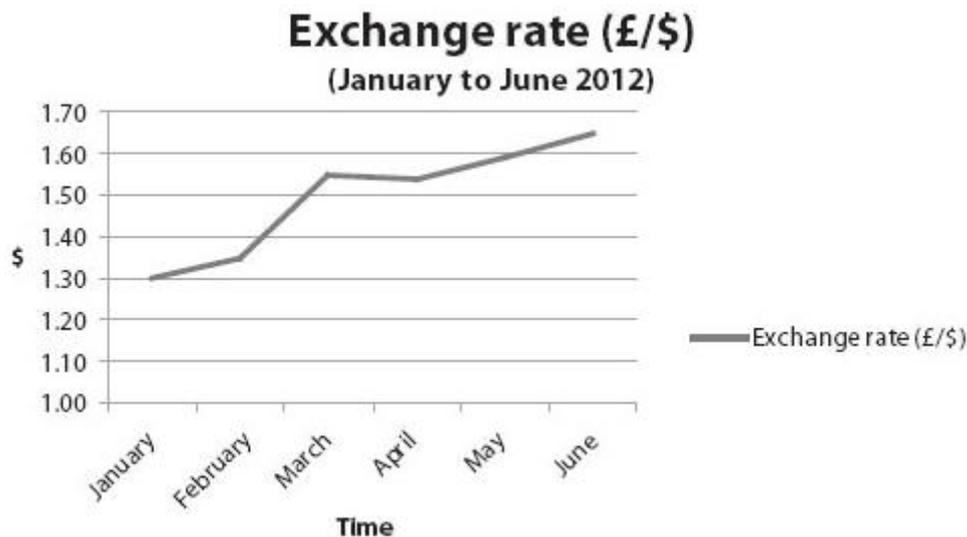
- A Shareholders and local residents
- B Customers and competitors
- C Suppliers and managers
- D Shareholders and managers

(Total for Question = 1 mark)

**Q7.**

Michael Fraser had always been passionate about American sports. He has set up a business called *Stateside* that imports American products to sell in the UK.

The exchange rate is important to his business.



For the period above Michael's monthly order from America was exactly the same.

Identify **two** effects on Michael's business as a result of the changes in the exchange rate.

Select **two** answers.

- A Higher fixed costs
- B Deteriorating net cash flow position
- C Ability to charge lower prices
- D Lower variable costs
- E Lower profit on each item sold

(Total for Question = 2 marks)

**Q8.**

Which **one** of the following is the **best** definition of a stakeholder?

Select **one** answer.

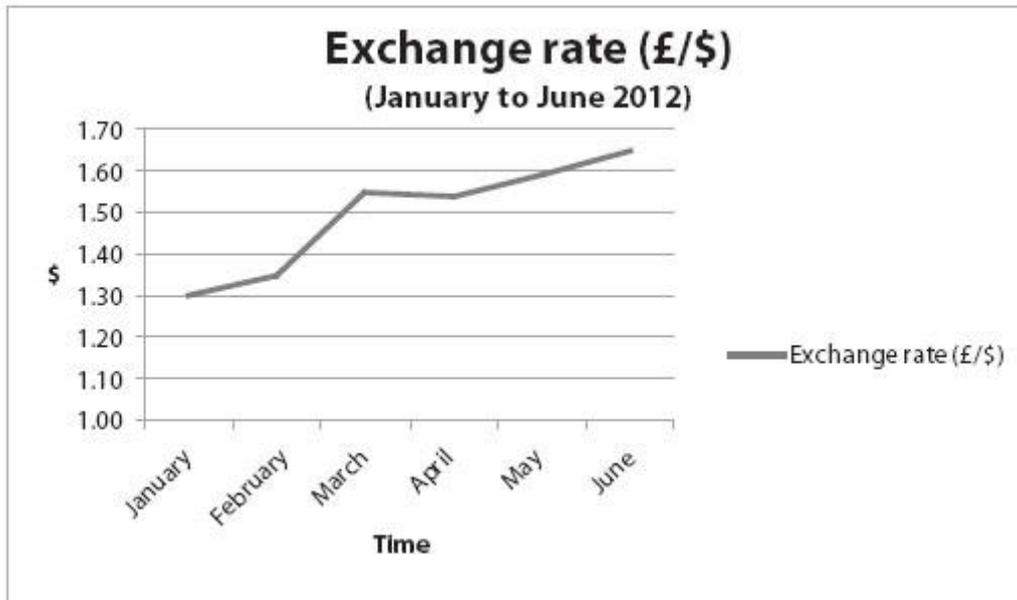
- A The shareholders of a limited company who receive dividend payments
- B Any individual or group with an interest in the success of a business
- C Anyone who works within a business
- D A person or group that is able to influence the decisions of a business

(Total for Question = 1 mark)

**Q9.**

Michael Fraser had always been passionate about American sports. He has set up a business called *Stateside* that imports American products to sell in the UK.

The exchange rate is important to his business.



In July 2012 Stateside imported 300 baseball caps from America. Each cap cost Michael \$5.00. The July exchange rate was \$1.60 to £1.

What was the cost, in pounds (£), to *Stateside* of this order?

Select **one** answer.

- A £306.60
- B £937.50
- C £1 100.00
- D £1 500.00

**Total for Question = 1 mark)**

**Q10.**

The following table shows the revenue and costs of a business over a three-month period. The business manufactures plastic components which are sold to a larger manufacturer.

	April	May	June
<b>Total revenue</b>	£3 700	£3 400	(iv)
<b>Fixed costs</b>	(i)	£900	£900
<b>Variable costs</b>	£1 700	£1 600	£1 500
<b>Total costs</b>	£2 600	(iii)	£2 400
<b>Profit</b>	(ii)	£900	£1 100

Oil is the main raw material used by the business.

What would be the **most likely** effect on the business of an increase in the cost of oil?

Select **one** answer.

- A Interest rates will increase
- B Variable costs will increase
- C Revenue will increase
- D Profits will increase

**(Total for Question = 1 mark)**

**Q11.**

Match the definition on the left with the correct term on the right.

Show your answers by drawing a line from the definition on the left, to the matching term on the right. If you change your mind about an answer, cross the line out and draw a new line to mark

your new answer.

Definition	
Groups or individuals with an interest in a business.	i
A key feature enabling customers to recognise a business as being different to rivals.	ii
The combination of price, product, promotion and place.	iii
A long-term source of finance provided by expert investors who take a role in running the business.	iv
The sum of the money coming into and going out of a business over a period of time.	v

Term	
a	Lateral thinking
b	Cumulative cash flow
c	Stakeholders
d	Unique trading name
e	Venture capital
f	Staff attitudes
g	Marketing mix
h	Shareholders

(Total for Question = 5 marks)

**Q12.**

Match the definition on the left with the correct term on the right.

Show your answers by drawing a line from the definition on the left, to the matching term on the right. If you change your mind about an answer, cross the line out and draw a new line to mark your new answer.

Definition	
An individual or group which has an interest in the success of a business or is affected by the activities of a business	i
A diagram that is used to record words and ideas connected to a central word or idea	ii
The legal ownership of material such as books, music and films which prevents these being copied by others	iii
A plan for the development of a business giving forecasts of items such as sales, costs and cash flow	iv
A person who owns and runs their own business and takes risks	v

Term	
A	Shareholder
B	Inventor
C	Mindmap
D	Copyright
E	Stakeholder
F	Business plan
G	Entrepreneur
H	Patent

(Total for Question = 5 marks)