6.8 Interest Rates, Inflation and Unemployment: Effects on Business: 10-minute Pack

AQA 8132 · Calculators not allowed · about 10 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer ALL questions in full sentences where required. No calculators needed for this pack. Show brief reasoning for explain and analyse answers. Each question is self-contained; business names are fictional.

1 Which one of the following best describes how a rise in interest rates is likely to affect borrowing costs for a small business such as Olivia's Online Boutique?

- ☐ A) Borrowing becomes cheaper because lenders lower rates to attract customers
- ☐ B) Borrowing becomes more expensive because lenders charge higher interest
- ☐ C) Borrowing is unchanged because business loans are fixed for all time
- ☐ D) Borrowing becomes free for new businesses

(Total for Question 1 is 1 mark)

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2 Which of the following effects on a small online retailer is most likely if inflation rises sharply while interest rates remain low?

- ☐ A) Input costs rise, squeezing margins, but cheap borrowing could allow investment to increase efficiency
- ☐ B) Input costs fall and borrowing becomes more expensive
- ☐ C) Borrowing becomes impossible, and wages fall automatically
- ☐ D) Customers automatically buy more because prices are rising

(Total for Question 2 is 1 mark)

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3 State two ways a fall in interest rates could benefit a medium-sized business like Priya's Plumbing Services.

(Total for Question 3 is 2 marks)

4 Explain how a fall in unemployment might affect staffing costs and customer service for a boutique hotel such as The Lark Hotel.

(Total for Question 4 is 4 marks)

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Mark scheme · 6.8 Interest Rates, Inflation and Unemployment: Effects on Business: 10-minute Pack

Question 1

B cao **B1**

Answer: B

Question 2

A cao **B1**

Answer: A

Question 3

lower cost of borrowing, e.g. reduced interest payments on new loans or overdrafts **B1**

customers may spend more so demand for services could rise, increasing revenue **B1**

Answer: Lower cost of borrowing for the business; increased consumer spending raising demand for services.

Question 4

identifies a relevant effect, e.g. staffing becomes harder because fewer people are unemployed **B1**

develops the effect, e.g. the hotel may have to raise wages or offer better conditions to attract staff, increasing costs **B1**

identifies a second effect, e.g. customer service may suffer if staff turnover increases or recruitment is delayed **B1**

develops the second effect, e.g. less experienced or fewer staff can lower service standards and damage reputation **B1**

Answer: Lower unemployment makes recruitment tougher and may force The Lark Hotel to pay higher wages or improve conditions, raising staffing costs; if recruitment lags or turnover rises, customer service quality may fall, harming reputation and future bookings.

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