BUS.IN8 Interest Rates, Inflation and Unemployment: Effects on Business

AQA 8132 · Calculators not allowed · about 40 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 one of the following is the most likely effect on consumer spending if unemployment rises sharply in a local area where Callum's Cafe operates?

- ☐ A) Consumer spending increases because people have more leisure time
- ☐ B) Consumer spending falls because many households have lower incomes
- ☐ C) Consumer spending stays the same because unemployment does not affect demand
- ☐ D) Consumer spending becomes unpredictable but always rises

(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)

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4 State two likely consequences for a food producer such as GreenFields Farm if inflation rises significantly and input costs increase.

(Total for Question 4 is 2 marks)

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5 Explain how a rise in interest rates is likely to affect Oak & Ash Cafe, a small high-street cafe that has a variable-rate business loan.

(Total for Question 5 is 4 marks)

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6 Explain how rising inflation is likely to affect BrightBake Ltd, a bakery that buys flour, butter and sugar from UK suppliers.

(Total for Question 6 is 4 marks)

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7 State two likely effects on recruitment and wages for a retail chain such as Willow Retail if unemployment falls sharply in the region where it operates.

(Total for Question 7 is 2 marks)

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8 Which one of the following best describes how a fall in interest rates would affect consumers' incentive to save versus spend, in the context of a local toy shop run by Erin Toys?

- ☐ A) Lower interest rates make saving more attractive, reducing spending
- ☐ B) Lower interest rates make saving less attractive, encouraging spending
- ☐ C) Lower interest rates have no effect on saving or spending
- ☐ D) Lower interest rates force banks to stop accepting savings

(Total for Question 8 is 1 mark)

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9 Explain how a rise in unemployment in a coastal town is likely to affect Sandsafe Holiday Park, a business that depends on local tourists and seasonal staff.

(Total for Question 9 is 4 marks)

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10 State two reasons why a manufacturer such as Northbridge Toys might prefer a period of low and stable inflation.

(Total for Question 10 is 2 marks)

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11 Which one of the following is the most direct reason a small estate agent like Yusuf & Co might be concerned if interest rates rise?

- ☐ A) Higher interest rates make mortgage borrowing more expensive, reducing demand for property
- ☐ B) Higher interest rates increase the price of paint
- ☐ C) Higher interest rates mean international exchange rates rise automatically
- ☐ D) Higher interest rates force the agent to hire more staff

(Total for Question 11 is 1 mark)

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12 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 12 is 4 marks)

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13 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 13 is 1 mark)

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14 State two actions a small manufacturer could take to protect itself from rising inflation increasing its input costs.

(Total for Question 14 is 2 marks)

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15 Which one of the following is most likely if a region experiences both falling unemployment and rising inflation, for a local restaurant chain called The Harbour Grill?

- ☐ A) It will face easier recruitment and lower wages
- ☐ B) It will face tighter labour market and rising wage costs, while input prices also increase
- ☐ C) It will see input costs fall and customer spending fall
- ☐ D) It will be unaffected because restaurants are immune to macroeconomic change

(Total for Question 15 is 1 mark)

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16 Analyse which of the three indicators named in this pack, interest rates, inflation or unemployment, is most likely to affect Bloom & Co, a small family-run florist serving both walk-in customers and local business clients. In your answer consider channels such as consumer spending, input costs, borrowing and recruitment. Use evidence and reasoning to reach a judgement.

(Total for Question 16 is 6 marks)

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Mark scheme · BUS.IN8 Interest Rates, Inflation and Unemployment: Effects on Business

Question 1

- **B1** B cao
- **Answer: B**

Question 2

- **B1** B cao
- **Answer: B**

Question 3

- **B1** 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
- **Answer: Lower cost of borrowing for the business; increased consumer spending raising demand for services.**

Question 4

- **B1** higher costs for seeds, fertiliser, fuel or other raw materials
- **B1** pressure to raise selling prices or accept lower profit margins
- **Answer: Higher input costs such as seeds and fuel; either higher selling prices or squeezed profit margins.**

Question 5

- **B1** identifies a relevant effect, e.g. higher loan repayments for Oak & Ash Cafe
- **B1** develops the effect, e.g. monthly costs rise because the loan interest rate increases
- **B1** identifies a second effect, e.g. customers may cut back on eating out
- **B1** develops the second effect, e.g. lower customer numbers reduce sales, adding pressure to profits/cash flow
- **Answer: Higher interest rates increase the cafe's monthly loan repayments, raising its costs; at the same time customers may reduce spending on eating out, lowering sales and squeezing profits and cash flow.**

Question 6

- **B1** identifies a relevant effect, e.g. higher cost of raw materials like flour and butter
- **B1** develops the effect, e.g. higher input costs reduce gross margin unless prices are increased
- **B1** identifies a second effect, e.g. the bakery may raise selling prices
- **B1** develops the second effect, e.g. higher prices may lead to lower sales if customers are price-sensitive, reducing revenue
- **Answer: Rising inflation increases the bakery's input costs, reducing margins unless it raises prices; if prices are raised customers may buy less, which can reduce revenue and squeeze profit.**

Question 7

- **B1** it may become harder to recruit staff because fewer people are unemployed
- **B1** it may have to offer higher wages or better benefits to attract workers
- **Answer: Harder recruitment due to fewer available workers; the chain may need to raise wages or improve benefits to attract staff.**

Question 8

- **B1** B cao
- **Answer: B**

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Question 9

- **B1** identifies a relevant effect, e.g. lower local consumer spending reducing bookings
- **B1** develops the effect, e.g. households with lower incomes cut back on holidays and local day trips
- **B1** identifies a second effect, e.g. easier recruitment of seasonal staff and lower wage pressure
- **B1** develops the second effect, e.g. lower employment in other local firms increases the supply of workers for seasonal roles, reducing hiring costs
- **Answer: Higher unemployment may cut local people and local tourism-related spending, reducing bookings and revenue; at the same time Sandsafe may find it easier and cheaper to recruit seasonal staff because more people are seeking work.**

Question 10

- **B1** predictable costs make budgeting and pricing decisions easier
- **B1** stable inflation reduces the need for frequent wage increases that raise costs
- **Answer: Predictable costs help budgeting and pricing; stable inflation reduces pressure for frequent wage rises and cost uncertainty.**

Question 11

- **B1** A cao
- **Answer: A**

Question 12

- **B1** 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
- **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.**

Question 13

- **B1** A cao
- **Answer: A**

Question 14

- **B1** hedge or fix input prices through longer-term supplier contracts or forward buying where possible
- **B1** improve efficiency or invest in cost-saving technology to reduce unit costs
- **Answer: Use longer-term contracts or forward buying to fix input prices; improve efficiency or invest in cost-saving technology to lower unit costs.**

Question 15

- **B1** B cao
- **Answer: B**

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Question 16

- **Level 1** (1-3): Makes simple, partially developed points about how one or more indicators could affect the florist, with limited application and little or no judgement.
- **Level 2** (4-6): Offers a clear analysis that compares how interest rates, inflation and unemployment would affect Bloom & Co, applies the points to the florist context, and reaches a reasoned judgement supported by evidence.
- **Indicative content:**
  - Interest rates: higher rates raise the cost of borrowing so Bloom & Co would face higher loan repayments if it has debt, and higher mortgage costs for customers could reduce spending on non-essentials like flowers, lowering sales. Low rates encourage spending and make short-term financing for stock or shop improvements cheaper.
  - Inflation: rising inflation directly raises input costs such as flowers, compost and packaging, squeezing profit margins if prices cannot be raised; as many floral inputs are imported there can also be indirect price effects, increasing wholesale costs, making inflation very relevant.
  - Unemployment: higher unemployment lowers local incomes and spending on discretionary items like bouquets for events, reducing sales; however, higher unemployment can make recruitment for casual or seasonal roles easier and cheaper.
  - Application to Bloom & Co: as a small florist margins are tight and input costs are a large part of their expenses, so inflation that raises the cost of flowers and supplies may have an immediate and strong effect. Interest rates matter if the business has outstanding loans or needs finance for expansion, and they also influence customer spending. Unemployment affects demand and recruitment, but its effect may be less direct than sudden increases in input prices.
  - Judgement: conclude which indicator is most likely to affect Bloom & Co, for example that rising inflation is the most immediate threat because it raises wholesale flower prices and packaging costs, directly squeezing margins, while interest rates and unemployment are also important but likely secondary, unless Bloom & Co relies on variable-rate borrowing or the local labour market tightens dramatically.

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