BUS.IN9 Exchange Rate Fluctuations and Business Competitiveness

AQA 8132 · Calculators not allowed · about 35 minutes

Total Marks

Name: ______________________________ Date: ____ / ____ / ______

Answer ALL questions in the spaces provided. This pack uses short scenarios about UK businesses and exchange rate movements. No calculator is needed. Write answers in full sentences where asked for explanation or analysis questions.

1 Which one of the following best defines an exchange rate for a UK business trading with Europe?

- ☐ A) The fee a bank charges to exchange money between accounts in the same currency
- ☐ B) The rate at which one currency can be exchanged for another, for example pounds to euros
- ☐ C) The tax charged on goods imported from outside the UK
- ☐ D) The interest rate on a business overdraft

(Total for Question 1 is 1 mark)

2 Which one of the following is a likely immediate effect of a stronger pound for a UK importer who buys materials from France?

- ☐ A) Imported materials become more expensive in pounds
- ☐ B) Imported materials become cheaper in pounds
- ☐ C) The importer must pay more euros for the same pound amount
- ☐ D) UK exports become cheaper abroad

(Total for Question 2 is 1 mark)

3 Priya owns Coastal Crafts Ltd, a small UK business that exports handmade wool scarves to shops in Germany. If the prompt states 'the pound has strengthened against the euro', identify the direction of the currency movement described for the pound. State your answer.

(Total for Question 3 is 2 marks)

4 Kwame runs North Sea Components, a UK firm that imports precision parts from Germany. If the scenario says 'the pound has weakened against the euro', identify the direction of movement for the pound. State your answer.

(Total for Question 4 is 2 marks)

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5 State one reason why a UK exporter like Coastal Crafts Ltd might become less price competitive in Germany when the pound strengthens.

(Total for Question 5 is 1 mark)

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6 Coastal Crafts Ltd exports scarves priced in pounds. Explain how a stronger pound is likely to affect Coastal Crafts Ltd's sales and pricing strategy in Germany. Give reasoning.

(Total for Question 6 is 4 marks)

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7 North Sea Components imports precision parts from Germany and sells finished products in the UK. Explain how a weaker pound is likely to affect North Sea Components' costs and possible selling prices in the UK. Give reasoning.

(Total for Question 7 is 4 marks)

8 Analyse the effect of a recent strengthening of the pound against the euro on Coastal Crafts Ltd, which exports scarves to Germany and buys some wool from an Italian supplier paid in euros. Use the scenario facts to support your analysis.

(Total for Question 8 is 6 marks)

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9 Which one of the following is a likely effect of a weaker pound on UK exports sold abroad, all else equal?

- ☐ A) UK exports become more expensive in foreign currency
- ☐ B) UK exports become cheaper in foreign currency
- ☐ C) Import costs in the UK fall
- ☐ D) UK firms must pay less for foreign raw materials

(Total for Question 9 is 1 mark)

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10 State one reason why a UK importer paying in euros benefits when the pound strengthens against the euro.

(Total for Question 10 is 1 mark)

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11 State whether a stronger pound tends to help or harm a UK business that both imports most inputs and exports the finished product. State your answer and give one brief reason.

(Total for Question 11 is 1 mark)

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12 Which one of the following actions might a UK exporter take when the pound strengthens to protect foreign sales?

- ☐ A) Increase the pound price of goods to raise margins
- ☐ B) Reduce the pound price to keep the foreign-currency price similar
- ☐ C) Denominate all contracts in euros only
- ☐ D) Move all production overseas immediately

(Total for Question 12 is 1 mark)

13 State one limitation of thinking only about exchange rates when deciding whether a UK business will succeed overseas.

(Total for Question 13 is 1 mark)

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14 Priya is deciding whether to change Coastal Crafts Ltd's strategy after a stronger pound. Recommend one short-term action she could take to protect sales in Germany and briefly justify it in one sentence.

(Total for Question 14 is 2 marks)

Mark scheme · BUS.IN9 Exchange Rate Fluctuations and Business Competitiveness

Question 1

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

Question 2

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

Question 3

- **B1** identifies that the pound has risen in value against the euro
- **B1** or states the pound buys more euros than before
- **Answer: The pound has risen in value against the euro, so one pound now buys more euros than before.**

Question 4

- **B1** identifies that the pound has fallen in value against the euro
- **B1** or states the pound buys fewer euros than before
- **Answer: The pound has fallen in value against the euro, so one pound now buys fewer euros than before.**

Question 5

- **B1** exports become more expensive in euros so customers in Germany may buy less
- **Answer: Because the pound is stronger, the price of Coastal Crafts' scarves in euros rises, making them more expensive for German buyers.**

Question 6

- **B1** identifies that the stronger pound makes the scarves more expensive in euros for German buyers
- **B1** explains that higher euro prices tend to reduce demand from German retailers or customers
- **B1** identifies a likely business response, e.g. cutting the pound price to keep the euro price similar or accepting lower profit margin
- **B1** develops the response, e.g. cutting price may protect sales but reduce profit per unit, or leaving price may lose sales to local competitors
- **Answer: A stronger pound makes Coastal Crafts' scarves more expensive in euros, which will tend to reduce demand in Germany. The business may respond by lowering its price in pounds to keep the euro price similar, protecting sales but reducing profit per scarf, or it may keep pound prices and accept a fall in sales if it cannot afford to cut margins.**

Question 7

- **B1** identifies that a weaker pound makes imported parts more expensive in pounds
- **B1** explains that higher input costs raise total costs for North Sea Components
- **B1** identifies a likely business response, e.g. raising selling prices or accepting lower profit margins
- **B1** develops the response, e.g. raising prices may pass costs on to customers but could reduce demand, while absorbing costs reduces profit
- **Answer: A weaker pound makes the imported precision parts more expensive in pounds, raising North Sea Components' production costs. The firm may raise its selling prices to pass these higher costs to customers, risking lower sales, or it may absorb the extra cost and accept a lower profit margin to keep prices stable.**

Question 8

- **Level 1** (1-3): Makes simple points about how a stronger pound affects exports and imports, with limited application to Coastal Crafts Ltd and little development.
- **Level 2** (4-6): Considers multiple effects on Coastal Crafts Ltd, applies the scenario to explain the likely impact on sales, costs and pricing, and gives a developed analysis of trade-offs for the business.
- **Indicative content:**
  - Stronger pound makes Coastal Crafts' scarves more expensive in euros for German buyers, which tends to reduce export sales unless the company cuts its price in pounds or accepts lower foreign sales.
  - Because Coastal Crafts buys wool from an Italian supplier paid in euros, the stronger pound reduces the pound cost of those euro-priced inputs, lowering production costs and partially offsetting weaker export revenue.
  - The net effect depends on the balance between lost export sales and savings on import costs, for example if wool costs are a small part of total cost then lost sales may dominate, but if wool is a large share of cost the business might maintain margins.
  - Possible business responses include lowering the pound selling price to retain German customers, which reduces profit margin per unit but may keep volume; or keeping prices and targeting higher-margin domestic sales. Another response is to hedge currency risk or negotiate euro prices with suppliers, though such actions have limits for a small business.
  - A well-judged outcome discussion weighs reduced euro revenues versus lower input costs and notes that the business may need to change marketing, find new markets, or adjust pricing to remain competitive.

Question 9

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

Question 10

- **B1** it costs fewer pounds to buy the same number of euros, reducing the pound cost of imports
- **Answer: Because the pound buys more euros, the importer can buy the same supplies for fewer pounds, reducing import costs.**

Question 11

- **B1** states help or harm correctly, e.g. 'it may help' or 'it may harm' with correct direction
- **Answer: It may help, because lower import costs reduce production costs; but it may also harm export competitiveness, so the net effect depends on which effect is larger.**

Question 12

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

Question 13

- **B1** other factors like product quality, local competition, transport costs and marketing also affect success
- **Answer: Exchange rates matter, but other factors such as local competition, product appeal, and transport and marketing costs also determine success overseas.**

Question 14

- **B1** recommends a sensible short-term action, e.g. temporarily reducing the pound price or offering bundle discounts
- **B1** provides a brief justification linked to protecting sales or maintaining market share
- **Answer: For example, temporarily reduce the pound price slightly or offer bundled discounts to keep the euro price competitive, helping to protect sales and market share in Germany while observing the exchange rate movement.**