Environmental and ethical issues

Revision answers

1 i) Disposal of waste products from factories.
    ii) Smoke pollution.
    Other answers possible.

2 External costs are costs that are not paid for by the business or customers but by the rest of society, for example, external costs of a new factory include extra smoke and pollution.
    External benefits are the benefits not gained directly by the business or customers but by the rest of society, for example, the taxes paid by workers employed in the new factory.

3 External benefits: additional jobs created; taxes paid by tourists using the airport.
   External costs: plane noise; loss of greenfield sites for the expansion.

4 i) Use recycled materials.
    ii) Use solar panels or other renewable energy.
    iii) Encourage consumers to recycle packaging used.

5 Student’s own answer.

6 i) Arrange a consumer boycott: if fewer products are sold, profits will fall and it might force the business to become more environmentally friendly.
    ii) Inform the press and other media about the businesses actions: bad publicity may encourage the business to stop polluting.

7 i) Develop less polluting fuels, for example, biofuels.
    ii) Use the safest/cleanest possible equipment when drilling for oil.

8 It might be more profitable to bribe government officials, which adds to expenses, when hoping to sign a big new contract with a government department, but this is unethical.

9 i) May reduce costs of legal action and fines, which increases profits.
    ii) May encourage consumers to buy from ethical businesses, increasing sales and profits.
    iii) Ethically minded employees will be more likely to want to work for such a business; they might work hard/be more efficient.

10 i) It might believe that it will not ‘be caught’ and that other businesses are acting in this way.
    ii) It might claim that it is the only way to keep costs down (using old equipment) or be awarded big government contracts (bribery).

Answers to activities

Activity 27.1

a) Costs not paid for by the business but by the rest of society.

b) Local community: risk of noise, air pollution and accidents, for example, spills of chemicals.
   Farmers/food consumers: loss of greenfield sites for production of crops.

b) Local workers: more job opportunities.

b) Government: higher tax revenues from factory profits.

d) Yes: increases GDP and some output may be exported; helps to reduce unemployment; creates more competition for existing chemical firms; tax revenue should increase.
   No: too polluting; danger to local community; risk of accidents.
   Overall: may depend on whether the company agrees to using the latest and safest least polluting methods, which might be more expensive for the business.
Activity 27.2

a) Development that does not put at risk the living standards of future generations.

b) They all use materials more than once and reduce the impact on the environment, for example, by recycling the fibres and producing food crops; by generating less polluting energy and by farming fish in water that used to be disposed of as waste. This reduces the business's impact on the environment and therefore makes it more sustainable.

c) Competitive edge: these measures reduce the business costs in the long term (once any new equipment has been bought, such as the gas converter). These lower costs will make the business more competitive. Also, by promoting itself as an environmentally sustainable business consumers may be attracted to this firm's products, making it more competitive.

Activity 27.3

a) Taking business decisions that benefit society/stakeholders not just shareholders.

b) May not have the resources to inspect and monitor business environmental impact; government may be more concerned with economic growth at any environmental cost.

c) Air pollution that damages people's health; waste products that can pollute rivers and kill fish.

d) Yes: makes sure that business activity benefits society not just shareholders; reduces environmental impact, improves quality of life and reduces risk of accidents and pollution; more sustainable development.

No: expensive to inspect and monitor: government could use these resources on other programmes; increases costs for businesses, for example, by replacing polluting equipment and this might make industry in the country less competitive; other countries might not be using such controls.

Student's own answer: overall judgement.

Activity 27.4

a) Groups of people who act together to try to change business decisions.

b) Too expensive and will make the business less competitive; perhaps many consumers do 'not care' about the environment and just want low prices.

c) If consumer boycott reduces sales and profits so much that it might be more beneficial for Acme Oil in the future to use less polluting methods; if media coverage from the pressure group creates such a bad image of the company that it loses government contracts or other countries’ governments stop it expanding in their country.

d) Yes: more sustainable; oil can be very damaging to the environment and people's health; will give the company a 'green' and responsible image: could use this in its promotion campaigns.

No: too expensive; makes the business less competitive and consumers have got used to its low prices.

Student's own answer: overall judgement.
Activity 27.5

a) A decision that is not based on moral principles.
b) They may be better qualified and experienced and there is a shortage of people with these skills and experience; directors might decide on their own salaries!
c) Yes: business needs to attract the best directors/managers; they will operate the business more effectively and profitably; it acts as an incentive for other workers to gain skills and experience to possibly become directors themselves.
No: may demotivate other workers of the company, for example, ‘How can such differences be justified?’; unions might ask for higher pay for their members as the business can seem to afford it; high paid director might not make much difference to profits of the business; very high salaries increase cost of the business and reduce profits for shareholders/reinvestment.
Student’s own answer: overall judgement.

Sample answers to Paper 1 style questions (with mark annotations for Question 2)

1 a) Development that does not put the living standards of future generations at risk.
b) i) Pollution from burning of waste wood.
ii) Destruction of rainforests to obtain raw materials.
c) i) More effective government controls over pollution, for example, fines for burning waste wood.
ii) Consumer boycott by pressure group of non-sustainable production, for example, firms that use rainforest wood.
d) i) If wood was bought from sustainable forests this might give his business a better environmental image. This could lead to increased demand from consumers who are worried about the environment.
ii) If waste wood was used effectively, for example, to make children’s toys, then the business would not have the risk of being fined by the Government, and it would have other ranges of products to sell.
e) Yes: wood is better for the environment than plastic or metal, both of which pollute the environment when made; making furniture does not create dangerous fumes or much noise.
No: the business uses non-sustainable sources of wood; transport used is polluting; waste wood is burnt and this pollutes the air.
Student’s own answer: overall judgement needed.

2 a) Decisions based on ‘doing the right thing’ or based on a moral code. [2K]
b) i) Employing children.
ii) Paying bribes. [2App]
c) i) Bribes might lead to more contracts/orders for MST.
ii) Employing children will be cheaper than employing adults and will increase MST profits. [2K; 2App]
d) i) Paying bribes might be illegal in this country and this could lead to legal action being taken against the company and directors, costing MST much money and forcing the government to cancel the contracts obtained in this way. [1K; 1App; 1An]
ii) Employing children is not seen as being socially responsible and bad publicity and negative reaction from customers might lead to MST’s reputation and sales falling, cancelling out any potential cost savings. [1K; 1App; 1An]
e) Yes: businesses that operate in the private sector aim to make a profit by using resources as efficiently as possible. Making profits increases returns to shareholders and tax payments to government and can finance business expansion.
No: ethical decisions are doing things ‘the right way’ and help a business meet its social responsibilities. Acting unethically can actually reduce profits in the long term if, for example, MST’s reputation suffers from bad publicity and contracts are cancelled.
Student’s overall conclusion. [1K; 1App; 2An] + [2Eval]

Answers to revision test

1 4)
2 1)
3 4)
4 2)
5 3)
6 3)
7 2)
8 1)
9 3)
10 3)