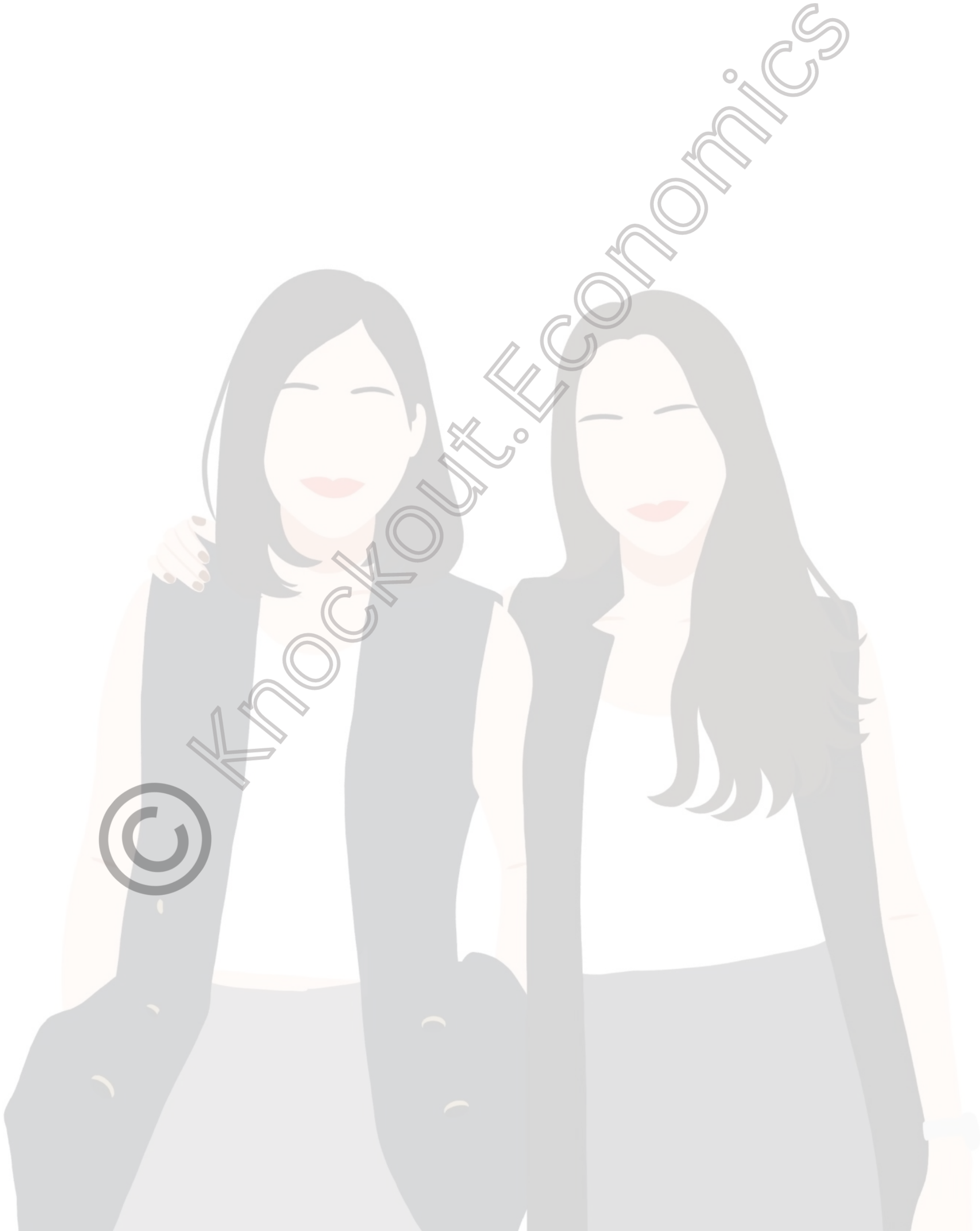
Chapter 27 Environmental and ethical issues

Key terms

1. Social responsibility: when a business decision benefits stakeholders other than shareholders, for example, a decision to protect the environment by reducing pollution by using the latest abs greenest production equipment.
2. Environment: our natural world including, for example, pure air, clean water and undeveloped countryside.
3. Private costs: costs of an activity paid by business.
4. Private benefits: benefits from an activity are the gains to a business.
5. External costs: costs paid for by the rest of society, other than the business, as a result of business activity.
6. External benefits: the gains to the rest of society, other than the business, resulting from business activity.
7. Social cost: = external cost + private cost.
8. Social Benefit : = external benefit + private benefit.
9. Sustainable development: development which does not put at risk the living standards of future generations.
10. Sustainable production methods: those that do minimum damage to the environment.
11. Pressure group: made up of people who want to change business(or government) decisions and they take action such as organising consumer boycott.
12. Consumer boycott: when consumers decide not to buy products from businesses that do not act in a socially responsible way.
13. Ethical decisions: based on moral code. Sometimes referred to as doing the right thing.


© Knockout.Economics

1. Advantages and disadvantages of having a social responsibility towards environment

Advantages of concerning environment	Disavantages of concerning environment
1. It reduces impacts of global warming and pollution. 2. To reserve scarce natural resources for the next generation 3. Consumers are willing to pay a high price for environmentally friendly products.	1. Protecting the environment may increase cost to businesses 2. Firms may have to increase prices to compensate for the cost of protecting the environment, which may reduce competitiveness in the market. 3. Firms may face lower sales revenue if they increase price.

2. **Externalities**: consequence of economic activities that experience by unrelated third parties; divided to negative and positive externality

- Private cost: Cost to businesses e.g. raw material / rent /equipment
- Private benefits: profit to businesses
- External cost: negative effects to the third party or the rest of society. E.g. pollution
- External benefit: positive effects to the third party or the rest of society. E.g. job creation, paying tax.

3. **Sustainable development**; how business activity can contribute to this

Sustainable development: economic growth which does not harm environment and future generations (by using renewable energy/ recycling waste / using fewer resources/ developing environmental friendly products)

4. Responding to environmental pressures and opportunities

- Pressure group
- Laws pass by government
- Financial penalties / pollution permits

<u>5. Ethical issues a business might face:</u> conflicts between profits and ethics

<u>Ethical decisions:</u> based on moral code. Sometimes referred to as doing the right thing.

Example of unethical decisions of business; employing child labour, providing poor working condition, damaging environment.