BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.5.4 Economic Influences

Key Vocabulary

Economic climate – overall performance of an economy

GDP – Gross Domestic Product. A measure of the total value of goods produced in an economy

Consumer income – the money an individual has left after paying taxes and essential living expenses

Unemployment – a measure of the number of people without a job who are actively seeking one

Corporation Tax – charge on the profits of a business

VAT – Value Added Tax. A charge on good sold

Income Tax – a tax paid by individuals from their wages / salaries

Inflation – a general rise in prices over time

Interest Rate – the charge for borrowing money or the reward for saving money

Exchange rates – the value of one currency against another

Recession – a period of economic downturn

Boom – a period of economic prosperity

Core Knowledge

The more a country produces, the more consumers can buy – this makes the economy stronger

Consumers will spend more when they have a higher income. As incomes rise more money is spend on luxury goods

Unemployment is bad for the economy. High unemployment means less people have jobs, so incomes are lower. Businesses will sell less, employ less people and invest less. The government will receive less taxes and pay more benefits.

There are 3 main types of taxes:

- Those businesses pay – corporation tax
- Those the employed pay – National Insurance and Income Tax
- Those consumers pay – council tax, VAT, Duties, Road Fund Licence, etc

Increases in taxes reduce consumer spending and raise costs for businesses, but do raise finance for the government

An increase in interest rates will raise the cost of borrowing, so reduce consumer income, leading to a fall in consumer spending

Inflation is an increase in prices, so in *real terms*, consumers will be worse off if income does not rise at least as much as inflation. So inflation will lead to a fall in consumer spending.

Exchange Rates affect the cost of importing – remember **SPICED** (**S**trong **P**ound, **I**mports **C**heaper, **E**xports **D**earer)

Misconceptions

- Remember it is the Banks that set interest rates not the government
- Taxes are decided by the government
- Not ALL business are affected by changes in the same way – a fall in income for example can help Poundland but not a luxury brand

Application

Poundland / 99p shop – discounters who will do well in recession

Aldi / Lidl – increased their market share in last recession

Topic Links

Breakeven – changes to taxes, inflation, exchange rates and interest rates can all increase the costs of a business

Ownership – only companies pay Corporation Tax, sole traders and partnerships pay income tax

Sources of finance – changes to interest rates increase the cost of borrowing, e.g. loans, overdrafts, mortgages

Globalisation – changes to exchange rates can make selling abroad more or less attractive