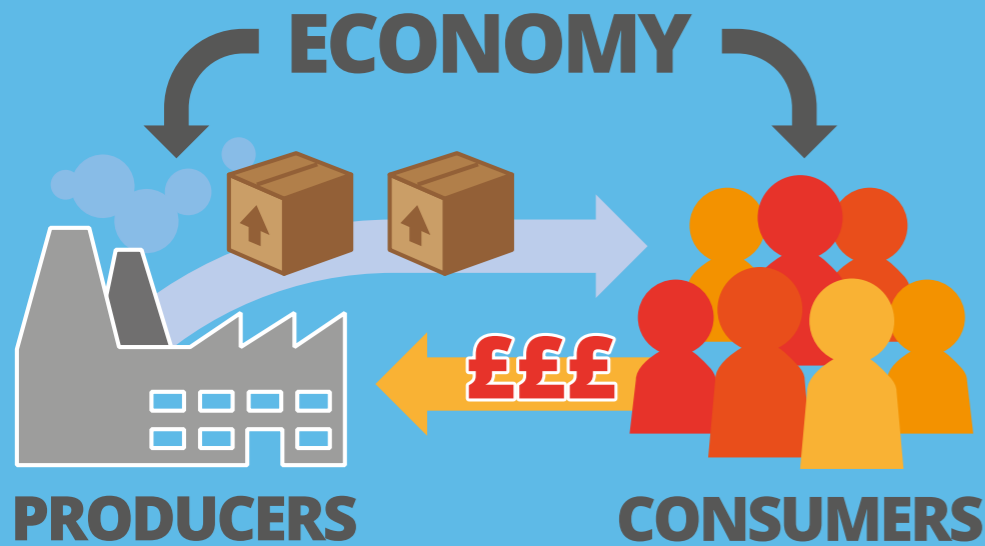


## Economic Factors

### The Economy

**Definition:** Made up of millions of individual consumers, many thousands of businesses and governments. All take decisions on what to buy and produce.



### Economic Climate

**Definition:** Describes the state of key factors within a country such as the level of goods and services produced and the number of jobs available.

### Producers

**Definition:** Suppliers of goods and services.

### Consumers

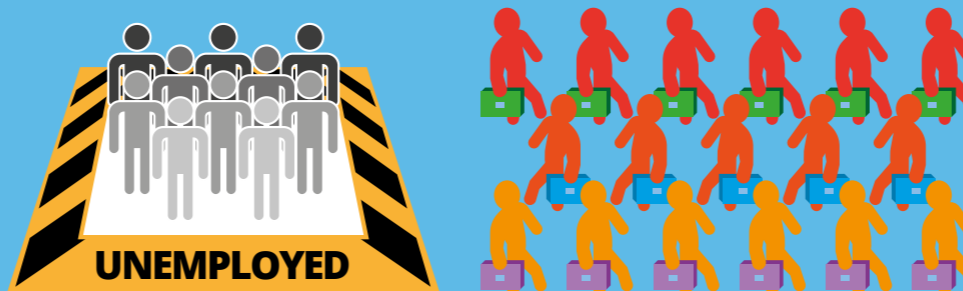
**Definition:** Individuals who buy goods and services from businesses. The final users of goods and services. They are at the end of the distribution channel.

## Unemployment

**Definition:** Exists when someone is looking for a job, but is unable to find one.

Unemployment causes problems for consumers, businesses and the government:

- **Consumers** → reduction in income if they become unemployed → resulting in a fall in living standards → the stress of finding a new job if businesses are not recruiting and the social and emotional effects of being unemployed
- **Businesses** → the fall in consumer incomes results in a fall in demand for their goods and services → financial problems if they are a small business or a business with no or little savings/retained profit
- **Government** → a fall in revenue from Income Tax, VAT and Corporation Tax and an increase in welfare payments (less income and more outgoings)



## Unemployment Rate

**Definition:** The number of people who are unemployed as a percentage of those working or looking for work.

## Employment Rate

**Definition:** The percentage of people of working age who are in employment.

## GIG Economy

**Definition:** Refers to businesses that use mainly temporary workers who do not receive benefits such as guaranteed hours of work or holiday or sick pay.



## Consumer Spending

**Definition:** Refers to the value of goods and services bought by consumers over a time period, usually a month or year.

## Income Elastic Products

**Definition:** Those products whose sales are sensitive to changes in consumers' incomes.

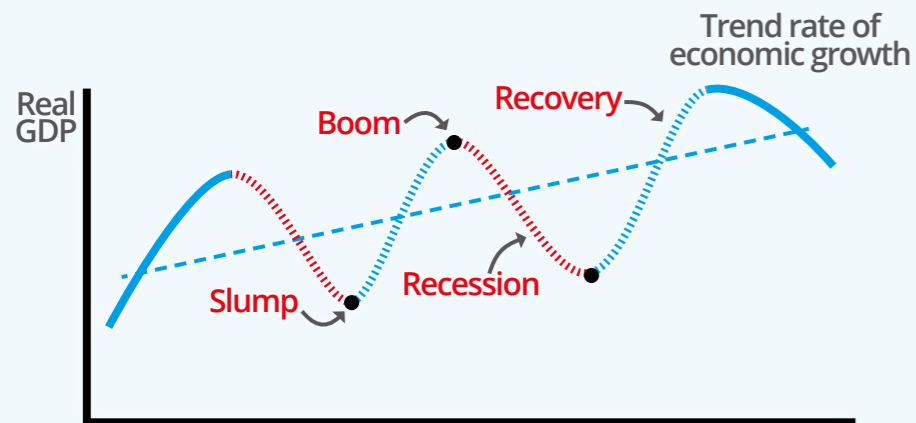


## Employment Levels and Economic Activity

Employment levels tend to rise and fall as the economy grows and declines; this has both benefits and drawbacks for business:

### Economic growth

- Consumer demand for goods and services is high.
- Businesses need employees in order to meet consumer demand.
- Most people who want a job are already employed.
- In order to attract new employees businesses have to offer higher wages.
- Businesses will find it increasingly difficult to recruit someone with the right skills and qualities for the job.



### Recession/slump

- Consumer demand for goods and services is low, as people have less disposable income to spend.
- A large number of people are unemployed and looking for work.
- If businesses decide to take on new workers, they will be able to choose from a wide pool of applicants.
- Wages will remain low as long as unemployment remains high.



## Interest Rates

**Definition:** The price of borrowed money, expressed as a percentage rate.

**Low interest rates** lead to increased spending → when the interest rate is cut it is cheaper to borrow money but you get less interest when you save money at a bank

**High interest rates** lead to decreased spending → borrowing money becomes more expensive but savers get good returns on their investments

### The impact of a fall in interest rates:

- **Lower costs** → businesses may use extra money on range of alternatives → e.g. machinery/paying off debts etc.
- **Pay back less on borrowed money** → may lead to increased profit
- **Customers may have more disposable income/money to spend** → increased sales opportunities for businesses
- **Business may seek loans/borrow money** → for e.g. expansion/investment
- **Business receive less return** → on investments/savings



Way in which a fall in interest rates might have led this business to recruit extra production workers:

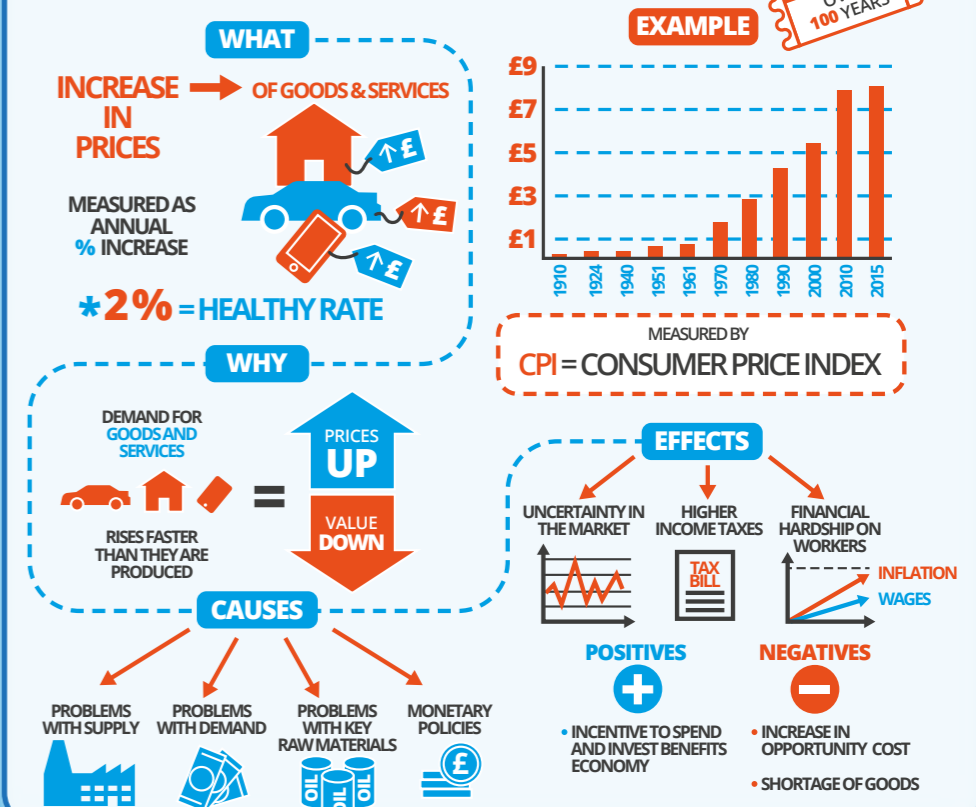
- **Customers pay less interest** → more likely to buy
- **Less money paid on loans** → so more money to expand/buy machinery/employ workers → more money gained by spending → than saving

## Saving

**Definition:** Income received by consumers or businesses which is not spent.



## INFLATION



## Inflation

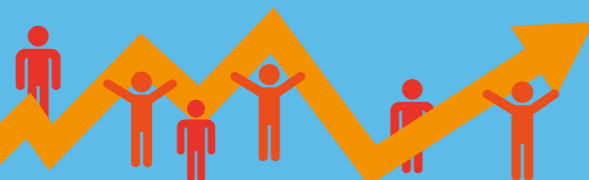
**Definition:** Measures the rate of change of prices over a period of time, often one year.



A slow increase in prices over time is not a problem for most consumers and businesses.

- Businesses can enjoy rising sales and revenues if prices are increased slowly.
- Consumers may also respond to a low rate of inflation by spending money immediately rather than waiting until prices are higher in the future.

High rates of inflation cause uncertainty and as a result businesses will often postpone new investments in machinery or employing more workers. This can cause the business in the longer term to become less efficient. In addition businesses will face demands from workers for higher wages as they need more money to pay for the rising costs of goods and services.



## Taxation

**Definition:** Exists when governments require payments from individuals and businesses based on factors such as their income or spending.



## Direct Taxes

**Definition:** Taxes which are paid on income or profit, for example, income tax.

## Indirect Taxes

**Definition:** Taxes paid on spending by individuals and businesses, for example, Value Added Tax (VAT).

## Corporation Tax

**Definition:** A tax on company profits, it is paid before shareholders are paid their dividend. The tax is calculated from the net profits earned by a company.

**The effect of an increase in corporation tax paid by a business:**

- Retained profits may fall → an extra expense is taken from company profits
- Businesses may increase prices to compensate for the increase in tax → sales revenue may fall/rise
- Less money to invest/pay out to shareholders → may affect share price/lose shareholders
- More tax paid by the business → this could leave the business with less overall profit

## Income Tax

**Definition:** A tax on a person's income, this form of tax is a statutory (this must be paid) deduction from an employee's wages. Each person has an income tax personal allowance, and income up to this amount in each tax year is free of tax.

**The effect of an increase in income tax paid by customers:**

- Less income for people/lower disposable income / they have less to spend → so businesses sell less → make less profit
- Businesses selling cheaper goods may sell more → and earn greater profits
- Some businesses may be affected more than others
- Some may not be affected → perhaps selling necessities such as bread, milk etc.



## NATIONAL INSURANCE NUMBERCARD

XX 01 01 01 X

## National Insurance

**Definition:** Individuals have to pay these contributions in order to pay for state benefits including the state pension, the NHS, unemployment benefit, and sickness and disability allowances.

## VAT (Value Added Tax)

**Definition:** A tax on the purchase of goods and services. The standard rate of VAT is 20%. VAT is charged on most goods and services that consumers purchase (such as trainers and cinema tickets) and on goods and services that businesses purchase (such as accounting services and printer ink).

## GOING OUT OF BUSINESS

LAST DAY

CLOSING DOWN

## The Impact of the Closure of a Business on their Local Communities

### Positive Effects:

- ✓ Environmental benefits → less traffic → less noise and/or dirt
- ✓ Other businesses may be attracted to area → increased customer choice
- ✓ Benefits to other businesses e.g. bigger pool of labour → less competition → smaller/independent stores may gain customers → increased sales → smaller/independent stores may expand

### Negative Effects:

- ✗ Job losses → less to spend on existing businesses → other businesses may have to close
- ✗ Less footfall → less customers for existing businesses
- ✗ Local businesses may have to find supplies from different business → increased costs/travel further
- ✗ Government will lose out on income → taxation → less money to spend on public services
- ✗ Multiplier effect
- ✗ Local people (customers) travel further to a store → increased costs
- ✗ Less competition/choice → increased prices
- ✗ Visual appearance