Certificate in Financial Education Unit 1 revision guide.

<u>Topic 1 – Citizenship</u>

A citizen is someone who has the **legal right to be in a particular country**. This may be because they were born in that country, or because they applied to become a citizen and this was approved by the Government of that country.

Immigration means moving into a new country and becoming a citizen of that country. Immigrants moving to the UK undergo **naturalisation** to learn the language, customs and history of the UK.

Emigration means moving out of a country. UK citizens **most commonly emigrate to Australia**, with other popular destinations being the USA, Spain and China. This may be for economic reasons or for other reasons e.g. the improved weather.

As a citizen, you are expected to follow **societal norms** – rules of behaviour which are acceptable in society. These may change over time but for the UK include: mutual respect and tolerance; individual freedom; democracy and the rule of law.

As a citizen, you have rights but also have responsibilities:

<u>Political rights/responsibility:</u> The right and responsibility to vote; the responsibility to serve on a jury if called.

<u>Legal rights/responsibilities:</u> The right to a fair trial and to legal representation, but the responsibility to follow the law.

<u>Economic rights/responsibilities:</u> The right to education, health, welfare, social care etc, and the responsibility to pay taxes to fund these.

The money you earn enables you to participate in society and have choices. Those who have less money might pay less tax but they have fewer choices about what they spend their money on as it is often spent on just the essentials.

Those with more money pay more tax but also have more left over to spend on non-essentials e.g. holidays, giving to charity etc. They may also choose to save more money.

Government policies can influence whether we spend, save or give to charity e.g. The policy of not changing interest on savings in an ISA account might make more people want to save using these accounts.

Topic 2 – Personal Finance & the Economy

Public spending - The four biggest areas of public spending are Education, Welfare, Healthcare and Pensions. These services benefit everyone in the country.

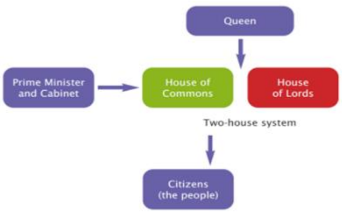
A government might run either a **deficit** or a **surplus** budget. depending on its beliefs and what it thinks the country needs. A **deficit budget** is when the amount that the government spends is higher than the amount it receives. A **surplus budget**, on the other hand, means that there is more money coming in than going out.

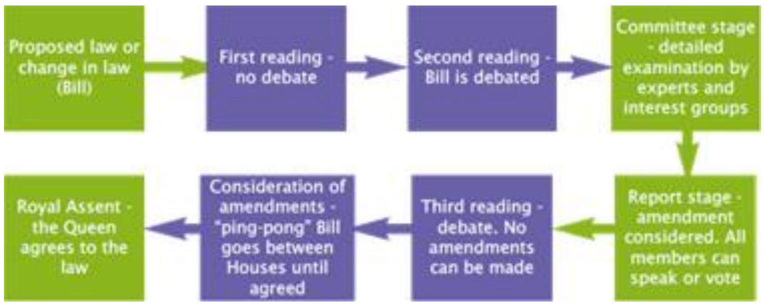
Bank of England - The Bank of England sets a Bank rate each month that aims to meet this inflation target. The Bank rate is the base on which other interest rates are set, such as the rates charged to lend you money. This, in turn, affects the price of credit. **UK monetary policy** is set by the Bank of England. It is the job of the Bank of England to keep inflation low. **The inflation rate** is the annual percentage change in the price level.

National Debt is the total amount of money the British government owes to the private sector. The most useful measure of national debt is to look at debt as a % of GDP. **Gross domestic product** (**GDP**) is a monetary measure of the market value of all final goods and services produced in a period of time. **GDP** estimates are commonly used to determine the economic performance of a whole country or region, and to make international comparisons. In January 2017 UK Public sector net debt was **£1,737 billion,** equivalent to **86.5% of GDP.**

Recession/Austerity. The economy of a country goes through periods of different economic activity. Sometimes it will be in a **boom period,** in which debt is low, employment is high, and there is a lot of money in the system. At other times the economy will be in a **recession,** meaning that there is less money, lower employment and potentially high levels of debt. The extreme of a recession is a **depression**. Often, times of recession will result in actions termed **'austerity'**. **Times of austerity** are when people cannot afford to spend much money and wages may decrease. People may not have enough money to pay all their usual bills, and this will mean that they need to make tough financial decisions and budget carefully.

The **UK Government.** The Government is sometimes described as Her Majesty's Government as we have a **Constitutional monarchy** with the Queen as Head of state.





The **UK political system.** New laws start as policies from the Government or MPs. They get debated as a Bill of Parliament and voted on by MPs and then by the House of Lords. The public get no direct vote but you can petition your MPs or write to committees in Parliament.

A UK citizen participates actively in the UK democratic system of government by when they are over 18's they have the right to cast one vote for an MP in a general election which is held every 5 years. An MP is a person from a political party who best represents your views e.g. Conservative, Labour. They stand for election in an area called a constituency.

The UK runs a system of voting called "first past the post". This means that each constituency votes for their local MP (the winner gets the most votes). The Government is formed from the party with the most constituencies.

Topic 3 – What is Money

Financial systems in place all over the world for centuries. Prior to this a system called **'Bartering'** was used. Problems with Bartering. Not **time efficient** and relays on mutual trading. Items/services also have to be worth the same money

Originally, the pound was paper money. As a unit of currency, the term '**pound'** comes from the value of one pound by weight of sterling silver for which the banknote could be exchanged

Money has three main purposes: -

- - It is a form of payment or medium of exchange.
- - It is a unit of account, allowing us to keep track of how much things are worth.
- - It is a store of value: it can be held, and then reliably used to pay for goods and services when we need them.

Coins and notes need to have certain features to function well as money. They must be:

- -Easily recognised by everyone
- -Easy to carry around;
- -Not easily available;
- -Available in different amounts;
- -Consistent in what they are worth;
- -Long-lasting/hard-wearing

Reducing counterfeiting is managed by the Bank of England. They use techniques in their currency such as making banknotes from polymer which are harder to copy, the use of a water mark and a hologram.

Money is used for a variety of purposes. These include the following: -

- Employment – Sick pay/investments/state and private pensions
- State – Benefits – job seekers/Child benefit/Personal Independence, inheritance
- Private sales – selling own possessions

This is managed by Electronic transactions by banks including: Standing Orders, Direct Debits, BACs, Debit/Credit cards, store cards.

The rise in digital technology means we use less physical cash then in previous years and have a greater dependence on electronic transfer.

One example of this is Bitcoin which is an open-source, electronic currency that is not controlled by a bank or government

Topic 4 – What is Income

When we define the term ‘income’ we mean all the money that we receive.

All the money coming in from a variety of sources for example: pocket money, gifts of money, payment for a job, state benefits, interest paid on savings and pensions.

People use their income to buy things- we call this ‘outgoings’.

All of a person’s incomings and outgoings form their ‘cash flow’- money coming in and going out.

Anything left over is called ‘disposable income’ and we can choose to save this or spend it.

Main sources of income:

Salary- paid monthly and are linked to your employment contract (number of hours worked- average 37.5)

Wages-are usually paid by the hour so your income will depend on how many hours you have worked.

State benefit- There are 2 types:

Targeted – only for particular groups of people and you have to claim them for example ‘job seekers allowance’.

Universal- are given to everyone in certain circumstances for example the state pension.

Features of payslips:

Net pay is the amount one receives **after** taxes and deductions have been withheld during a **pay** period.

Gross pay is your pay **before** any deductions. Deductions can be through tax or national insurance contributions.

Minimum wage: The National Living Wage. The Government's National Living Wage was introduced on 1 April 2016 for all working people aged 25 and over.

Figure 4.1 Marion's pay slip

The Grand Hotel Plc			
Marion Baker		October 201X	
PAYMENTS		DEDUCTIONS	
Description	Amount	Description	Amount
Gross pay	2,000.00	PAYE Tax Paid	216.66
		N. I.	159.38
		Workplace pension	80.00
Minus deductions	456.04	Total deductions	456.04
Net pay	1,543.96		

Summary:

Income is the total amount of money coming in from a range of sources.

Money is a medium of exchange while your income is the flow of money you receive.

The amount of income we receive changes over time and can be dependent on our age and circumstances.

We can invest our income in order to have money in the future- pension.

We can save with a bank and they can lend our money to other people

Most people’s income comes from paid work- this is why the government passed a number of laws to help protect us.

Topic 5 – Understanding Tax

Paying taxes to the government is compulsory. Everybody pays some form of tax, whether it is in the form of **income tax** (on money earned) or tax added to the cost of bought consumer items (**Value Added Tax, VAT**). Tax on money earned is referred to as **DIRECT TAX** because it comes directly out of your earnings (you never see it). **INDIRECT TAX** is the tax paid within the price of bought goods.

Businesses are also taxed on the profits that they make (**Corporation Tax**) and there are other, more specific means by which the government can raise taxes such as road tax, council tax, fuel duty etc.

What is the money raised through taxation used for?

- Education
- Defence
- NHS
- State Pensions
- Roads

In addition to these aspects of national infrastructure and systems that improve the welfare of the state, there are other reasons for taxation. These include the **redistribution of wealth**; the rich pay more on the greater salaries that they earn (See 'Tax Bands' below). This is called **Variable Rate** taxation and the benefits can be given to those in need of them. Another element or 'benefit' of taxation is that it enables the government, in some respects, to **influence the behaviour of the population**, e.g by heavily taxing tobacco and alcohol. **Flat Rate taxation** is where everyone is taxed at the same rate, regardless of wealth (e.g. for a TV licence).

Capital Gains Tax is the tax paid on the increase in the value of an asset that someone owns, such as land, shares or even an expensive painting. This tax is paid on the profits of any future sale.

Tax Bands:

Band	Taxable income	Tax rate
Personal Allowance	Up to £11,500	0%
Basic rate	£11,501 to £45,000	20%
Higher rate	£45,001 to £150,000	40%
Additional rate	over £150,000	45%

The table above indicates how much tax you pay dependant on your income. The details of exactly how these are calculated are covered in Unit 2.

There are also some negative implications to taxation:

- People have less money available to them.
- Work may become less attractive for some on low incomes – which may lead to more people claiming benefits.
- If people have less money they are likely to borrow more and spend less. This leads to a slowing down of the economy (not as much money moving around the country).

Topic 6 - How the economic system works

Money allows goods and services to be bought and sold and the individuals and organisations to participate in the economy.

The cycle of money shows how money behaves in the economy:

The Governments role is important as it can influence the economy. During a 'growth' or 'upward spiral' economy there will be 'full employment' this means more money collected by the government in the form of taxes (corporate and income) and it will have to pay out less in welfare claims. There will be price stability and banks will be stable too. When there is a downward spiral economy, there will be greater unemployment, reduced tax paid to the government, reduced demand in the economy and possible recession. The government will have to pay more out in welfare and benefits.

The government itself then does not need to borrow money and can invest more in business and public services. At the moment, the government is seeking to be less involved in the economy.

The Private/Corporate Sector (Business) is motivated by profit and looks to make supply and demand increase this. It has to invest in itself, its employees – all of which helps the economy. Some businesses are also socially responsible (Corporate Social responsibility) – they may try and reduce pollution or employ homeless workers. Many businesses in the UK are small or sole traders.

Charity exists on a non profit basis to improve social justice. They provide what Government and Business can't/won't. They also employ people and this contributes to the economy in a different way.

In a **Communist Economy** the government takes greater control of the economy – making all the decisions about goods and services. In a **Free Market** the government doesn't interfere – decisions are made by supply and demand and the profit businesses can earn. The UK is a mixed economy – somewhere between the two.

Topic 7 – The economic impact of personal financial choices

Debt is the total amount of money that someone owes at a particular point in time. This can be: housing debts; personal loans; credit cards; store cards; payday loans; government debts; contract debts; student loans; utility bills; catalogue debts; hire purchase; logbook debts; insurance debts.

Default is where you miss repayments. **Bad debt** is a debt that can never be paid off.

Debt can effect, you and your family, the You and your family, different groups in society, the economy. This combined affect is called **'interdependency'**. It is £2.88 billion per year and leads to cuts such as reducing the Education budgets

When people make **poor financial decisions** it leads to people being without the means to survive, lack of security in old age, a burden on the benefits system, less spending, less savings, large personal debt and no emergency money. It also effects the economy as it Increases in interest rates, overspending can lead to a **Recession,** banks have less money to lend, increased stress, homelessness, health issues, marriage breakdown and even suicide.

To ensure there is **less bad debt**, good money management is required together with sensible borrowing to reduce living costs, savings, insurance and better planning for the future.

Did you know?

According to Aviva's *Family Finances Report* (Aviva, 2016), the typical UK family has savings of £3,150, although 25% of families save nothing at all.

Needs	Wants
• Water • Shelter • Clothing • Warmth	• Car • Telephone • Laptops • Expensive clothes • Video games • Nights out • Luxury products

When **managing your own budget** there are things that you **need** which are differnet to things that you **want**.

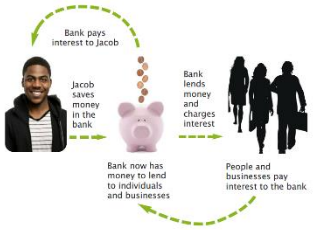
Less borrowing and increased spending.
Good choices mean fewer bad debts; lower-risk borrowing and increasing spending; increased savings, thus more money available to banks, and government, to lend.
Poor choices mean increased bad debt; more high-risk borrowing; economy built on debt: unstable economy / recession.

Managing your money covers 5 main areas:

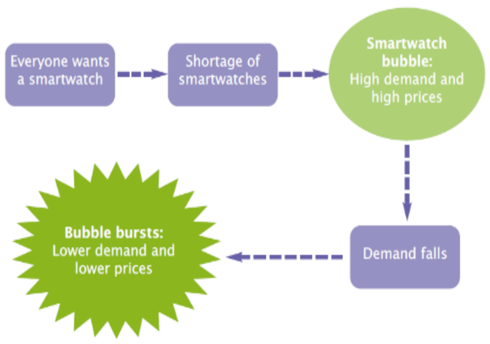
1. Your goals,
2. Values
3. Responsibilities
4. Priorities
5. Financial constraints

You should consider these areas in the short, medium and long

Increased Savings vs interest on borrowing. The more money that people save in the bank, the more money there will be for others to borrow. As long as people are borrowing only an amount that they can afford to payback, this means that there will be more money moving around the economy.



The cumulative effect



Good personal financial choices

1. Staying within a budget – This is sometimes referred to as 'making ends meet'
2. Keeping track of personal finance – Also known as 'budgeting'
3. **Planning Ahead**– This could mean saving money for emergencies or putting money aside
4. Choosing financial products wisely – This involves looking at interest rates and understanding the 'small print', i.e. whether there are any extra fees.
5. Staying informed about financial matters

Topic 8 – Inflation and Interest

Inflation is how much the goods and services we buy increase in price each year. It is calculated as a percentage change, and the government have **a target of 2% for inflation**. Each month they publish figures on inflation using a measure called the **Consumer price index (CPI)** which measures the change in price of a typical basket of good e.g. food, clothes. The Government also increases benefit payments in line with inflation, and may wage increases are based on this.

However, no one can predict or control inflation. Inflation happens because of two things:

Demand pull inflation – where demand is higher than supply so suppliers can charge more.

Cost push inflation – where the cost of raw materials goes up e.g. energy costs, so this is passed on to the customer.

High inflation encourages spending as people know that goods will cost more later on. Some people may borrow money to fund this spending. As such, high inflation discourages saving.

Low inflation encourages saving over spending, especially if the interest rates that banks pay on savings are higher than inflation.

If you borrow, banks call the amount borrowed **the Principal.**

Interest is how much it costs to borrow money. If you are a saver, the banks lend your money to borrowers so they pay you interest. If you borrow money, you pay interest on the loan.

Banks charge different people different amounts to borrow depending on their **credit history** – this is how risky you are to the bank in terms of your history of borrowing and whether you pay loans back on time. In adverts, companies quote **representative** interest rates which 51% of people are charged. Banks also pay savers different rates depending on the account type, amount being saved, what competitors are paying and how long you will leave it in the bank.

Banks also charge less interest on secured loans e.g. a mortgage, than they do on unsecured loans e.g. credit cards, as they can seize and sell property on secured loans to get back any money owed if you do not pay.

Interest formulas are set by the Government and is quoted in the following ways:

AER – The annual equivalent rate for savings. The interest you would be paid if you leave the money for a full year.

APR – Annual percentage rate for loans or credit cards. The % of the debt that you pay on top of the debt if you borrowed for a year.

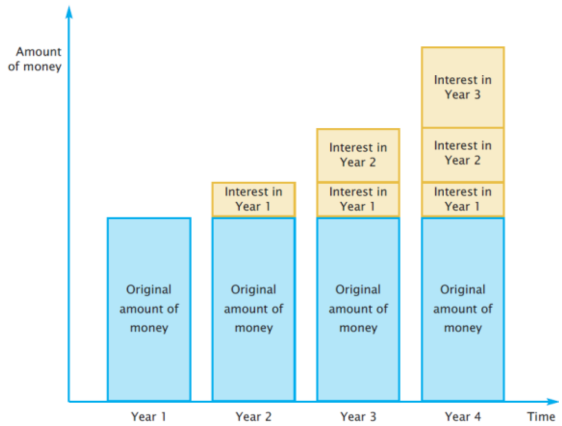
EAR – Equivalent annual rate for overdrafts. The % of the debt you would be charged if you borrowed money on an overdraft for a full year.

Some loans also have **fixed interest**, where the interest rate is guaranteed not to adjust for a set period of time, although these are more expensive. **Variable rates** adjust in line with the Bank of England base rate (see below).

Interest can be calculated as simple or compound interest.

Simple interest – this is the interest charged on whatever is left on the principal (the loan) after each repayment. Therefore you pay less and less interest as you pay the loan off.

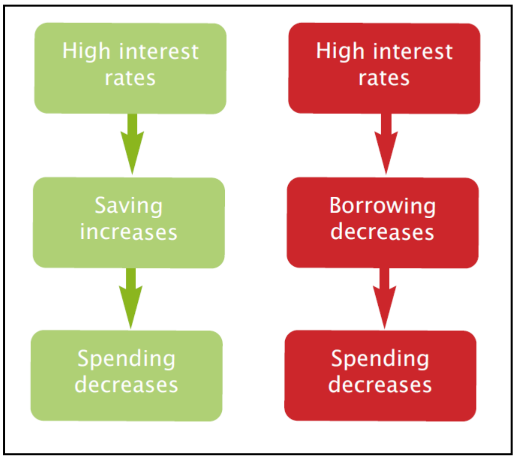
Compound interest (shown in the diagram) – this is interest charged on the loan + the interest from the previous year. This means debts can quickly grow unless you clear the original debt quickly.

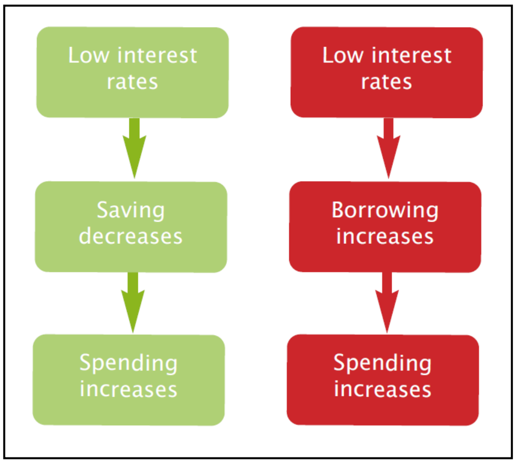


The Bank of England (BoE) has a **Monetary policy committee (MPC)** which meets every 3 months to consider the economy and set the BoE base rate. This is how much money it costs banks to borrow from the Bank of England. Other banks take this rate and add more on (for costs and profit) to set their interest rates.

The MPC can raise or lower interest rates. When the economy is weak, and the bank wants to encourage people to spend more, it can lower interest rates – this makes it less appealing to save and cheaper to borrow. Interest rate drops benefit mortgage owners and those with a variable loan, but savers and pension schemes lose out.

When the economy is growing or when inflation is well above the Government target of 2%, the MPC might raise interest rates. This makes borrowing more expensive, so it is less appealing to spend, but it makes it more appealing to save money. This will reduce demand and therefore reduce demand pull inflation. Raised interest rates benefit savers and pension schemes, but borrowers pay more.

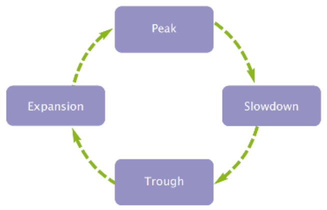




Remember, that although banks pay savers a certain interest rate, they might be earning less interest than the cost of inflation is putting prices up by. It is therefore worth thinking of a **real interest rate** – the interest rate minus the inflation rate. If interest rates are higher than inflation, then you make money by saving.

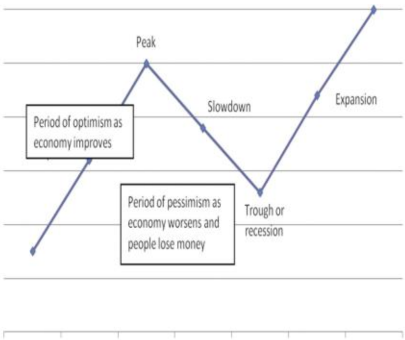
Topic 9 – The impact of economic cycles and demographic changes

Look pack at topic 2 and revise the economic cycle



Economic and social factors that can affect personal finance in include:

- GDP
- Interest rates
- Employment rates
- Level of spending



One full economic cycycle could take typically on average between 5-10 years.

The economic aim of the government is to have fairly **stable economic growth**, accompanied by **stable prices** (low inflation) and stable employment (low unemployment). This can be achieved by:

- keeping inflation low
- Keeping tax low
- Encouraging people to spend

During **expansion**, production is high, unemployment is low, consumer spending is high, and inflation and interest rates are low. These conditions make it much easier for people to take out loans to buy houses and other expensive assets. As demand for credit (borrowing) – and goods and services – increases over time, prices and interest rates rise.

Short term planning	Long term planning
Economic cycles make **short-term planning** much **easier** than long-term planning. This is because the **economy will not tend to change** very dramatically over the short term. E.g. you want to save for a holiday in a few months' time, you know what your income and outgoings are probably going to be over the period – so you can easily put aside some money by budgeting well.	**Long-term financial planning**, however, is much more difficult, because you cannot accurately predict things such as how much inflation or interest rates will increase, or whether you will continue to have the same job. E.g. If you want to buy a house, then you will have to make a longer-term financial plan, because home loans are typically for 25 years. The main problem is that you are being asked to commit to paying a particular sum of money every month for a long period of time and the repayments may increase, making it harder to afford them as you get older. HOWEVER – it can still be done. Long term plans can still be made: • Understanding the economic cycle • Know where we are in the economic cycle (by having a good understanding of economic indicators such as GDP, employment figures, interest rates and inflation) This can help us to make good personal financial decisions. E.g. if you know that the economy is in a peak period when you take out your mortgage, then you may be able to save or invest differently, to ensure that you would not suffer in a downturn.

Demographic changes-

'Demography' is the study of a population and its different groups (by age, ethnicity, gender, family type, income bracket, and so on) and how these groups change over time.

The **demographic make-up** of the country affects how we plan to use our money, because the government will provide particular resources depending on the needs of different groups and we may have to provide more for ourselves. Also, our wants and needs are different depending on who we are and the area in which we live.

Demographic factors that have a particularly significant impact on the economy and on the financial decisions that we make include:

1. geographic distribution (or where people live);
2. patterns of migration; and
3. an ageing population.

Geographic distribution –

- The majority of the UK population live in cities, and these are the areas in which the population tends to grow the fastest owing both to **internal migration** - people moving to cities from other parts of the UK, and to **international immigration -** people moving to the UK from other countries
- '**Urbanisation**' - the term for people moving to cities**.**
- Growth in urban areas is higher than that in rural areas as a result of higher population levels, so there is a high demand for goods and services, such as food and leisure activities.
- People living in the country also tend to be older, because the younger people have moved to the cities to find work. As people have children and move closer to retirement age, they tend to move out of the city, because their priorities tend to be about quality of life rather than being close to work. As the cost of living grows, people may also move out of the city in an attempt to reduce their costs.
- In very remote areas, people may have to rely much more on the internet and on delivery services, which can also increase costs.
- For people living in the **commuter belt**, costs can increase. Not only will people have to pay higher transport costs for living further away from work, but they will also be subject to price rises and higher living costs, as the population rises in the area and demand for property and particular goods and services increases.
- **Personal finance** can be affected by this kind of population structure; The closure of retail stores in smaller towns can have a greater effect on the local economy than if the same store were to close in the city, where there are a number of other options from which to choose. Not only would the local economy suffer from the closure of a retail store (or, say, a bank), but individuals may also end up with increased costs. They may have to travel further for the same goods and services, resulting in higher transport costs

Migration -

- There is also a significant effect on personal finance resulting from **international migration patterns**.
- This includes people **'immigrating' – or moving to the UK from other countries – and 'emigrating'– or moving out of the UK**.
- **More people can actually mean *more* jobs.**
- If people immigrate to the UK and then set up their own businesses, that can also serve to **stimulate the economy** and therefore raise overall GDP. More people working also leads to **more tax revenue for the government** and more money to fund services.
- more people can **also put a strain on existing services** and will often mean that more money has to be spent to ensure that everyone is cared for. More benefits will also have to be paid to people who cannot – or cannot find – work.
- While immigration can help to stimulate the UK economy in terms of job creation and the demand for more goods and services, when the immigrant population gets older, they will become dependent on the state in the same way as will the **indigenous population** - those people born here.

It is also important to remember that people emigrate as well as immigrate, creating a degree of balance in the workforce. For example, many British citizens choose to retire in in the south of Spain, and many younger people also live and work abroad.

<u>Ageing population- (the most influential demographic change of the 21st century)</u>

Why are we an ageing population?

- Improved life expectancy - better healthcare means that people are living longer.
- A falling birth rate - people are having fewer children.

Figure 9.3 Change in the age structure of the UK population, 1901–2010

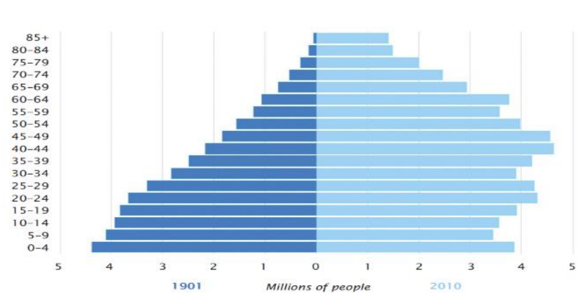
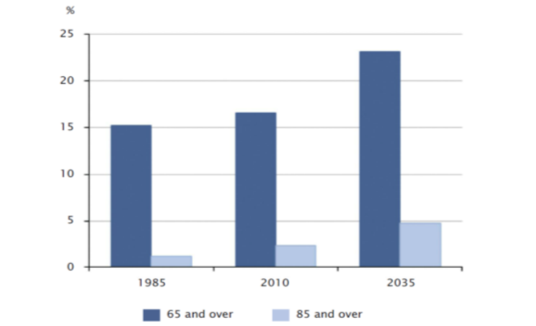


Figure 9.4 Percentage of older people in the UK 1985, 2010, 2035



- In 1901, the largest age group was young children; now, it is people in their 40s.
- The Office for National Statistics (ONS, 2012) predicts that if trends continue, by 2035 more than one in five people will be aged over 65.
- Around 5% of the population is expected to be aged over 85 by 2035

The demographic trend towards an ageing population also has a bearing on our personal financial decisions, particularly given the move towards an active retirement and the fact that the government will not necessarily be able to afford to pay out full State Pension in the future.

The impact of an ageing population:

- an increased pensions bill;
- an increased need for particular services, such as healthcare;
- cuts in tax revenue because fewer people are of working age.

The **working population pay income tax and National Insurance contributions (NICs),** which the government uses to pay for social services and welfare, such as pensions. When a person retires, they stop paying these taxes and start claiming State Pension. **This is a cost to the government that is paid from incoming tax revenue.**
As the working population becomes a smaller part of the population and retired people become a larger part of the population, the amount of money available to pay for State Pension decreases at the same time as the demand for State Pension increases.
As people get older, they also require more healthcare, which has to be added into the national budget. A higher proportion of older people means a need for a greater number of healthcare services and healthcare workers, but with fewer workers either to work in the healthcare industry or to pay taxes to fund it.

One of the biggest questions for government is how to fund the needs of an ageing population.
The government has put forward a number of solutions to solve the funding issue, including:

- Increasing the retirement age;
- Compulsory savings;
- Higher taxes; and
- Greater levels of immigration.

All of these are politically tricky, because many people disagree with them. However, the suggestions would ease some of the funding problems of an ageing population. Because we are living for longer and with increasingly good health, the requirement to work longer into our old age seems a sensible solution. Many people these days would not consider 65 or even 70 to be old, and a significant proportion of people in this age group are both working.

<u>The financial considerations of an aging population;</u>

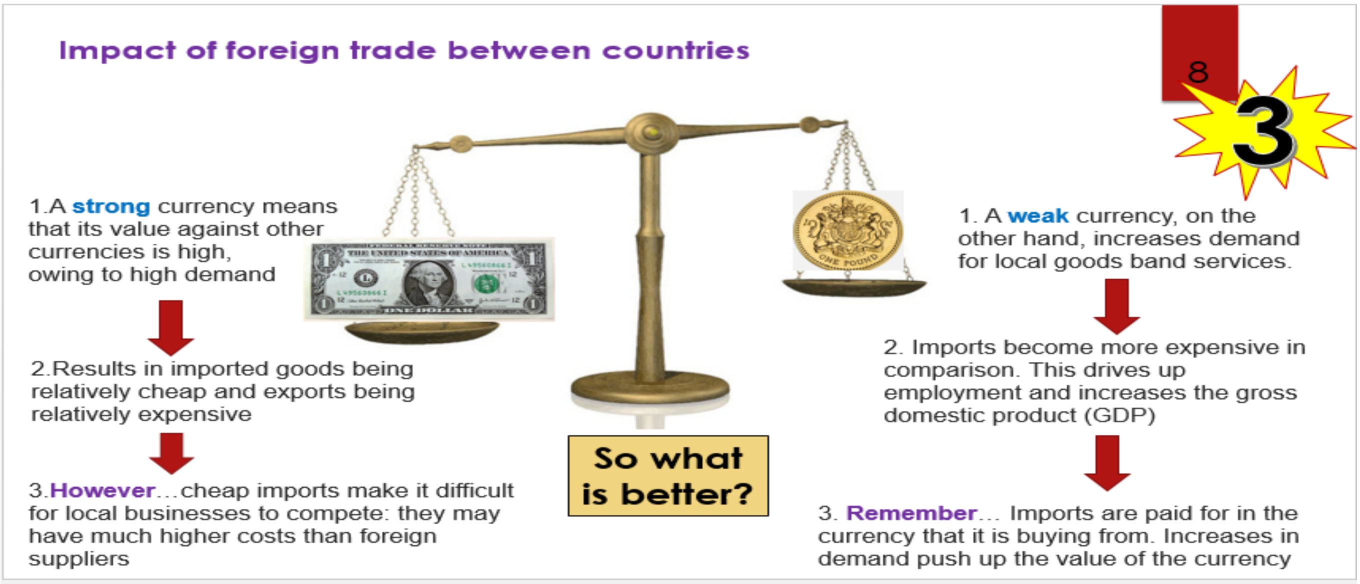
- An ageing population impacts on our individual financial planning.
- With the population ageing at its current rate, it is highly likely that the government will not be able to afford to fund full State Pension for older people in the future. This means that our personal finances will have to include some kind of saving or investment, to ensure a future income and to plan for retirement.
- If we are living longer, we will also have to spend money for longer, meaning that our savings will also have to be greater to cope with this increase. This could mean a range of things, including that we work for longer into our retirement, or plan to pay higher taxes, or increase our savings. These changes could result in a greater proportion of our income being spent on safeguarding a future income and therefore less disposable income being available to us in the present.

We also have additional financial considerations as we get older. These may include:

- Healthcare bills;
- The costs of retirement homes or nursing homes;
- Life insurance;
- Making a will; and
- planning inheritance.

Topic 10 – Foreign exchange rates and trade

Key terms	
Term	**Meaning**
Bureau de change	a business that deals in currency exchange
Commission	an amount charged by currency exchange services as a flat fee for the service of buying or selling foreign currencies
Currency	the money used in a particular country
Currency broker	a person or business who deals in all kinds of currency exchange
Currency exchange	changing one currency for another; buying and selling foreign currency
Devaluation	the situation in which the value of something goes down
Exports	goods or services that are sold outside a country
Foreign currency	the money used in a country other than your own
Foreign exchange rate	the price of exchanging one kind of currency into another
Imports	goods or services that are bought abroad and brought into a country



Impact on countries

If the value of a currency increases relative to other countries currencies ….

Local businesses that sell the same type of goods make fewer sales
Unemployment welfare costs rise
National wealth falls
****However, if a currency devalues, the opposite occur****

Impact in individuals

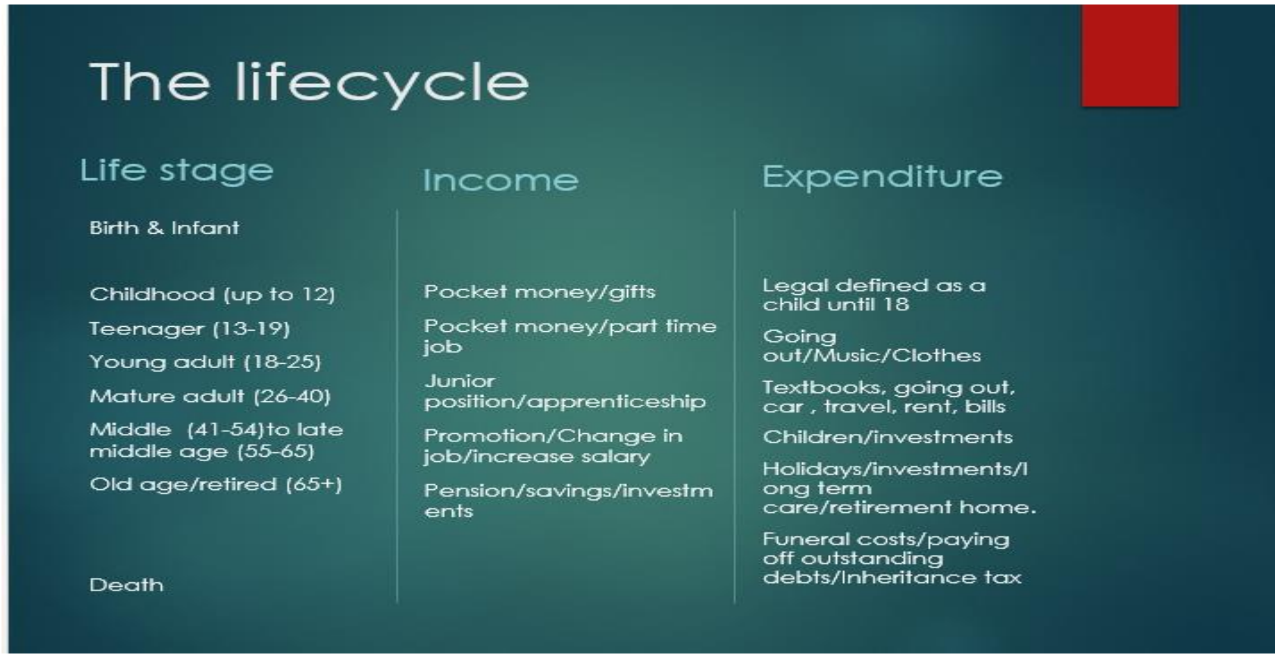
Positive and negative.
Holiday costs are directly related to currency exchange, as is unemployment levels
Can effect saving and spending (interest rates will fluctuate/inflation costs)
Uncertainly about currency makes it more difficult to plan long term, subject to market forces

Impact on society

Economic issues have social consequences (unemployment/welfare needs
'**Import-competing**' goods are those that are made locally and which also have an import equivalent, e.g. Chocolate (Thornton's vs Hershey)

Multi national companies and offshore manufacturing make it difficult for locally owned business to thrive. Only niche products tend to be successful

<u>Topic 11 - The personal life cycle</u>



Why is income important?

- Affects your ability to pay for certain goods and services
- It affects your ability to plan for financial events over the course of your life

What you spend your money on also changes significantly over a lifetime. Think about the different life stages – what is important at those stages and what is income spent on?

Physical, financial and emotional risk

- How much risk you are prepared to take differs with age.
- The best example of how physical risk can impact on financial risk is car insurance.
- The younger you are the more you will pay to insure your car. This is because younger drivers (particularly male) have proven statistics relating to accident and death through traffic accidents.
- Dependents and age can mean our emotional position makes us more 'risk-adverse'.

Insurance

- Regular payments to a company to protect you from accident or injury so you are financially covered.
- Car Insurance- more expensive for new/young drivers. The more accidents people have the more the premium goes up.
- Home insurance- depends on where you live for example the crime rate.
- Life Insurance- depends on your age, family health history and lifestyle choices (smoking)
- If you need to claim you normally have to pay a 'premium' set out in the policy and this will then impact on how ,much you pay next time you renew your policy.

Are we prepared for change?

Table 11.2 Possible and likely events in a person's life

Might happen in your life ...	Will probably happen in your life ...
You might suffer a serious illness	You are likely to rent or buy a home of your own
You might invent a product that everyone wants	You are likely to buy a car
You might move overseas	You are likely to get married or enter into a civil partnership
You might lose your job	You are likely to have children
You might get divorced	You are likely to retire
You might win the lottery	You are likely to look after an elderly parent

Summary -

- As our lives change, so do our financial needs and wants. Each life stage brings with it its own issues relating to income and expenditure, and these can influence our personal financial planning. People find it much easier to plan for the short term, so whatever needs are most immediate tend to get dealt with first.
- We make priorities about where is the best place to use our money. These priorities also change as we move through the life cycle and our circumstances change. Although you may not be thinking about saving for a house now, there may come a time when you want to buy a property – and what you can buy will depend on how much money you have.
- Although it can be difficult to predict what will happen in our lives and what we will need money for, there are events that are more likely at different life stages, and we should take these into account in our financial planning.