

Chapter 12

Page 307 Analysing business data

1. **Can you suggest why the budget figures change from the spring to autumn budgets?**

Budget figures will change due to changes in priorities and changes in economic conditions

2. **What might explain the forecasted changes in the spring and autumn budget positions in the coming years?**

Intention is to reduce the deficit to reduce the interest burden.

Page 308 Analysing business data

1. **Looking at Figure 12.4, what are the three biggest areas of UK government (public sector) spending in 2018–19?**

3 largest areas of spending: Social protection, health, education

2. **Do you think more should be spent in these areas? What might be the consequences of this?**

Greater spending may bring benefits, e.g., less inequality and a more productive workforce. However, you need to consider the opportunity cost.

Page 310 Quick Check

For each of the following statements, say whether it is true or false.

a. **An increase in government spending may lead to a bigger increase in income due to the multiplier.** TRUE

b. **The marginal propensity to consume measures total consumption spending relative to total income.** FALSE

c. **The multiplier will be bigger if the marginal propensity to consume increases.** TRUE

Page 308 Analysing business data

1. **What were the three largest sources of tax revenue in the UK in 2018–19?**

Largest three tax sources: income tax, VAT and national insurance

2. **What do you think would be the impact on business if the government tried to raise more money through corporation tax? What about if it increased the income tax rate?**

More corporation taxes might deter investment. More income tax may deter people from working.

Page 312 Business Insight

Explain why Treasury decisions are so important to businesses.

Treasury is responsible for public finances; decisions about spending and tax will have an impact on business demand and costs.

Page 312 Quick Check

For each of the following statements, say whether it is true or false.

- a. **Fiscal policy involves the use of interest rates.** FALSE

- b. Lower taxation rates are likely to increase demand in the economy. TRUE**
- c. An increase in government spending may be used to reduce unemployment. TRUE**
- d. An increase in government spending may cause inflation. TRUE**

Page 313 Doing the business maths

If you earn £80,000
On first £20000 pay £0
£20,000 to 40,000 pay £4000
£40000 to £60000 pay £8000
Remaining £20000 pay £12000

In the same system, how much tax would someone earning £80,000 pay?
Total tax bill = £24,000

Page 314 Business insight

- 1. Apart from taxes, what other factors do you think might affect the demand for cars?**

Interest rates, household confidence, availability of credit, price of fuel, public attitude and legislation regarding use of cars (e.g., v public transport)

- 2. How sensitive do you think demand for diesel cars is to increases in indirect taxes? Explain your answer.**

Higher fuel costs increases running costs; the sensitivity of demand for cars may depend on prices of other fuels and other types of cars, e.g., electric cars.

Page 314 Doing the business maths

Complete the table

Year	Debt position
1	£100 bn
2	£110 bn
3	£130 bn
4	£135 bn
5	£125 bn

- 1. How sensitive do you think demand for diesel cars is to increases in indirect taxes? Explain your answer.**

If the deficit decreases but still exists the debt will continue to increase

- 2. How can the government reduce its total debt?**

The government can reduce the debt by running a surplus

Page 316 Quick check

- a. A budget deficit occurs when government spending is less than government revenue. FALSE**
- b. A budget deficit increases government debt. TRUE**
- c. The budget deficit is usually smaller than the government debt. TRUE**
- d. An austerity programme will increase the budget deficit. FALSE**

Page 317 Business insight

Do you think the trains would be better run by the government?

If government nationalised the railways:

- There would be the initial costs and so funds would need to be raised; the impact of this would need to be considered
- The trains would be run to achieve social objectives rather than profit
- There may be less pressure for financial returns as there would not be shareholders

Page 319 Business insight

1. Why do you think the US government made these changes to the tax system?

To encourage investment and start-ups; to encourage people to work; to let people keep more of their family's earnings and wealth

2. What do you think are the advantages and disadvantages of these changes?

May increase supply in the economy and may win votes; however, you need to consider impact on government finances and on inequality in the country.

Page 321 Business insight

Why might the Federal Reserve have increased the base rate?

A higher base rate may be used to dampen demand and reduce inflation.

Page 322 Business insight

1. Why does the amount of 'slack' in the economy affect inflation?

If there is slack in the economy an increase in demand will increase output; if there is no slack an increase in demand will pull up prices

2. Why do you think a weaker pound is likely to lead to more inflation?

All other things being equal a weaker pound will reduce export prices and increase import costs; the higher demand from exports and the higher import costs may lead to inflation

3. Why has the Monetary Policy Committee increased interest rates in the UK?

Higher interest rates may be used to reduce demand to dampen inflation

Page 323 Business insight

Complete the table.

Price of bond.	Return %
100	10
120.	8.3
200	5
80	12.5
50	20

Page 325 Doing the business maths

Which of the following is the action needed by the government to keep the exchange rate at this value?

Buy its currency XW to prevent the exchange rate falling

Page 327 Business insight

How might investment in infrastructure help British businesses to be more competitive?

- Help transport
- Improve communications
- Reduce energy costs
- Make it easier for people to accept work

Page 328 Business insight

a) How might corruption affect aggregate supply in an economy?

b) How might corruption affect a business?

Corruption may make it

- Difficult to get permission, e.g., for expansion or investment
- Give an unfair advantage to competitors
- Lead to legal action

Page 329 Business insight

How might the ease of doing business affect an economy?

The ease of doing business may affect costs, the time taken to develop a product and the range of goods and services a business can offer.

Page 330 Business insight

Why is a good broadband system important for business?

Good broadband creates opportunities to do more online business and improves business communications