**Unit 6: Economics**

[**https://quizlet.com/gb/878755443/unit-6-unit-6-economics-flash-cards/?i=24ef59&x=1qqt**](https://quizlet.com/gb/878755443/unit-6-unit-6-economics-flash-cards/?i=24ef59&x=1qqt)

**QE: When used?**

To stimulate interest rates are very low – can’t be lowered any further.

e.g Covid in UK

**QE: Purpose**

To boost spending and investment in economy.

**Effect of QE**

Increases money supply.

Lowers long term interest rates.

**How does QE lower interest rates?**

Gov buys large amount of bonds.

Price Up. Yield Down.

Bond Yields used as a benchmark for borrowing.

**Interest rates and FDI**

Higher interest rates > more FDI.

**Globalization**

Integration of people, companies, and governments.

**Protectionism**

Restrict trade to help domestic industries.

**Impact of Globalization for investors**

Opportunity to benefit from multinationals

More correlation in global markets.

**Financial bubble**

Period where asset prices exceed their intrinsic value.

**Monetary Policy**

MGMT of money supply and interest rates.

**Fiscal Policy**

Tax and Spending.

**Inflation Target**

2% CPI

**MPC Other Objectives**

Growth

Full Employment

**MPC Policy Timeframe**

Circa 2 years for a policy to fully effect economy.

**M0 Narrow Money: What does this consist of?**

Notes & Coins

BOE Deposits

**What does narrow money measure?**

Consumer spending.

**M4 Broad Money: What does this consist of?**

Narrow money plus:

Bank accounts of UK residents

Money via lending.

**What does broad money measure?**

Consumer lending.

**Sharp decline in broad money?**

Can predict a recession.

May prompt monetary policy action.

**Expansionary v Deflationary**

Expansionary: Policies to stimulate the economy.

Deflationary: Policies to reduce demand.

**Advantages of spending over tax cuts**

Can improve competitiveness/ growth.

More targeted.

**Downsides of spending**

Time Lag: HS2/Schools

Inflationary

Increases borrowing.

**Advantages of taxation.**

Can target specific behaviour: polluter taxes.

Reduces inequality.

**Downsides of taxation.**

Complex

Time-Lag

Can be difficult to target

Distinctive to work/ invest if too high.

**Why is spending viewed as superior to taxation.**

Can be more easily targeted on domestic products.

Can feedback through tax revenue.

Tax Cuts > more imports.

**4 Phases of Economic Cycle**

Boom, Slowdown, Recession, Recovery

**Economic Cycle: Sequence**

Doesn’t necessarily go through all 4 in sequence.

Efforts are made to avoid Boom/ Recession.

**Public Sector Net Cash Requirement**

Difference between Gov spending and tax revenue.

**Public Sector Net Cash Requirement: Boom v Recession**

Recession: More Welfare. Less Tax. Bigger PSNCR.

Boom: More Tax. Less Welfare.

**Financial Boom**

Medium- Long term period of economic growth.

‘Bull Market’.

**Definition of slowdown in the UK.**

GDP down on previous quarter.

**‘Soft Landing’**

1Q Down.

1Q Up.

Avoids technical recession.

**Definition of recovery in the UK.**

GDP up on previous quarter.

Period of fastest growth as expansionary policies may still be in place.

**Effect of a boom on Cash**

Boom: Interest rates rise > Cash more attractive.

Slowdown: Interest rates fall > less attractive

**Effect of a boom on Bonds.**

Interest rates rise.

Bonds Prices Fall.

**Effect of a boom on Equities.**

Profits dampen due to rising interest rates.

**Effect of a boom on Property.**

Profits dampen due to rising interest rates.

**Effect of a slowdown on Cash**

Interest rates fall > cash less attractive

**Effect of a slowdown on Bonds**

Interest rates fall > Price up.

Fixed coupon more attractive than cash accounts.

**Effect of a slowdown on Equities**

Corporate earnings may fall.

**Effect of a slowdown on Property**

Property values may stagnate.

**Effect of recession on cash**

Low interest rates > poor return.

**Effect of recession on bond market.**

Fight to quality.

More demand for gilts. Less for corporate bonds.

**Buoyant v Sluggish Bond Market**

More demand for corporate bonds. Less for Gilts.

Vice versa.

**Effect of a recovery on Cash**

Interest rates relatively low.

Relatively unattractive.

**Effect of a recovery on Bonds**

Interest rates low.

Bonds prices high as coupon provide good value.

**Effect of a recovery on Equities**

Low rates help corporate earnings.

**Effect of a recovery on Property**

Low rates > property more attractive

**Disinflation**

Prices increasing but at a slower rate.

**Deflation**

Prices reducing.

**Stagflation**

Low growth but high inflation.

**Limitations of CPI**

Excludes homeowner costs – insurance/ council tax.

**CPIH**

CPI with housing costs- council tax.

**Balance of Payments: Inflows**

Exports = Money into the country.

**Balance of Payments: Outflows**

Imports = Money out of the country.

**What is the overall** **Balance of Payment?**

Zero.

Current Account & Capital Account must balance.

Current account deficit = Capital account surplus.

**Visible v Invisible Trade**

Visible = Goods (usually deficit UK)

Invisible = Services (usually surplus UK)

**Current Account**

Goods & Services.

**Capital Account**

FDI : Land, property, shares, loans, hot money.

Intellectual property: franchises, leases, copyrights.

**FDI Definition**

Total value of stock in UK controlled by non-UK companies.

**Forex: Fixed v Floating**

Fixed: Pegged to another currency – USD

Floating: Linked to supply & demand.

**Forex: Advantage of pegging**

Limits influence of market/ speculators.

**Forex: Appreciate v Depreciate**

Appreciate: Rise/ Strengthen

Depreciate: Fall/Weaken

**Who Benefits from a weak currency**

Exporters

Tourism

**Who loses from a weak currency**

Importers

If go on holiday aboard.

**Which is most liquid measure of money supply?**

M0: Narrow Money

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