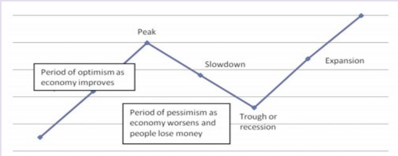
LIBF Award in Financial Education Module 3

Topic 9- The impacts of economic cycles and demographic changes

There are a number of economic and social factors that can affect personal finance. Changes in the economy over time can be unforeseen and thus difficult to plan for. These movements in the economy are called 'economic cycles'. Predicting the way in which an economy will expand or contract is difficult, because we cannot predict the future.

Changes in the social make-up of society (known as 'demographics') can also affect personal financial decisions. This can include where people are living, migration between places within the UK, and into and out of the country, which ethnic groups are prevalent in the UK, which family members live together or alone, and how many people in the population are in different age groups.

An 'economic cycle' is a repeating pattern of economic growth and decline. The pattern is fairly predictable, although the timing of the peaks and troughs, and how large these peaks and troughs will be, are not. The economy tends to follow a general upward trend despite some dips along the way.



The economic aim of the government is to have fairly stable economic growth, accompanied by stable prices (low inflation) and stable employment (low unemployment). It is generally believed that the best way in which to achieve this is by keeping inflation and tax low, and by encouraging people to spend, so that production and businesses grow, and the national economy grows, increasing GDP or national income.

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. 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. 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 .

Topic 10- Foreign exchange rates and trade

The main time when you will see different types of currency is when you go on holidays abroad. The state of the economy and the choices that we make are further influenced by the value of the national currency (the pound sterling) and import–export business, more commonly known as 'international trade'. One of the main effects of the foreign exchange rate is on international trade (import–export business). It essentially involves buying things from, and selling things to, other countries around the world.

The amount of imports that come into a country can affect the overall demand for national goods and services, as well as the money that flows out of the national economy when UK businesses pay overseas suppliers. Exports can increase national wealth by bringing more income into the country from overseas customers.

Foreign exchange can range from a tourist exchanging money at the airport to a multinational company investing billions in offices based in other countries. Other reasons why people might use foreign currency are to buy and sell things abroad (if they want to buy a holiday home in another country, for example) or to send money to family overseas. With the rise of globalisation, there has been a huge increase in the number of transactions made internationally, and the foreign exchange market has become the biggest financial market in the world.

The foreign exchange rate is the price that you pay for buying or selling that currency. Companies that buy and sell currencies buy foreign currency at one price and sell it at another price. The difference between the two prices pays for the companies' costs and gives them some profit.

A **strong currency** means that its value against other currencies is high, owing to high demand. This results in imported goods being relatively cheap and exports being relatively expensive. Cheap imports can make it difficult for local businesses to compete: they may have much higher costs than foreign suppliers and may be unable to make a profit at the price at which the foreign supplier is selling their goods.

A **weak currency**, on the other hand, increases demand for local goods and services, because imports become more expensive in comparison. This drives up employment and increases the gross domestic product (GDP) of the country.

Perhaps the biggest influence of foreign exchange rates on countries is on **exports and imports**. The direction of foreign exchange rates can make imports and exports more expensive or cheaper depending on wheather you have a strong or a weak currency.

Topic 11- The personal life cycle

The personal life cycle is similar for everyone, in that we all pass through the different stages of life from birth to death. The events that happen during those years, however, are personal to each of us. Even though this is true, there are a number of things that are likely to happen to most of us, such as getting a job, learning to drive or getting married or moving in with a partner. While not everyone chooses these options, the majority of people in the UK do so.

Two things are, however, certain: we will **get an income** and we will **spend money**. Because certain events are more likely to occur at different stages of the life cycle, it is possible to plan for their financial impact. Leaving home, for example, is most likely to occur between the ages of 18 and 25, and retirement at some point after you turn 65. For most people, planning for a far-distant event can be difficult: when you have just started your first full- time job, it is hard to think about saving for a retirement that is more than 40 years away.

The personal life cycle is made up of different life stages through which we pass.

- birth and infanthood
- childhood (up to 12 years of age)
- teenager (age 13–19);
- young adulthood (age 18–25)
- mature adulthood (age 26–40)
- middle age (age 41–54) to late middle age (age 55–65)
- old age / retirement (age 65 onwards)
- death

The life stages mark different age groups and legal points in our lives. You are legally a child, for example, until you reach the age of 18 and there are some financial actions that you cannot take until you are an adult, such as borrowing money. Also, you cannot get a full-time job until you are aged 16, so you are the financial responsibility of your parents or carers until at least that age. Depending on your circumstances, you might not leave home until you are in your 20s.

Your income over time is important for two reasons.

It affects your ability to pay for certain goods and services. Suppose that someone earns a relatively low income that is unlikely to increase: any sudden and unexpected increases in costs (such as energy or food bills) will be difficult for them to afford. People who earn more money and are likely to get bigger pay rises will be able to afford rising costs more easily.

It affects your ability to plan for financial events over the course of your life. If your income is uncertain, it is difficult to know how much money you will have in the future, when life events such as having children may occur.

End of Unit Revision

Topic 1- What does it mean to be a 'citizen'?

Topic 2- Personal finance and the economy

Topic 3- What is money?

Topic 4- What is income?

Topic 5- Understanding Tax

Topic 6- How the economic system works

Topic 7- The economic impact of personal financial choices

Topic 8- How inflation and interest rates impact on personal finance

Topic 9- The impacts of economic cycles and demographic changes

Topic 10- Foreign exchange rates and trade

Topic 11- The personal life cycle

Reminder: Unit 1- This online assessment has 20 stand-alone multiple choice questions based on the above topics and five sets of stimulus material each with three associated questions totalling 35 marks.

Urbanisation: the growth of cities as people move to them.	**Globalisation:** the process of countries are coming together as one big global economy, making international trade easier.	**Expenditure:** money that you spend.	**Demography:** the study of the structure of a human population
Currency: the money used in a particular country.	**Exchange Rates:** the price or cost of exchanging one kind of currency into another.	**Personal Life Cycle:** the age stages through which people pass.	**Risk:** a situation involving a threat or danger. someone who prefers not to take risks are risk adverse.