

Edexcel (B) Economics A-level
**Theme 1: Markets, Consumers and
Firms**




1.4 Role of Credit in the Economy

1.4.2 Risk and liability



Notes



The meaning of risk

-  Risk is the probability of damage, loss or injury occurring. Banks face risks when lending capital. The capital might not be paid back, which would result in a loss for the bank.
-  There is also a risk that the return on an investment will be less than the expected return.
-  The market imposes a risk, since general trade can influence interest rates and exchange rates, which then impacts several countries across the globe.

Implications of limited and unlimited liability

-  Unlimited liability is a type of business where the owners are responsible for all of the debt and liabilities gathered by the business. It is not capped and if the business cannot meet the financial obligations, the owners' personal assets can be taken to fulfil the debt.
-  Limited liability is when the owners' losses do not exceed the amount invested into the firm. This is an advantage of investing in a public company, since shareholders are only liable for how much they invested and not more. It is desirable in risky industries, such as insurance, where there is the potential for a lot of loss.

