Edexcel (B) Economics A-level

Theme 1.4: Role of Credit in the Economy

Flashcards

How do banks encourage/discourage saving and investing?

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They manipulate interest rates, so high interest rates encourage savings and discourage investing.

What is a bank's main source of profit, and how do they earn this?

What is a bank's main source of profit, and how do they earn this?

A bank's main source of profit is interest rates, which they earn through loaning consumers money.

What is the role of a central bank?

What is the role of a central bank?

To manipulate interest rates, the exchange rate and the money supply.

Recall the names of the central banks in:

1. The European Union
2. England
3. The United States

Recall the names of the central banks in: The European Union, England, The United States

1. European Central Bank (ECB)
2. Bank of England (BoE)
3. The Federal Reserve (The Fed)

Name the rate that central banks control, which determines overall interest rates

Name the rate that central banks control, which determines the overall interest rates

The base rate.

What is a mortgage?

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A mortgage is a loan taken out to buy a house, whereby the house is used as collateral in the event of default.

What is the Monetary Policy Committee (MPC) and what do they do?

What is the Monetary Policy Committee (MPC) and what do they do?

A group of nine members, independent of the government, who meet frequently to discuss future interest rate changes.

Define risk

Define risk

The probability of damage, loss or injury occurring.

How do banks face risk?

How do banks face risk?

They face risks when they lend money, as there is the possibility of that debt not being repaid.

Recall the difference between limited and unlimited liability

Recall the difference between limited and unlimited liability

In the event of insolvency, unlimited liability leaves the owner of the firm at risk of their own assets being repossessed to meet their financial obligations, whereas limited liability results in the owner only having to pay back what they invested in the firm.

Name the 3 different types of credit

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1. Loans
2. Overdraft
3. Trade credit

What is trade credit?

What is trade credit?

This is a loan to a firm given by its suppliers, so the goods can be bought immediately and paid for at a later date.

Recall the pros and cons of overdrafts

Recall the pros and cons of overdrafts

✓ The interest is only paid on the money borrowed

X The interest rates are very high

X The amount you can borrow is limited

Recall 4 examples of sources of credit

Recall 4 examples of sources of credit

1. Banks
2. Venture capital
3. Share capital
4. Leasing

What is Venture Capital?

What is Venture Capital?

When a specialist firm provides funding in return for a share of the company.

What is a major benefit of using personal savings to finance ventures?

What is a major benefit of using personal savings to finance ventures?

✓ There is no interest paid, because the money is yours.

PMT
resources • tuition • courses

Define retained profit

Define retained profit

Money left after taxes and other fees have been deducted.

In what scenario would it be wise for a firm to sell its assets to finance operations?

In what scenario would it be wise for a firm to sell its assets to finance operations?

When the assets in question are no longer used or obsolete.

Where is collaborative funding usually conducted?

Where is collaborative funding usually conducted?

On the internet

Why would it be more expensive for small firms to access credit than larger firms?

Why would it be more expensive for small firms to access credit than larger firms?

It takes time for small firms to build a strong credit history, and so they must pay higher interest rates than larger firms with good credit histories.