

ECONOMIC CITIZENSHIP

a key stage 4 teacher resource



INSTITUTE FOR
CITIZENSHIP



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Foreword

The Royal Bank of Scotland Group

The Royal Bank of Scotland Group, which includes Nat West Bank, has made financial education a priority. We believe that financial education matters because it equips all our young people to deal with the challenges, opportunities and pitfalls which they face when they leave school.

We are delighted to extend understanding of the economy and business by supporting this resource produced by the Institute of Citizenship with our support as well as that of the Department for Education and Skills. This will enhance the range of materials that already exist for personal financial education and ensure that Economic Citizenship is properly resourced as an essential part of the overall curriculum.

Sir George Mathewson

Chairman

The Royal Bank of Scotland Group

The Institute for Citizenship

The Institute for Citizenship is an independent charitable trust. It was established in 1992 to promote informed active participation in democracy and society. The Institute works directly with teachers and students to develop and pilot effective models of citizenship education and accessible material for lessons. We also provide in-service training for teachers and schools on a range of issues related to citizenship and teaching. We work closely with a range of partner organisations to enable us to continue our work in helping schools deliver good quality citizenship education.

Economic Citizenship

Introduction

Introduction

The new citizenship programme of study in England contains much that would fit neatly under the heading of political literacy: learning about democracy, government, the role of the courts, the UN, the Commonwealth etc. But at Key Stage 4 it is also required that students be taught about:

How the economy functions, including the role of business and financial services

How does learning about the economy and business fit with the general ethos of citizenship?

Firstly, part of the aim of citizenship education is to enable young adults to play an effective role in society. Economic matters such as changes in interest rates, recessions, financial exclusion, and the future of pensions play an increasingly important role in society, and a degree of understanding and knowledge of these matters has become correspondingly important.

Secondly, political debate increasingly centres on economic issues. Whether it is taxation, the management of the economy or the Euro, politics is never far from economics. Thus a basic understanding of some of the key concepts is now a vital component of political literacy.

While the importance of economic matters is doubted by few, its importance has not always been reflected in the school curriculum. The introduction of citizenship education in England will ensure that all students spend some time at KS4 thinking about economic issues.

Quite how this strand will be delivered will differ from school to school. Speaking to citizenship co-ordinators and trainee citizenship teachers, it is apparent that many teachers feel less confident in delivering economic issues than they do other areas of political literacy. Drawing on subject expertise within the school is an obvious solution, but may not always be appropriate. This pack is designed to help **non-specialists** deliver some key concepts in the area of the economy, business and personal finance.

Economics and personal finance have a sometimes deserved reputation for not being the most exciting area of study. Even adults find topics such as pensions unexciting and inspiring students becomes more of a challenge. To counteract this tendency, the pack attempts to make the lessons as active and student based as possible. In addition, when statistics are used, these are drawn from the music and advertising industries to help motivate and interest students.

● **USING THE RESOURCES**

Citizenship will be delivered differently in every school. Resources need to be flexible to reflect this diversity. These resources have been designed to be used either as a stand-alone unit or to be dipped into for individual lessons. Most of the lessons contain more activities than could be fitted into a 45-60 minute lesson. This allows teachers to split the materials over two or more lessons or to cherry-pick the elements of the lesson that would be most suitable for their group.

Many economic concepts involve some understating of maths and several of the lessons have a mathematical element. This can usually be minimised, but could also be amplified, making these lesson suitable for delivery in Key Stage 4 maths.

Economics, business and personal finance is a vast topic, and within the confines of a citizenship programme of study, only selective areas can be touched upon. In deciding which topics to cover, low priority was given to those areas that are covered well in many other resources. As a result, personal finance is only touched on lightly and some key topics, such as fair trade, have been left out all together.

● OTHER RESOURCES AVAILABLE TO HELP DELIVER ECONOMIC CITIZENSHIP

www.pfeg.org.uk

For personal finance and lessons on the economy the pfeg website (Personal Finance Education Group) is an excellent place to start. It lists and reviews a host of resources across all key stages, many of which can be downloaded for free. Others can be ordered for a small cost.

Face 2 Face With Finance

Face 2 Face With Finance is a comprehensive programme designed to help secondary schools and colleges teach personal money management, enterprise skills and financial capability within the curriculum. The programme comprises a series of ten modules covering such topics as basic banking, enterprise, the euro, and work experience. The modules are free for any school/college to use and include high quality support materials and software, which are used by the students. Members of Natwest staff, who are trained in the use of the Face 2 Face With Finance materials may also be able to assist in the delivery of the modules. For more details visit the website www.natwest2f.com or telephone 024 7652 4234.

www.nead.org.uk

Norfolk Education and Action for Development produce good resources on global issues. The *just business* section of the site has a variety of games that can be downloaded for free.

www.bized.ac.uk

This website is full of information on economic issues. The site also contains downloadable lessons and has an interactive game where students get to play the role of the Chancellor and, set the budget and see the results of their decisions on a modelled economy.

www.statistics.gov.uk

A whole range of social and economic statistics. However, the site can be a bit difficult to navigate.

www.fsa.gov.uk

The Financial Services Authority has produced an excellent resource exploring personal finance/citizenship issues, such as ethical investments and the use of genetic testing by insurance companies. The materials - *Making The Most Of It* are aimed at 16+ but many of the lessons could be adapted for Key Stage 4. See http://www.fsa.gov.uk/consumer/schools/secondary/mn_secresourcestandl.html for more details.

Proshare

At the beginning of a series of lessons on the economy, it would be fun to let students invest an imaginary £5,000 in shares, using one of the broad sheets. The portfolios could be checked and changed at set intervals, and at the end of the unit of work the winning portfolio could be rewarded. To take this further, Proshare run several competitions involving students investing fictional money in the stock market at www.proshare.org.uk.

DfES

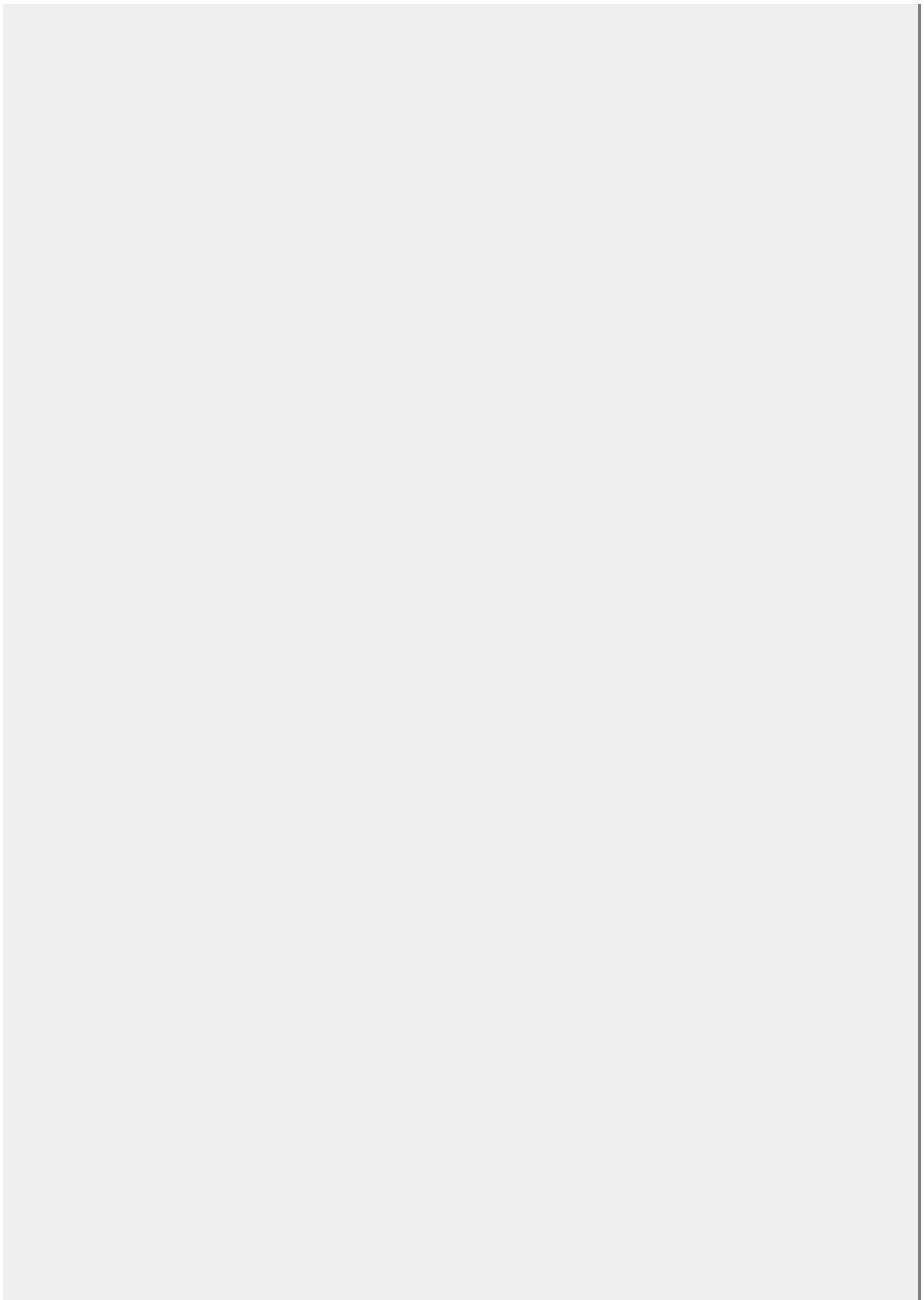
The DfES citizenship site is the best place to start when seeking citizenship resources. <http://www.dfes.gov.uk/citizenship/index.cfm> Following the links from teachers to resources to KS4, to economics reveals a host of links, some to downloadable resources.

Oxfam.org.uk

Oxfam have a dedicated resource catalogue for schools: <http://www.oxfam.org.uk/coolplanet/teachers/catalogue/index.html> The sections on citizenship and on economic development are full of resources.

QCA

The key stage 4 citizenship schemes of work produced by the Qualifications and Curriculum Authority contain a unit on the economy. This contains several useful ideas for tackling this strand of citizenship. www.qca.org.uk





Government Spending

1 Government spending

● **OVERVIEW**

Explores how much the government spends on each department and looks at how this money is raised through taxes.

● **AIMS**

- To make students aware of how the government raises and spends money
- To explore some of the political and economic issues around taxation

● **LEARNING OUTCOMES**

Students will be able to:

- Identify the main areas of government spending
- Explain the main ways in which this money is raised
- Discuss some of the issues around raising and lowering tax

● **KEY TERMS/CONCEPTS**

Government spending, direct tax, indirect tax

● **BACKGROUND INFORMATION**

Tax is the primary means by which a government raises the money it needs to run essential services. Taxes pay for schools, hospitals, the police, the armed services, and the maintenance of roads, among other things.

There are two main ways taxes are raised. Direct tax is the portion of an individual's income that is taken straight out of earnings. This is achieved through Income Tax and National Insurance.

Indirect tax is the other method governments use to raise money. Certain products – such as cigarettes, alcohol and petrol – contain in the price a sum that is given to the government. The main indirect taxes are VAT and duty.

There are advantages and disadvantages with both types of tax. Direct tax raises a lot of money, but it also makes people less eager to work. If a big bite is taken out of your pay packet each week, before you even get your hands on your money, it might discourage you from working hard. Some argue that high direct taxation is a disincentive to work and that it diminishes a country's productivity, thereby weakening the economy. It is also costly to administer: a lot of tax revenue is used to pay for the huge bureaucracy necessary for the collection of tax.

Others argue that direct taxation is proportionally based on the size of peoples' earnings and can aid the more equal distribution of wealth throughout society. Direct tax can narrow the gap between the rich and the poor.

Indirect taxes on products give consumers the option of avoiding the tax simply by not buying something. It gives people choice. Critics say that indirect taxes, do not sufficiently reflect peoples' earnings, and tend to favour the rich. Also that taxing high street products discourages consumer spending, which can be harmful to the economy.

● **INTRODUCTORY QUESTIONS**

- How much money does the government spend?
In 2001/2 approximately £394,000,000,000 (394 billion)
- What is a billion?
A billion is a thousand million (in this country it used to mean a million million, but the American billion – a thousand million – is now more widely used)
- Where does the government get this money from?
The government has to raise almost all of it from taxes of one kind or another, working out at the equivalent of £6,600 per head
- What are the main areas that the government spends money on?
(Don't reveal any answers yet!)

● **ACTIVITIES**

1. GOVERNMENT SPENDING

Either use the government spending worksheet or ask students to write down the main areas of government spending. Students should then write down what sort of goods and services are provided under each of the headings. (The answers are on the spending pressures sheet.)

The total amount of spending is £394 billion, but £49 billion is accounted for under the category 'other'. (This covers all the smaller areas of spending, such as Culture, Media and Sport; Overseas Aid; the Foreign Office.) This leaves £345 billion to be allocated to the main areas of spending. Students, in groups, then attempt to allocate this money. This could be through discussing and writing appropriate figures next to the departments, although the activity will be much more enjoyable if the money tokens are used. One sheet is required for each group. When the answers are revealed, students could work out how far off they were from each answer. The figures for each department could then be totalled, thus revealing which group was closest over all.

Extension activity

Students could draw a pie chart of the actual spending, having first worked out the spending as percentages.

Discussion points

Were students surprised by the actual figures?
Do you agree with the government's priorities?
Would you spend the money in the same way?
What would your priorities be?

2. BUDGET TIME

Each group of students has to act as the Chancellor of the Exchequer and set a budget. Using the tax advice cards and spending pressure sheet, students have to decide whether to raise or lower taxes. They should decide:

How much in total they want to raise or cut
Which specific taxes they would raise or cut
In which areas they will increase or decrease spending

Students should write their answers on the budget sheet, along with some reasons for their decisions. These could be read out as a Chancellor might read a budget. The best overall budget could then be voted on.

Update

In the actual budget on the 17th April 2002 the Chancellor, Gordon Brown, chose to raise the level of both individual and employer's National Insurance contributions by 1%. This will raise an extra £7 billion. The duty on cigarettes was also increased by 6 pence a packet. The main beneficiary of the extra money was Health with an extra £4 billion pledged for the NHS.

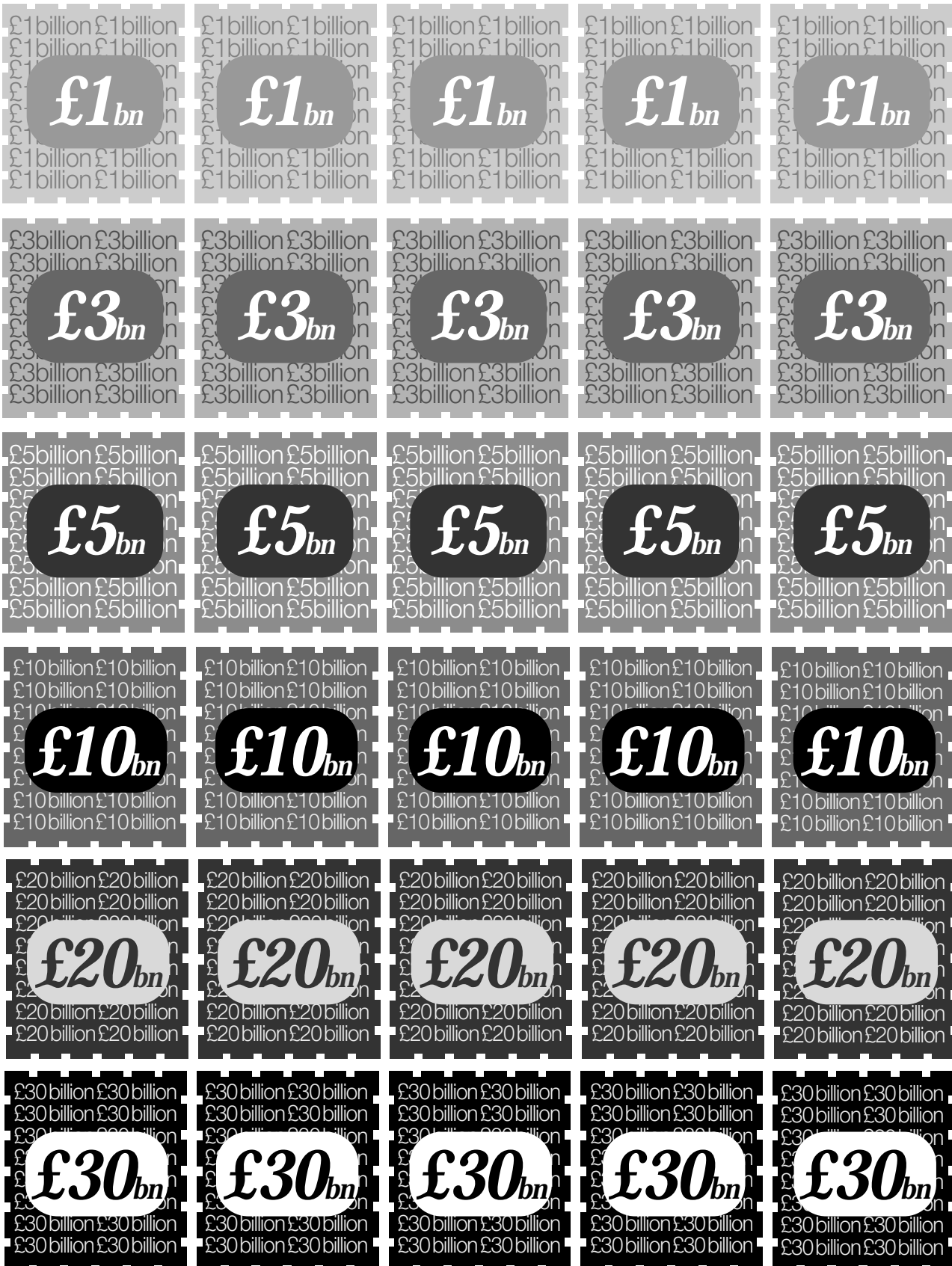
● **GOVERNMENT SPENDING FOR 2001/2**

**The total should add up to £394,000,000,000 or £394 billion
(including the £49 billion for 'other')**

Transport	Defence
Responsible for: <input type="text"/>	Responsible for: <input type="text"/>
Total: <input type="text"/>	Total: <input type="text"/>
Law and Order	Education
Responsible for: <input type="text"/>	Responsible for: <input type="text"/>
Total: <input type="text"/>	Total: <input type="text"/>
Social Security	Industry / Agriculture / Employment
Responsible for: <input type="text"/>	Responsible for: <input type="text"/>
Total: <input type="text"/>	Total: <input type="text"/>
Health	Debt interest
Responsible for: <input type="text"/>	Responsible for: <input type="text"/>
Total: <input type="text"/>	Total: <input type="text"/>
Housing / Environment	Other
Responsible for: <input type="text"/>	This includes foreign office; culture, media and sport; overseas aid and various other areas of government spending
Total : <input type="text"/>	<input type="text" value="Total £49 Billion"/>

Money Sheet

One sheet per group = £345 billion



Spending Pressures

As Chancellor, you must listen to the advice of your ministers, decide if you want to increase spending, and where any extra spending should go.

Transport: £10 billion a year (all figures for the spending are from 2001/2002).



Main areas: investing in roads and railways

“For the last 20 years we have under invested in transport. Our railways need repair and our roads are overcrowded. Transport delays cost the country billions in wasted working hours. A decent rail system is environmentally friendly, and in the long run sorting out transport will save this country millions. We need another £2 billion”

Law and Order: £23 billion.



Main areas: pays for the police force, probation service, the courts

“People don't feel safe any more. We need more police on the street. Crime costs this country billions and it can ruin people's lives. Tackling crime must be the number one priority of any government, and it's popular with the voters. We need another £5 billion to get the bobbies back on the beat”

Social Security: £109 billion.



Main areas: responsible for making benefit payments including job seekers allowance, pensions, child support, housing benefit and disability benefit

“Raising benefits will help thousands out of poverty. We also need to raise child support which will help to give every child a fair chance in life. By making sure everyone has enough money to live on, we are making huge savings elsewhere in terms of the costs of health, crime and other social problems. We desperately need an extra £7 billion”

Health: £72 billion.



Main areas: responsible for the NHS and promoting healthy living

“The NHS is falling apart. For years there has been serious under-funding. Doctors and nurses are underpaid. Buildings are crumbling and equipment is old. We need money to put this right and to cut the waiting lists. We also need to keep up with medical advances and to buy the latest equipment and medicines. Spending on health is always popular with the voters. We must have an extra £6 billion”

Housing / Environment: £18 billion



Main areas: responsible for the environment and improving the quality of housing
“We need to invest in renewing our inner cities, to regenerate deprived areas. Yes, this will cost money but in the long run we will all save when these communities become thriving once again. we also need to help provide a sustainable environment for all. To achieve these crucial aims we need another £2 billion”

Defence: £24 billion



Main areas: pays for the Army, Navy and Airforce
“Our armed forces are over stretched. Peacekeeping duties around the world have increased enormously over the last ten years. If we want to keep effective armed forces that can react rapidly to situations across the globe then we will need to invest more in new equipment and personnel. In these troubled times we need another £2 billion to cope.”

Education: £50 billion



Main areas: funding for schools, colleges, universities and adult education and training.
“Teachers are overworked and underpaid, class sizes are too big, and schools need new buildings and equipment. Spending money on education will increase the wealth of all of us in the long run, as a new generation of scientists, engineers, programmers, and creative artists emerge. Spending on education is always popular with the voters. To improve schools and invest in all our futures we need £6 billion.”

Industry / Agriculture / Employment: £16 billion



Main areas: helping industries where required, helping farmers and fishermen, and training for employment
“In other countries, industries receive far more help from government. If our industries are to compete on a global scale then they will need the right sort of help. Our farmers also desperately need support. Helping in all these areas should create jobs and reduce the amount we spend on benefit payments. We need an extra £2 billion.”

Debt interest and repayment: £23 billion



Main areas: Repaying the interest and some of the capital from money governments have previously borrowed
“The sooner we can pay off the national debt the better. Every year we get charged interest on the money we owe. If we can clear the debt we won't have to make any more interest repayments. We must prioritise this area, as it will save money in the long run. We need an extra £3 billion.”

● **BALANCING THE BUDGET**

The government raises nearly all of the money it spends through taxation, mainly by taxing peoples' earnings, taxing goods and services, and by taxing businesses. The total government receipts for 2001-2002 were in the region of £394,000,000,000. This works out at £8,500 for every adult, or £6,600 per person. If you want to increase government spending, you will have to increase tax. But which taxes should you increase? After reading through various pieces of information and advice your job is to set a new budget. You will have to decide which taxes, if any, should be raised or lowered and where all this income will be spent. Remember your income must be exactly match your spending, in other words you must balance the budget.

● **INCOME**

The two basic types of tax are direct tax and indirect tax. **Direct tax:** This is tax that is taken directly from peoples' earnings. There are two main kinds: income tax and National Insurance. **Indirect tax:** This is when the government taxes the things you spend money on. There are two main types: VAT, which is on most goods and services and Duty which is placed on specific goods.

Tax	2001/2	Your budget
Income tax	£104 billion	.....
National Insurance	£63 billion	.....
VAT	£61 billion	.....
Duties		
Petrol	£22.5 billion	.....
Tobacco	£7.6 billion	.....
Alcohol	£6.7 billion	.....
Corporation tax	£38 billion	.....
Other taxes	£91.2 billion	£91.2 billion
Total income	£394 billion	.....

Other taxes include such things as road tax, stamp duties on buying a house, inheritance tax. For the purposes of this exercise these cannot be changed.

● **SPENDING**

Areas of Spending	2001/2	Your budget
Transport	£10 billion	.....
Law and Order	£23 billion	.....
Social Security	£109 billion	.....
Health	£72 billion	.....
Housing / Environment	£18 billion	.....
Defence	£24 billion	.....
Education	£50 billion	.....
Industry / Agriculture / Employment	£16 billion	.....
Debt interest and repayment	£23 billion	.....
Other	£49 billion	£49 billion (fixed)
Total income	£394 billion	.....

Tax Advice Cards

General advice

“Don't raise taxes: cut them. People don't like being taxed. About a quarter to a third of what people earn goes straight to the taxman before they even see a penny. Then nearly every time you buy something you have to pay VAT or duty on top. If the government increases taxes, people will have less money to spend, companies will lose money, jobs will be lost, and a recession will follow. Also, when the government spends money it usually doesn't do so efficiently. This can lead to inflation. So, taxing more could mean fewer jobs, and higher prices.”

“Raise taxes. The rich get richer and the poor get poorer. By taxing those that have money the government can spend more on those who have less, thus redistributing wealth. If the government doesn't provide education and health for all, then only the rich can afford them and the result is even more inequality. Through increased spending, we invest in the long-term future of this country. It means we can build the roads, railways, schools and hospitals that will help this country succeed for years to come.”

Income tax

This accounts for £104 billion of revenue, or 26% of the total the government brings in. 27 million people pay income tax. Allowances vary, but typically, you pay no tax on the first £4,500 you earn. The next £2,000 you earn is taxed at 10%. You will then pay 22% (basic rate) for the next £27,000. For any earnings over this (10% of the population), you pay 40%. In short, low earners do not pay much income tax, whereas high earners pay more.

“Don't raise income tax. People really don't like it. If you raise the tax for the higher earners (who already pay 40%) these people will hire accountants and find ways of avoiding paying. They may even think of working in another country where the taxes will be lower. In reality, this will mean that the government will actually receive less money. So, raising income tax does not bring in extra money. It also means that people have less money to spend. This can lead to recession, fewer jobs and less revenue from tax.”

“Raise income taxes. People want higher spending on health and education, and they are prepared to pay for it. By raising taxes we can spend more on better housing, hospitals and schools. This will create more jobs, which will reduce benefit payments, and generate more revenue from tax. Taxing income is the fairest way. It means those who earn more, pay more. Rich people gain the most from society. They should pay more to keep it that way.”

National insurance or N.I.

This accounts for £63 billion of revenue, or 16% of the total. Paying National Insurance entitles people to certain benefits, such as unemployment benefit and a state pension. In reality, the money from N.I. is not set aside for this purpose. Instead, it is used to fund spending, along with all the rest of government income. For everything you earn weekly between £87-£575, you must pay 10% N.I. (the first £87 is free from N.I., as is everything you earn over £575). The employer must also pay N.I. on every worker's earnings. This is set at 11.9%.

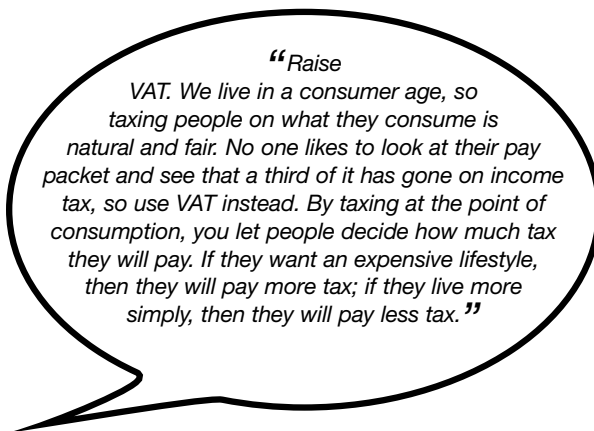
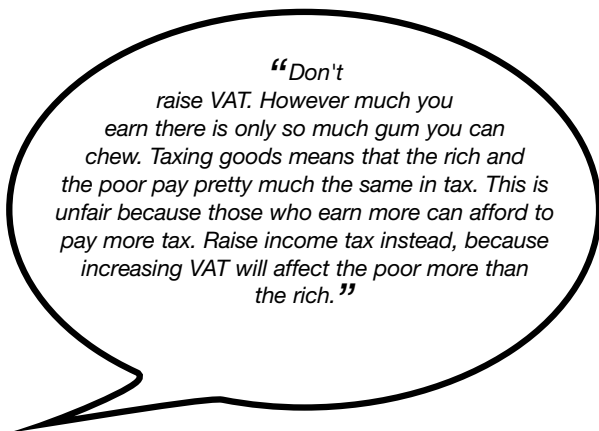
“Don't raise National Insurance. If employers' contributions increase, bosses will not be encouraged to take on new workers. This could cost jobs and end up bringing less money in.”

“Don't raise National Insurance. N.I. is not a fair tax because it is not progressive. In other words, the rate does not go up the more you earn: it just stays at 10% for all earners. Raising N.I. hurts those on a low and middle income more than the rich.”

“Raise National Insurance. If people want public services they will have to pay for them. N.I. is the fairest way to do this. It does not simply target the rich, who often don't even use public services, such as state schools and the NHS. Also, raising N.I. never seems to get as many headlines as raising income tax. For some reason, people do not seem to get as angry about it.”

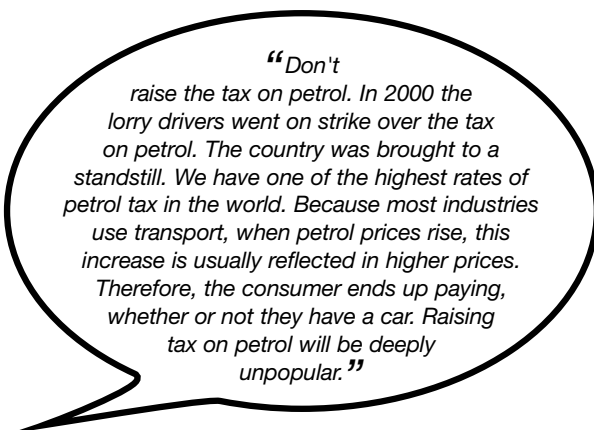
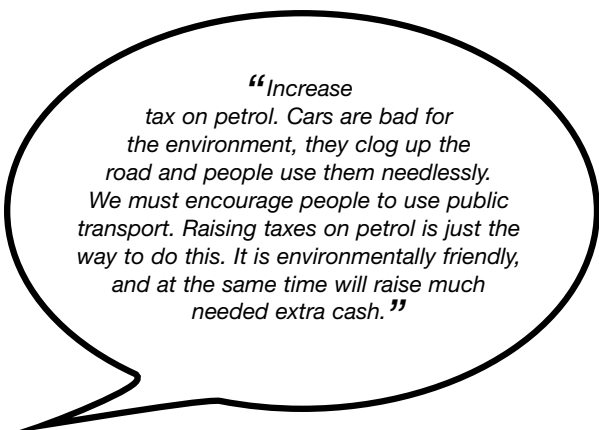
VAT

This raises £61 billion in revenue. About 15% of the total. VAT is, basically, a tax on spending, and it is usually charged to you, the consumer. VAT is 17.5% on most goods. Not everything has VAT added. For example, no one pays VAT on food, books, children's clothing or rent.



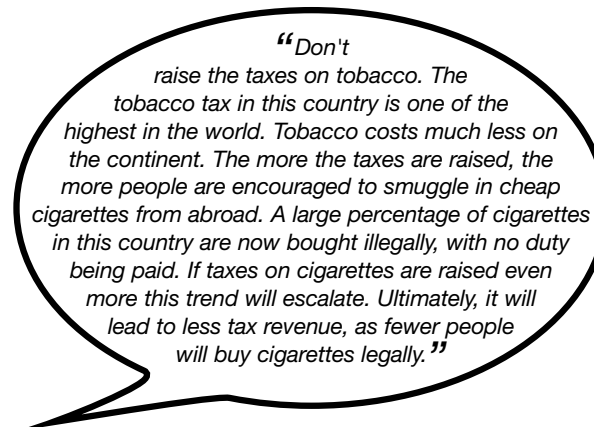
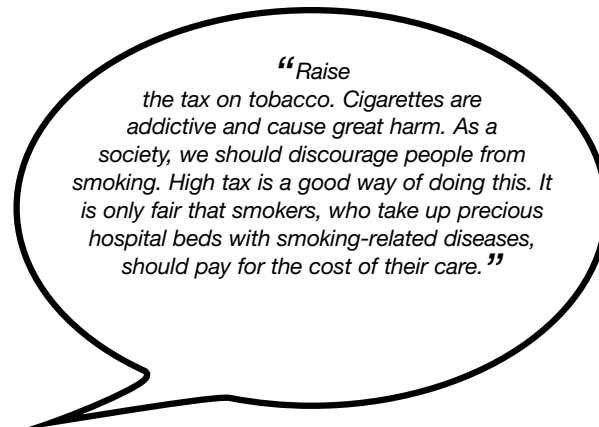
Petrol tax

This accounts for £22.5 billion in revenue or 5.6% of the total. In 2001, the duty was 51p a litre on unleaded petrol. This accounts for 64% of the total price (based on 2001 prices) and if you add on the VAT, then 79% of the total price of unleaded petrol is tax of one kind or another.



Tobacco tax

This accounts for £7.6 billion in revenue, or about 2% of the total. Roughly £2.80 per packet goes on duty (plus a special tax). This is about 64% of the price. If you include VAT on top, then 79% of a pack of 20 cigarettes is tax.



Alcohol tax

This accounts for £6.7 billion in revenue. It is set at 28p per pint of beer. £1.16 on a bottle of wine. £5.48 on a bottle of spirits.

“Raise the tax on alcohol. Drinking costs this country an enormous amount of money. Vast numbers of people go to casualty because of alcohol – drink driving, fights, accidents. It is only fair that drinkers pay more. Alcohol causes many social problems. Raising the tax on alcohol is a way of raising revenue whilst improving society.”

“Don't raise the tax on alcohol. Like tobacco, the tax on the continent is much less, so raising taxes more will just encourage illegal smuggling. Also, we have a strong drinks industry in the UK: we are the world leaders in making whisky and gin. Taxing alcohol so highly makes it harder for the manufacturers to build a base in the home market, undermining its competitiveness abroad. Alcohol is already taxed enough!”

Corporation tax

This raised £38 billion in revenues, about 9.5% of the total. This is charged on the profits that companies make. Companies with profits of up to £10,000 pay 10%. Profits of up to £300,000 pay 20%, and profits over £300,000 pay 30%.

“Raise corporation tax. Companies make vast profits and should put some of that money back into society rather than lining the pockets of people who are already rich. Also, some companies tend to employ very good accountants who are experts at dodging taxes. As well as raising corporation tax, we also need to tighten up these loopholes.”

“Don't raise corporation tax. Our's is higher than in many countries. This discourages companies from basing themselves in the UK. Thus we lose foreign investment. Raising taxes makes companies go to countries with lower taxes. This will mean less revenue from corporation tax, and fewer jobs: it's self-defeating.”



Recession & Growth

2 Recession and Growth

● **OVERVIEW**

Students explore the ideas of recession and growth by looking at record sales over the last 25 years.

● **AIMS**

- To introduce the ideas of recession and growth using figures from the music industry
- To explore the factors that may lead to recession

● **LEARNING OUTCOMES**

Students will be able to:

- explain the concepts of recession and growth
- identify the periods of recession over the last 25 years
- identify the link between recession and unemployment

● **KEY TERMS / CONCEPTS**

Recession, growth, inflation

● **BACKGROUND INFORMATION**

Most economies are normally in a state of growth. This means that, allowing for inflation, the total value of goods and services produced (The GDP – Gross Domestic Product) is increasing. This is due, in part, to increases in technology. A farm worker today can produce much more food than a farm worker 100 years ago. So, as technology improves, the total amount of goods and services produced increases and the economy grows.

A recession occurs when the total level of output (GDP) declines over two successive quarters causing a decline in the economy's overall amount of production.

Recessions have a variety of causes and manifestations. For example, the central bank might retard growth by keeping interest rates too high. Higher interest rates have the effect of dampening down spending by both households and businesses. Consumers might be tempted to save, or increased mortgages might squeeze people's budgets. Plant closures and job losses can result.

However, international markets can also affect the domestic economy. A large increase in world oil prices, for instance, can raise the cost of living and production. Decreased consumer spending can send the economy into reverse. Recessions in the economies of our main trading partners can also 'drag' our economy into recession. As export orders start to dry up businesses start to lay off workers and demand starts to fall.

The economy is profoundly affected by the problems that follow from recession. Declining demand can lead to redundancy and rising unemployment; profits fall and businesses fold; investment decreases, businesses fail and fewer businesses start – the economy stagnates and shrinks; government borrowing increases.

The benefits of economic growth are numerous. Growth stimulates higher employment. High employment leads to greater consumer spending power, which in turn benefits existing businesses and stimulates confidence for investment in new ventures. General economic confidence often generates a snowballing of growth. Furthermore, growth aids the government, boosting tax revenues and providing a growing sum of money available to finance public spending projects. The standard of living improves.

There are costs to economic growth, however. If consumer demand shoots ahead of supply, producers may raise their prices. This could cause inflation. Pollution and congestion can result from growth – increased output brings with it greater fuel consumption, overexploitation of natural resources and waste. Environmental damage reduces the quality of life for everyone and even makes growth unsustainable. The wealth that is created during a growth period is not distributed evenly throughout society: the gap between the rich and poor widens. Such economic inequality can have serious social and political ramifications.

Lowering interest rates is one of the main methods of stimulating growth. Lowering interest rates encourages people and businesses to borrow, and offers less incentive to save. In turn, this will increase the amount of money in circulation (the money supply). As people spend more, demand for goods will then increase and this should lead to growth, more jobs and greater overall output.

Sometimes the economy can become "overheated" and prices start to rise as demand outstrips supply. In such cases the Bank of England may raise interest rates in order to meet the inflation target set by the government (this was 2.5% in 2002). Higher interest rates make borrowing less appealing, servicing existing debt more expensive and encourages saving. The overall effect is to reduce the amount of money in circulation which mean less demand, and less growth. In theory this should lead to prices going down as supply starts to outstrip demand.

● **INTRODUCTORY QUESTIONS**

Imagine if no one spent any money apart from buying just enough food to live, and they all saved their money instead. What would happen to shops? Manufacturers? Jobs?

(Possible answers) Companies would go out of business; lots of people would lose their jobs. The economy would shrink (the total amount of goods and services produced would diminish). If this carried on for long there would be a recession.

Imagine if everyone spent all their money all the time, they never saved a penny and just spent whatever they had; in addition, they borrowed as much money as they could and spent that too.

In the short term, companies would do very well, and as a result a lot more jobs would be created. The economy would grow i.e. the amount of goods and services produced would increase. However, prices might also have a tendency to rise and eventually people would not be able to pay off all their debts.

What is the cheapest that students can remember the price of: crisps, Mars Bars, milk, CD's?

What is meant by inflation?

The rate at which prices rise overall

How would you measure inflation over a period of one year?

Look at the price of various goods (a basket of goods) and add up the total price. Then look at exactly the same goods in a year's time and add up the total again. If the prices have gone up by 2 percent then inflation is 2 percent. Choosing the right goods to check can be difficult as the price of some items may change for various reasons. E.g. if you bought exactly the same computer a year later the price may have halved as new technology would have overtaken the old machine. So the government frequently changes the basket of goods used to measure inflation.

Why do prices go up?

A difficult question! Here are some factors:

- *People like to receive pay rises, so companies have to charge more for goods*
- *the cost of raw materials may go up*
- *demand for certain goods may increase*
- *People may not shop around for the cheapest price, so companies can raise the price with no effect on sales*

What is a recession?

Briefly explain the concepts of recession and growth

● STUDENT ACTIVITIES

1. RECORD SALES

Show students the table explaining the different columns. Ask students to draw a graph showing the rise and fall of record sales over the years, using the *constant value at 2001 prices* (to knock out the effect of inflation). Students should put the years along the bottom column (x axis) and 0 to £1200 (million) in 100 (million) increments along the y axis. This could be started off on the board. Students should then draw the graph and try to work out when the two big recessions occurred over the period. This should be when the sales noticeably dipped or the rise of sales slowed down.

Discussion points

Did the students agree with their answers?

What factors could affect the sales of music?

(Possible answers) The state of the economy. In a recession, there is less money in circulation so sales will suffer. Luxury goods and non essentials are often the first to suffer in recession. Home entertainment sales, such as CDs, are not affected so greatly: people may be more inclined to stay at home if they have less money.

What other factors could affect the total value of record sales?

- *The music produced in some years may be considered very strong, with lots of good popular albums and singles being produced. This can lead to greater sales. Other years may be less good!*
- *Also, when CDs became popular in the late eighties, it led to an increase in sales, as many people wanted to buy CDs of the music they already had on vinyl or cassette.*
- *Competitive pricing may have affected the figures. So unit sales may increase, but as the prices become slightly cheaper the overall sales value will not increase as much. So, there is growth, but not in the prices.*
- *Another factor may be piracy. As more people download music from the Net or burn CDs for friends this may affect sales. Out of interest, it might be interesting to see how many students have illegal copies of music, either from the Net or from friends – or even as it used to be, taping off the radio!*

Are record sales a good indicator of how the economy is doing in general?

Not really, for the reasons outlined above. There are other factors behind the figures. Most governments use the Gross Domestic Product (GDP) to measure how the economy is performing. This is the value of all goods and services produced in the country over a certain time period – usually a year or a quarter. So, record sales would form a part of this, but only a small part.

Extension activity 1

Students could repeat the task using the unemployment figures, again guessing when the recessions occurred.

Discussion

Why is there a difference between using the different sets of data – unemployment and record sales?
(Possible answers) Unemployment tends to increase slightly after sales reduce. It can take a company some time before they decide to lay off workers. So poor sales will usually come before higher unemployment.

2. GROWTH FACTORS

Using the growth factors sheet, which could be cut up, students, in groups, have to sort the factors into two piles. Factors that might encourage growth, and factors that might lead to recession. Under each heading, students could rank the factors in importance.

● **DISCUSSION POINTS**

All of these answers are theoretical only. Economics is not an exact science, and economists disagree as to the main causes of growth and recession.

● **GROWTH FACTORS**

- Interest rates go down, making it cheaper for people and companies to borrow money
Lowering interest rates is one of the main methods of stimulating growth. Lowering interest rates encourages people to borrow and offers fewer incentives to save. In turn, this increases the amount of money in circulation (the money supply). As people spend more, demand for goods increases. This should lead to growth, more jobs and greater overall output. On the down side, higher spending can lead to inflation, which might make British goods expensive abroad and can trigger a recession.
- The price of oil and raw materials goes down
This should lead to lower prices, cheaper goods and thus encourage spending.
- The value of the pound goes down, making British goods cheaper abroad
This should be good news for manufacturers, as British products should start flying off the shelves in other countries. On the down side, a weak pound will make imports and raw materials more expensive. This will lead to inflation.
- The government increases its spending, using the money to pay for new hospitals, schools and roads
This should create more jobs, which should stimulate more demand and higher growth. A drawback, however, is that government spending can sometimes be inefficient. This can lead to inflation.
- The government puts a high tax on all foreign goods coming into this country
In the short term, this would be good for British manufacturers as their prices would become cheaper in comparison with foreign imports. However, other countries might be tempted to raise taxes on British goods, which would not help manufacturers. Consumers would also lose out, as foreign goods would be more expensive.
- The government gives financial support to British industry
Again, in the short term this could be good for British industry: more jobs would be created, giving rise to higher demand. In the long term, however, other countries might complain and possibly retaliate by imposing taxes on British goods. There would also be less incentive for British industries to modernise and become more efficient. Eventually, this could lead to higher prices.

● **FACTORS THAT COULD LEAD TO RECESSION**

- The value of the pound goes up (i.e. the pound is strong) making British goods very expensive for people in other countries to buy
British companies will find it harder to compete, as their products will be more expensive relative to imports. This will also make imports cheaper – and while this may lead to lower prices in the UK, it could also result in job losses.
- The government cuts back on spending, calling a halt to all new building projects
This may lead to job cuts and less overall demand in the economy. However, taxes may be lower as a result, and this may eventually lead to some growth as people will have more money to spend.
- The government doubles the taxes on businesses
This would encourage some businesses to move abroad where taxes are lower. This will cost jobs. In addition, higher taxes would put off potential foreign investors.
- All unions go on strike for a month
Very few goods or services would be produced. The economy would immediately shrink.

- Interest rates go up, making it more expensive to borrow money
This would stop borrowing and encourage saving. This would reduce the amount of money in circulation, which would mean less demand, and less growth. However, it would also lead to prices going down: companies would compete for custom.
- The price of oil and raw materials goes up
This would lead to higher prices. People would be able to afford fewer goods, so overall demand would shrink.

Extension activity 2

Students could read through a newspaper article on an economic issue, such as recession, growth or changes in interest rates, highlighting any bits they don't understand. The class as a whole, with the teacher, could then read the article and try to establish the meaning.

● FURTHER INFORMATION

The Bized website ([bized.ac.uk](http://www.bized.ac.uk)) has good information on all matters economic, including data on the value of various sectors over time. (<http://www.bized.ac.uk/case/questions/case001-q1-worksheet-printable.html>)

Economics tutor: <http://www.tutor2u.net/> also has good basic information about economics.

Record Sales Worksheet

The following figures represent the total value of all trade sales in the record industry in the UK (singles, albums – all formats). This is the value at which record companies sell to shops. The final retail value would be much higher, as shops make a large mark-up on the goods.

	actual sales £millions	annual rate of inflation %	constant value at 2001 prices £millions	% of workforce claiming benefit
1975	159	23.6	807	3.0
1976	172	17.2	750	4.1
1977	195	15.9	732	4.4
1978	250	8.3	867	4.3
1979	266	13.4	813	4.0
1980	252	18.0	653	5.0
1981	262	11.9	607	8.0
1982	272	8.0	585	9.4
1983	289	5.2	589	10.3
1984	329	5.0	640	10.5
1985	375	6.1	687	10.7
1986	425	3.4	753	11.0
1987	528	4.1	899	9.9
1988	312	4.9	993	7.9
1989	681	7.8	1024	6.2
1990	678	9.5	932	5.7
1991	710	5.8	921	7.9
1992	692	3.7	867	9.6
1993	486	1.6	968	10.2
1994	917	2.4	1103	9.2
1995	1016	3.4	1181	8.0
1996	1077	2.4	1223	9.2
1997	1059	3.1	1166	5.5
1998	1121	3.4	1193	4.7
1999	1133	1.6	1187	4.3
2000	1170	2.9	1192	3.7
2001	1232	1.8	1232	-

Source: BPI Surveys

● QUESTIONS

Represent these statistics in a graph. Place the years along the x-axis (along the bottom) and the constant values at 2001 prices along the y-axis (upwards). Connect the points to form a curve.

In the last 25 years, there have been two major recessions in the economy. (A recession is when the economy stops growing or shrinks. There is less money in the economy, which means that people are not spending as much.) According to the record industry sales, mark on the graph when the two recessions reached their peak.

● **GROWTH FACTORS**

Interest rates go down,
making it cheaper for
people and companies
to borrow money

Interest rates go up,
making it more
expensive to borrow
money

The price of oil and
raw materials goes up

The price of oil and
raw materials goes
down

The value of the pound
goes up (i.e. a strong
pound) making it
expensive for people in
other countries to buy
British goods

The value of the pound
goes down, making
British goods very
cheap abroad

The government
increases public
spending, using the
money to pay for new
hospitals, schools and
roads

The government cuts
back on spending,
halting all new building
projects

The government puts a
high tax on all foreign
goods coming into this
country

The government
doubles the taxes on
businesses

All unions go on strike
for a month

The government gives
financial support to
British industries



Competition

3 Competition

● **OVERVIEW**

A short, fun game to demonstrate the way in which different levels of competition can affect prices.

● **AIMS**

- To teach students about competition
- To look at the alleged price-fixing of CDs

● **LEARNING OUTCOMES**

Students will be able to:

- identify the effect of competition on price
- explain the concept of price-fixing
- apply the concept of price-fixing to music industry

● **KEY TERMS / CONCEPTS**

Competition, monopoly, price fixing

● **BACKGROUND INFORMATION**

Competitive markets are often regarded as good for consumers and the economy as a whole. Competition occurs when there is genuine choice for consumers in terms of who supplies the goods and services they demand. Competitive markets are characterised by both price competition and non-price competition between businesses. Price competition involves discounting the price of a product to increase demand. Non-price competition focuses on other strategies, such as advertising or loyalty cards to increase market share.

There are many potential gains from increased market competition: lower prices for consumers; producers/suppliers have an incentive to keep their costs down; technological and business innovation is stimulated; more products means more choice; service improves; consumers are more influential. In theory, then, the overall impact of increased competition should improve the wealth of all.

To encourage competition, governments over the last twenty years have sponsored the liberalisation of markets. This may sometimes involve breaking monopolies, thereby fostering new businesses. Liberalisation can lead to lower business costs through increased efficiency. These savings are then sometimes passed on to the consumer in the form of lower prices.

Competition can have negative implications such as the pressure to cut costs and limit wages. Some of these implications are explored in Section 8.

● **STUDENT ACTIVITIES**

1. HATS, CATS AND BATS

How to play

(The game could be talked through if playing was not appropriate)

Overview

Some students are sellers, the others are buyers. Each seller is either selling hat, cat or bat tokens to the buyers who hand over cash tokens in return. Some tokens are scarcer than others and, in theory, this

should affect the price.

7 students in the class will be the sellers, the rest will be the buyers.

Sellers:

Gather the sellers in a separate corner and explain the rules; each seller will be given a set of 10 selling tokens (either hats, cats or bats). The sellers have to try to sell their tokens to the other members of the class for as much money as they can. The winner will be the one with the most money at the end of the game. The sellers cannot discuss their tokens or prices with one another, and will get no extra reward for any tokens left at the end of the game. So it is in their interest to sell the tokens, but for the highest price they can get away with.

Give a set of 10 tokens to each seller:

4 people will be selling hats

2 people cats

1 person bats

Before the game starts the sellers should not know which tokens the other sellers are selling. So only hand out the tokens at the last moment.

Buyers:

The buyers are each given £70 (2x£5, 4x£10, 1x£20 – one strip from the money sheet). They have to buy one of each token – a hat, a cat and a bat. The winner will be the buyer who has one of each token and the most money left. So they have to make sure they buy one of each, but try and get the cheapest price possible. If they want they can buy extra tokens and sell on to others. Warn the students that anyone caught using threatening behaviour should be expelled immediately from the game!

Allow 10-15 minutes for the trading period.

It is envisaged that the hats, which are plentiful, should trade very cheaply.

The cats should be the next cheapest.

The bats, which are in short supply, should be the most expensive by a long way.

At the end of the trading period, the winners could be worked out. The average price for each commodity could also be established or estimated.

Discussion points

Why were bats the most expensive?

Explain what a monopoly is. When only one person is selling a product, or if one company controls too much of the market, they can charge what they like: this is called a monopoly. It's exactly like the game Monopoly, where one person ends up owning all the property. (In the UK any one firm that has 25% of a market is considered to have monopoly control)

What would have happened if more people were selling bats?

The price would have gone down. In theory, the greater the supply the lower the price. Buyers will tend to buy from the cheapest seller, which forces other sellers to reduce their price.

What would have happened if the hat or the cat sellers had got together at the beginning and had a quick chat about the price?

They could have agreed to sell the commodities at a fixed price. This is called a cartel and is not allowed in Europe (and in most places in the world). Some cartels, however, are allowed to exist. The most famous one is OPEC (Organisation of the Petroleum Exporting Countries). This is an organisation run by some of the main oil producing countries. They agree between themselves how much oil to produce. If they cut the production there is less oil to sell and the price will naturally go up. So they do not control the price directly, but control the amount of oil that is allowed onto the market, which in turn affects the price.

What would have happened to the price if there were fewer buyers?

If demand is lower the price goes down.

What would have happened to the price if everyone had been given more money to begin with?

The prices would have gone up. In other words, there would be inflation. (See lesson 2 on using interest rates to control growth). (This could link to looking at hyper-inflation in inter-war Germany).

What would happen to CD prices if there was only one record company?

Prices would go up.

What is to stop the biggest record company from buying all the smaller ones?

There is something called the Competition Commission (formerly the Monopolies and Mergers Commission) that is organised by the government. It ensures that no company controls too much of the market share in any one sector. It tries to make sure that there is no monopoly (like the bat seller), as this would make prices rise. If a big company wants to buy another big company in the same business, the Competition Commission will have to approve it first.

Extension activity 1 Supply and Demand

Talk students through the following:

Imagine a new toy, Wrestle-Bears, is released to the shops, and it's up to the shops to sell them at whatever price they want. Every child wants a Wrestle-Bear for Christmas, but there are only a few of them available. What would happen to the price?

The price would go up, possibly sky-high. That is what happens when there is high demand (everyone wants one) but short supply (there are not many available). Imagine the reverse. Another toy manufacturer releases Jig-Soaks, foam jigsaws that can be enjoyed in the bath. Again, shops can sell them for whatever price they want, but this time, understandably, no one wants to buy them. What would happen to the price?

This time the price would fall. There is a large supply and low demand. There is a basic principle at work here. When demand starts to match or overtake supply the price usually goes up. When there is greater supply than demand, the price tends to go down. The way prices are allowed to fluctuate like this is part of what is meant by the free market. Some countries don't have free market systems. In these countries the government controls the price of some goods.

Quick questions – what might happen to the price in each of these cases?

Because of a cookery programme, suddenly everyone wants the new omelette pan?

(Possible answers) High demand and low, supply. The price would go up.

No one wants the new Boys'r'Us boy-band album?

Low demand and high supply – the price would go down. Usually to be found in the bargain bucket.

Because of a shortage in cocoa supply, suddenly only 1/2 of the normal amount of chocolate is made in this country?

Same demand, but lower supply. The price would go up.

The amount of oil produced in the world is reduced?

Same demand, but lower supply. The price would go up.

Can students think of any examples of supply and demand affecting price? Perhaps trading football stickers in their youth whereby the rarer stickers were inevitably swapped for many of the less rare ones (low supply and high demand leading to a higher price)

2. PRICE FIXING

Read and discuss the article on CD price fixing.

Discussion points

Why do you think that CD prices might vary from country to country?

There could be various reasons. Some countries may have more efficient distribution networks and more competition on the high street, thus bringing prices down. Fluctuations in exchange rates may affect the price. Record labels and retail outlets may be jointly pushing the price up to increase profits.

Which of the countries mentioned pays the most for their Britney albums?

Italy.

What does 'Brussels' mean?

This refers to the European Union. Brussels, which is in Belgium, is the home of the EU Commission and various other EU institutions. The European Parliament however, meets in Strasbourg, in France.

Why did 'Brussels' not allow a merger between EMI and Warner Music?

Because the Commission thought it might harm competition, and thus push prices up.

Should governments be able to stop companies from merging?

If they did not, what would stop one company from buying up every other company? If this happened there would be no incentive for the giant super-company to invest in research and make new products: the consumer would suffer. Also, the company could charge what it liked for its goods, and the consumer would have no choice but to pay.

However, there are often advantages for the consumer when companies merge. A larger company may be able to make savings (economies of scale), and thus be able to produce cheaper products. The new, larger company may be able to invest more in research and invent new products. The company may be able to compete with other large companies around the world and thus protect jobs.

What is the most you would be prepared to pay for a CD?

Extension activities

Using the Internet, students could research the American government's investigation of Microsoft. In particular, the 'bundling' of Internet Explorer with Windows. Does anyone in the class use Netscape or other web browsers? Would browsers improve if there was more competition? What did the US courts say?

EU to investigate high CD prices

Andrew Osborn in Brussels • Guardian • Saturday January 27, 2001

Fears that the world's big five record companies operate an illegal cartel to keep compact disc prices artificially high have prompted the European commission to investigate, it emerged yesterday.

Although Brussels admits that it has so far failed to find firm evidence that Europeans are paying far too much for their CDs, it strongly believes that there is more than enough circumstantial evidence to warrant a full inquiry.

The five music labels under suspicion are Britain's EMI Group, Germany's Bertelsmann, Warner Music, Sony Corp and Universal together with five online retailers and 13 traditional retailers.

The commission is particularly interested to find out why there are such wide disparities in CD prices within Europe and why music costs so much more to buy in Europe than it does in the US. It also wants to know why a CD costs almost a third more than a cassette for exactly the same content.

A UK Consumers' Association survey looked at the Britney Spears' best-selling album, *Oops, I did it Again*, which cost an average of £10.77 in US music stores compared to £12.08 in the EU. In Italy the same album costs an average of £14.16 while in London it costs £12.26.

The commission has sent out letters of inquiry to all of the firms under suspicion. But it will be months before it reaches a conclusion at which point it will either decide to drop the case or issue a formal warning to the big five and step up its inquiries. Any investigation could last up to two years.

'If we find evidence to support these claims we could fine the companies concerned a maximum of 10% of their annual turnover and force them to change their ways,' said a commission official, who stressed that the investigation was still at a very early stage.

The issue caught Brussels' eye last year when it vetted a massive merger between EMI and Warner Music which it subsequently rejected on the grounds that it would harm competition.

It was also encouraged by a similar investigation in the US which concluded that American consumers had paid £320m over the odds for their CDs since 1997.

The US authorities discovered that the big five music firms had been setting minimum retail prices for CDs for at least five years and encouraging retailers to fall into line by funding chunks of their advertising budgets.

The big five agreed to stop fixing minimum prices in May of last year and the US authorities told Brussels that there might be a problem in Europe too.

The commission has not received any formal complaints about CD prices but argues that it has the power to initiate its own investigation since consumer groups in Europe, have voiced serious concerns.

The music industry is already fighting a rearguard action from internet sites offering free music downloads.

If Brussels did find evidence that the big five are colluding on prices it would be far less likely to authorise big industry mergers in the future.

● QUESTIONS

Why do you think that CD prices might vary from country to country?

Which of the countries mentioned pays the most for their music?

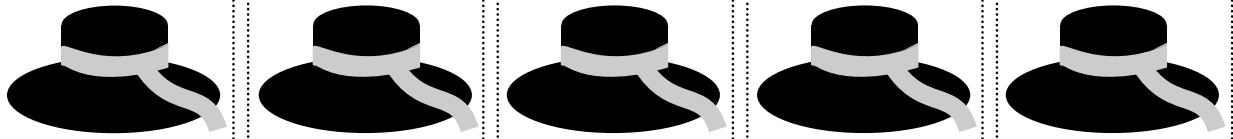
What does 'Brussels' mean?

Why did 'Brussels' not allow a merger between EMI and Warner Music?

Should governments be able to stop companies from merging?

What is the most you would be prepared to pay for a CD?

HAT HAT HAT HAT HAT



HAT HAT HAT HAT HAT



HAT HAT HAT HAT HAT



HAT HAT HAT HAT HAT



CAT CAT CAT CAT CAT



CAT CAT CAT CAT CAT

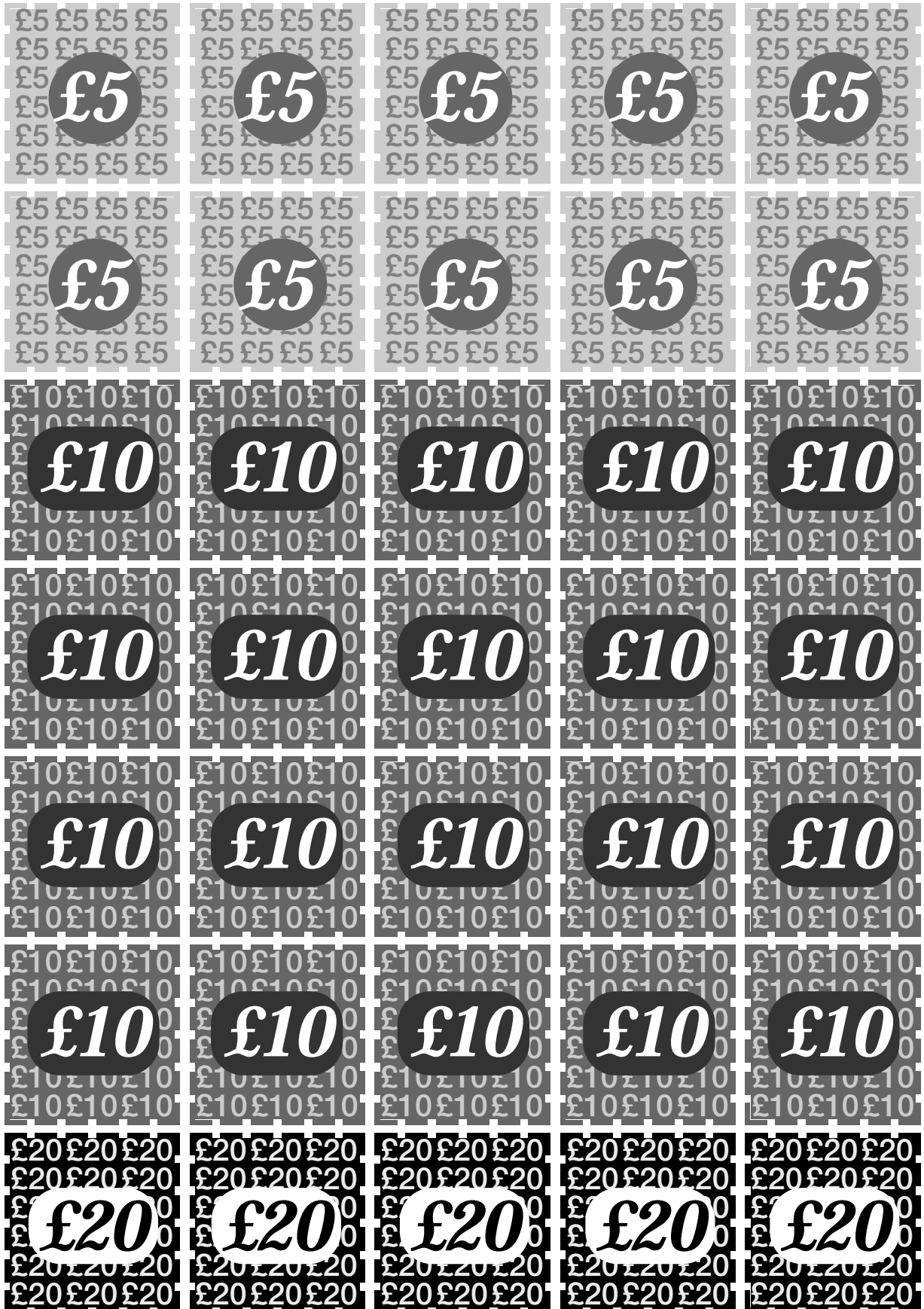


BAT BAT BAT BAT BAT



Money Sheet

One money column per buyer.





Business Plans

4 Business plans

● **OVERVIEW**

Students are presented with various business plans, which they have to approve or reject. They then have to write a plan for a business idea themselves.

● **AIMS**

- To make students aware of what a business plan is
- To explore some of the factors in setting up and running a new business

● **LEARNING OUTCOMES**

Students will be able to:

- explain what a business plan is
- identify the main elements of a business plan
- carry out a SWOT analysis
- construct a rudimentary business plan

● **KEY TERMS / CONCEPTS**

Business plan, SWOT analysis, client base

● **BACKGROUND INFORMATION**

A business plan is the platform upon which a new business is built. The plan ensures that all aspects of the intended business have been considered. It will take into account the pricing and costs of the product or service the business will provide; the capital needed for initial investment, such as premises, equipment, materials and labour; the cost of overheads and regular expenses – rent and loan repayments, for example; an estimate of the size of the market, and the risk involved; and a consideration of the competition. The plan will provide guidelines and checklists that are useful when seeking solutions to the problems that inevitably arise.

The plan will include objectives, targets and aims. Actual performance, achievement, profit levels and sales figures can only be measured when these criteria have been clearly figured out.

Business plans are often prepared as a basis for raising funds. All major lenders will insist on one. It shows the lender that careful thought has gone into the idea, and persuade it that the risk of lending money is minimal. This will give the lender confidence in the business and help secure essential capital.

A clear and concise plan can also attract other sources of capital: potential investors, partners or shareholders, for example. It can then be used as the basis of any partnership agreement or documentation pertaining to the issue of shares.

● **INTRODUCTORY QUESTIONS**

Picking on a random business (a famous washing-up liquid manufacturer, say), talk through some of the main elements of the business with the students.

What is their client base? Who are they selling to?

(Possible answers) Shops, supermarkets, but ultimately the public, mainly women?

Who are their main competitors?

Persil? Supermarket own brands.

What is their USP? (Unique selling point. That which makes their product different from the others. Or makes the product stand out in some way.)

How could the company diversify? What other products could they make using the same brand? What products would be inappropriate?

If you were to start a business, what sort of things would you need to think about?
Money, whether there is demand, staff, marketing, premises, competition etc.

Where would you go for money?
Banks, friends, venture capitalists (companies who will lend money, but in exchange for a large percentage of the company); a grant from the Prince's Trust or another awarding body.

● **STUDENT ACTIVITIES**

1. Business plans

Students in groups represent the business managers of high street banks. They have to look over the three business plans worksheets and either approve them for funding or reject them. They should reach agreement in their groups as to their decision, and must write down why some reasons for their decisions both positive and negative. To reduce photocopying, groups could examine one sheet at a time before passing this on to another group.

For a more detailed examination students could undertake a SWOT analysis of one or all of the business plans using the SWOT analysis sheet. A SWOT analysis is a standard way of discussing/analysing a business; SWOT standing for Strengths, Weaknesses, Opportunities and Threats.

In groups, students should consider each of the SWOT elements one-by-one. A good way of approaching this is for each member to think of one strength, these could then be pooled and discussed, and the process repeated for weaknesses, etc.

SWOT analysis tends to be very subjective, so comparing answers is often interesting.

Extension activity 1

Students could work out a short (one minute) "pitch" for one of the ideas. This could be presented to the class.

Extension activity 2

Students could carry out a SWOT analysis for an existing business e.g. Coca-Cola, Sony or even a local chip shop. If appropriate students could carry out some research on the business, perhaps using the internet, prior to the SWOT. Students could also do a SWOT analysis of their own performance at school!

Extension activity for maths lessons

Ask students to draw a graph of how much profit the Vendorama company would make (Y axis) depending on how many machines they have operating (X axis). On this graph they could show various penetration models – what if the spending averaged at £1, £2 or £3? They could also draw a graph to show the income and outcome models for the first 25 weeks of the company. Again, this could be varied according to different spending assumptions.

Feedback points

NB. Students should be made aware that, in reality, business plans are much longer and would go into much more detail. A bank would never consider granting a loan for a business on the basis of a business plan only one page long. However good the idea.

- Which business plan was the most professional?
- Which idea was the best?
- If you were a bank, would you consider funding any of these?
- If you had to fund one, which one would it be, and why?

Students could vote on the best idea overall.

Discussion ideas

Vendorama

All calculations assume that every student in the school will spend £2 a week. In other words they are assuming complete penetration of the market. Is this likely? Are their sums about the number of hits a week (1500) realistic? Students would only be able to use the machine about 3 hours a day (they'll be in lessons the rest of the time) – that works out at 15 hours a week or 900 minutes. They believe there will be 1500 hits a week. This is over one a minute! Is it likely the machine will be in such constant use? The business might be viable, but they will have to revise their sums.

Petography

The owner has not budgeted for his/her own living expenses. Once this has been taken into account, could the loan realistically be repaid? Also, are they likely to have so many customers early on? Would the owner need an assistant whilst the business is just beginning?

Golden Years

Is there a market for a disco for the over 50s? Would sufficient numbers want to go every week?

2. CREATING A BUSINESS PLAN

This could also be used or continued as a homework assignment

In groups, students have to write a business plan for an idea of their own. Students should use the same headings as in the sample plans. The business ideas could be fed back or "pitched" to the other students in the class. Which idea is the most feasible?

Here are some business ideas in case students are struggling to come up with their own:

- Weekend-long babysitting/crèche facility
- Dog walking business
- Mobile disco business

● FURTHER INFORMATION

<http://www.bplans.com/> has lots of free business plans. These may be too detailed, but they give a good idea of what a business plan looks like. They are also a good source of inspiration for business ideas.

BUSINESS PLAN: VENDORAMA



Summary

Large vending machines for schools. They will contain all the usual sweets and drinks. However, they will also contain weekly and monthly magazines such as TOTP and J17, as well as CD singles. Profits will be split 50/50 with the schools.

Business elements (ways of making money)

Because they are supplied in bulk, all products will be available at the standard retail price, offering us an average mark-up of 40%.

Industry Description

Vending has been increasing over the years. Young adults, in particular, are more comfortable with vending machines than older people.

Facilities/product analysis

The machines will be leased through Vendorama and an American firm with a UK branch. The machines are very reliable and are three times the size of a standard drinks machine. Each machine will cost £1000 to lease (20% discount for 100, 30% discount for over 1000). Key selling products will be crisps, confectionary, soft drinks, magazines, pens, rubbers, CD singles, and mobile phone cards will also be on offer. Machines will be restocked each weekend – this will allow new singles to be ready for the Monday release day.

Market analysis/strategy

We carried out surveys in three schools and 85% of students claimed they would use such a machine at least once a week. The range of products we intend to stock is based on the finding of our survey. We will take adverts out in the TES and magazines aimed at headteachers. It is hoped that word of mouth and peer pressure will also force most schools to take a machine.

Implementation

Locating premises, staff and contacting suppliers will occupy the first 4 weeks. After that, it is envisaged that take up will be approximately 6.25 schools per week, thus reaching the target of 100 after 16 weeks. This gives a 20-week start-up period, up to the target of 100 machines.

Staff and office

- The office/warehouse will cost £2500 p/week (£25 per machine per week (p/m/w) based on 100)
- 4 key staff at the head office will cost a total of £1500 p/week (£15 p/m/w based on 100)
- One stocker and van hire (and petrol) per 20 machines will cost £600 (£30 p/m/w)
- 3 salespeople will be paid a total £1000 plus commission p/week (£20 p/m/w)

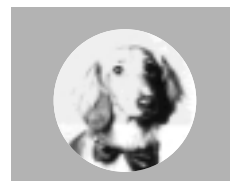
Financial plan

Each school has about 1500 students. An average of 40% mark-up is made on each item. If each student spends £2 p/week, this will yield £3000 p/week which makes £1200 after raw costs. Overheads are: £800 lease (based on 100), £90 staff and other cost p/m/w. This will yield a profit of £310 p/m/w. 50% will go to each school leaving £155.00 p/m/w. £15,500 p/week based on 100.

Loan required

£100,000 will see us through the 20-week start-up period. After this time, repayment will start. (Approx. £2200 p/week).

BUSINESS PLAN: PETOGRAPHY



PETOGRAPHY

Summary

A photography business specialising in photographing pets (of all kinds).

Business Elements (ways of making money)

- Pets will be photographed in the studio for £30 per hour (this will include 4 photos). People will pay more for extra photos or bigger photos
- Home visits can also be arranged
- If the customer wishes, I can turn the photos into a range of products – Christmas cards, T-shirts, dinner plates and coffee mugs
- I will also visit all the big pet competitions and photograph pets, offering owners the opportunities to buy the results
- The following will also be sold in the studio: pet grooming equipment, pet snacks, pet leisure products (toys) and photo frames

Industry Description

Photography has been a steady industry for many years. Pet photography is a new and exciting element of this and has recently exploded in America. As a nation of pet lovers, Britain is ready for this new exciting service.

Facilities/product analysis

Each photo sold should yield a profit.

Market analysis/strategy

Having trained at the À La Carte Institute of Pet Photography in Colorado, I learnt that pet photography is a product that people do not think about until it is actually on offer. Surveys produced before a business opens are usually worthless. I would market the business through local leafleting. The local press have agreed to do a feature piece when the business starts. This could lead to national press and perhaps television opportunities. I also plan to run a Pretty Pet competition for the local paper. This will generate publicity as well as revenue since anyone with their pet in the paper is bound to want lots of photos to give to friends.

Implementation

The business has low start-up costs and could be up and running within a week, if I get the money.

Staff and office

The Studio will cost £300 per week. An assistant/telephone person will cost the same.

Financial plan

I will need about 15 hours of work a week plus a few sales of photos and stuff to break even. However, I imagine I will be rushed off my feet and this should generate profits of about £500 a week.

Loan required

A loan of £10,000 will get the studio and dark room I need. I can pay this back out of my £500 a week profits.

BUSINESS PLAN: GOLDEN YEARS



Summary

A bar/night club aimed at the over 50s.

Business Elements (ways of making money)

- Entrance fee
- Drinks
- Vending machines
- Gaming machines
- Karaoke machine in the upstairs bar – pay as you play
- Bingo sessions and dance classes during the week
- Christmas parties etc

Industry Description

The whole nightclub industry has exploded over the last 10 years. However, this has largely been amongst younger people, or 'kids' as I call them. Now, a lot of people grew up in the Sixties when music was really good and when people really knew how to dance. They've now had kids who have left home. They've got lots of money to spend and are keen on meeting people like themselves. Where can they go? The pub? The restaurant? None of these give them what they want – a nice safe atmosphere, all the great music of the Sixties (with a few disco hits mixed in) where they can really get down to the grooves. There's nothing like that out there.

Facilities/product analysis

The club has all the facilities already available. I've got a good contact in Spain who can provide me with cheap wine, and that should provide a good mark-up.

Market analysis/strategy

Because the club is so unusual, we should generate a lot of good free publicity in the press. I plan to run a few special nights for free to get everyone in the mood. Fancy dress, Roman toga party. Mods and Rockers night – that sort of thing. They should help to get the party really swinging. I'll also take out ads in the local press and on the local radio.

Implementation

10 weeks to revamp the place and then we'll be open for business.

Staff and office

I've got a nice little building lined up. It's an old Sixties bingo hall at the moment and will cost £2500 a week with another £500 covering bills. (I'll keep some bingo on during the week to keep the place ticking over). Most of the staff will be sessional. I've got a few friends who can act as bouncers – keep the kids and weirdos out etc. I'll do the DJ stuff myself. Nothing fancy, mind, as I tell the kids 'I don't scratch anything I can't sniff!'

Financial plan

200 punters each paying a tenner will give £2000 on the door – drinks and machines after staff costs should add another £2000. The bingo and the dance classes during the week will bring in another £1500 on top. Giving a total of £5500 a week, leaving a profit of £2500 or £1500 after my own wages.

Loan required

I need to put a deposit down on the place (£10,000), plus enough to cover the rent for the first 10 weeks (£25,000). Redoing the place should cost about £30,000. Plus a bit of extra for spare (£5000). £70,000 should sort me out.

● **S.W.O.T TEAM**

A SWOT analysis is a standard way of examining a new or existing business.

Strengths

What is good about the business/organisation? Why would customers use the business/buy the product? What makes the business stand out?

Weaknesses

Are there obvious faults in the business? Which areas could be improved? What might be putting customers off?

Opportunities

Are there new markets that could be tapped into? What new products or services could be offered? Are there new ways of promoting sales? How might consumer trends change, and how could this be tapped into?

Threats

What new competitors might emerge? What extra features/products might they offer? Could the nature of the market change? Do new technologies represent a threat?

Having completed the SWOT answer these questions:

How could the business make more use of its strengths?

How could it overcome its weakness?

What should the business do to make the most of the opportunities?

How could it avoid the threats?



Unique Selling Points

5 Unique Selling Points

● **OVERVIEW**

Students explore the concept of USPs (Unique Selling Points), by inventing taglines for businesses and products.

● **AIMS**

- To make students aware of how business is often centred around a unique feature
- To explore the idea of USPs

● **LEARNING OUTCOMES**

Students should be able to:

- explain what a USP is
- identify some of the ways in which a USP can help a business to succeed
- produce taglines that centre around a USP

● **KEY TERMS/CONCEPTS**

USP, tagline

● **BACKGROUND INFORMATION**

Unique Selling Point

Most products and companies need to market themselves by pointing out a characteristic they have that their competitors lack. A garage may be the last one before the motorway, a shoe repairers the oldest in Grimsby. Dyson, for example, never tires of telling its potential customers that it builds the only vacuum cleaner that is free of the inconvenience and inefficiency of a dust bag. The makers of Polo mints always insist that theirs is the only 'mint with the hole'. In this case, the USP has become the company's most successful advertising slogan. Dyson vacuum cleaners and Polo mints are sold on the basis that there is no other product quite like them.

A USP can often enable a company to give its wares a 'personality', thereby encouraging the customer to enter into a kind of relationship with a product. This is called 'branding'. The famous Coco-Cola bottle, for example, with its strong 'Gotham City' styling looks distinctly American. As a result, using the bottle as a USP, Coco-Cola can associate itself with 'American values': freedom, equality, multi-culturalism. The Coco-Cola USP gives the brand an emotional appeal, and consumers feel they are imbibing a set of values.

A USP, then, is much more than simply a peg on which to hang an advertising campaign. It can give a business focus and direction, and its product or service irresistible appeal.

● **INTRODUCTORY QUESTIONS**

Which is the best manufacturer of trainers?

Why do students think so?

Where is the best place to buy a mobile phone? Again, why do students think so?

Do any of the trainers or the shops mentioned have anything unique that makes them different from other shops/goods? Do they have a money back guarantee, the widest selection etc?

What would make students choose one brand of washing liquid over another?

● **STUDENT ACTIVITIES**

1. USP FACT SHEET

Students should read the USP fact sheet. Included is a short exercise asking students to identify the USPs of several leading products and services.

Answers:

Gillette – the best a man can get.

USP focusing on quality

HMV – top dog for music

USP focusing on quality

British Airways – the world's favourite airline

USP focusing on popularity

John Lewis – never knowingly undersold

USP focusing on the price

Flake – the crumbliest, flakiest chocolate

USP focusing on the unique nature of the product

Extension activity

If students have completed the lesson on business plans, ask them to identify what the USPs of their businesses were. And if one wasn't obvious, how could they create one?

Discussion points

What other USPs can students think of?

In what ways can a USP help a business?

(Possible answers) By helping the business stand out from others. By providing a focus around which a business can base its philosophy.

2. CREATING A USP

Using the 'Creating a USP' sheet, students have to come up with a tagline for various businesses. It may be useful to look through some magazines and identify the taglines for several adverts.

Students should be encouraged to think about what makes each of the businesses/products unique, and use this as a basis for the tagline.

The answers could be fed back and the favourite for each business voted for.

Extension activity 1

Students could draw a poster for one of the businesses. Or they could draw a design for a chocolate bar wrapper.

Extension activity 2

Students could think of a USP for the school and draw a poster.

● **ASSIGNMENT OR HOMEWORK**

Using all the mediums of advertising as sources students could make a list of all the USPs they come across in the week.

USP fact sheet

A lot of products and companies are quite similar, so if a product or company is to survive in the cut and thrust world of business, it must try to stand out from the crowd. Advertising is one way to do this. But advertising itself is usually built around something more fundamental – a USP (unique selling point). This is the feature or angle that makes what you offer different from the rest.

It could be that your product is 'the cheapest', 'the most advanced', the 'only one' with pro-vitamin-fructo-juice', or to offer '24 hours protection'. Even if a company does not manufacture a product, but offers a service such as hairdressing or dry cleaning, it might still be the 'oldest' or the 'most reliable', or offer the 'widest choice' or the 'best value'. So USPs can take many forms.

Without a USP, businesses and products can find it hard to compete in the market place. Most businesses spend quite a bit of time thinking about where they see themselves in relation to their competitors, and by developing a USP they are able to build a distinct identity in the customer's mind. Once a company has decided upon a USP, it will often try and turn this into a slogan or tagline. Taglines usually occur in posters or adverts after the name of the product. Not all taglines reflect a USP, but many of them do.

Some companies build their whole business around a USP. So a USP is much more than just a way to advertise: it can give a business focus and direction, and will help a business survive.

1. What are the taglines for these products? And 2. What USP does the tagline bring out?

Gillette

HMV

British Airways

John Lewis

Flake

Think of 2 taglines for other companies

Examples of successful USPs

In America, Domino's Pizza dominated the delivery market by offering, "Fresh, hot pizza delivered in 30 minutes or less, guaranteed." Domino's virtually took over the deliver pizza market with that USP. Notice Domino's doesn't even promise that the pizza tastes good. They were the only ones to offer a delivery guarantee, and this made them stand out from the rest.

Wash and Go is another huge success story. "Why take two bottles into the shower when you can take one?" Other products on the market could also do the same thing, but none of them made use of this feature as a USP, so Wash and Go sales went ballistic.

Notice that often the USP does not actually have to be unique, but may market your company in a way that makes it look unique or different. As a customer, you should be aware that USPs don't always live up to the hype!

Creating a USP

Timber Land

Jamil owns a timber yard. He wants to advertise on the local radio

He has the largest timber yard in South Baynes
The business is run by the family
They have been trading for 40 years
They cut wood to measure
They make windows and staircases
They can guarantee their treated wood against rot for 3 years
Their prices are good
They have a car park for customers
They offer a delivery service at a small charge
Needs a tagline for local radio

Whatever!

Whatever! New youth magazine aimed at 11-14 year old girls

Full of pop gossip, fashion tips and agony columns
Trying to be slightly more alternative than other magazines.
A bit more sarcastic and cynical
It will offer no free bangles etc.
It will be weekly
It will be printed on recycled paper
It will be anti-dieting
It will have an ethical policy
Needs a tagline for its TV and poster campaign

WONDERLAND

Wonderland: A new theme park

The new park features more rides than any other in the UK
It also has parks for adults to enjoy
Kids under 5 go free if accompanied by two full-paying adults
Good car parking
Their main ride – The Thunder-ball is the first of its kind: 50 people are strapped inside a giant glass ball. Starting at the top of a slope the ball loops the loop, goes under brightly lit water, is pulled out before dropping down a tunnel into the heart of a Live Volcano where it is shot out to safety
Needs a good tagline for TV and posters

Mystery Munch

Mystery Munch: A new chocolate bar

Has three separate fingers in each pack. Somewhere in between a KitKat and a Twix aimed at a youth in the 11 – 24 market. Each finger has a biscuit base with a filling on top, which is encased by chocolate. Each finger has a different filling. Toffee, coconut and orange. You will not be able to tell which one is which. You could of course eat all three at once. You can offer a friend a stick while still retaining two for yourself.
Needs a tagline for its TV and Poster campaign

Crazy! Dave's Mad Warehouse

Has an enormous range of jeans from all the designer labels

Offers a £5 trade-in on old jeans
Has twenty changing rooms
Good prices
Large range of sizes
Offers a 7 day money back scheme
Located in the town centre
Needs a short tagline for adverts in local newspapers

Tips

You must not lie – but you can be creative. Should you choose price as a feature in the USP you cannot claim the lowest price, if that is not true. You could, however, claim to be

'Amongst the lowest prices you can find' or

'Beat our prices if you can', or

'Our prices are so low you won't believe it'

Try to make claims that cannot be really tested – e.g. 'People adore Chocolux'

Try not to use more than 20 words

Try to relate the tagline to a feature that makes the product/company stand out



Advertising & Marketing

6 Advertising and Marketing

● **OVERVIEW**

Students analyse information about advertising and the music industry. As a project, students have to prepare an advertising brief for a fictional record company. This section could be used to form a much larger maths project involving the use of statistics and presentation skills.

● **AIMS**

- To explore how advertising and marketing works
- To look at music as an industry

● **LEARNING OUTCOMES**

Students should be able to:

- explain what a target market is
- interpret statistics from the music industry
- create a rudimentary advertising brief

● **KEY TERMS**

Advertising, target market

● **BACKGROUND INFORMATION**

Marketing and advertising are essential to the success of a product or service. For a pair of trainers, the price alone is not usually enough to sell units and make a profit. The value and desirability of the product has to be suggested to potential customers. A pair of trainers that has been newly designed, for example, has to be promoted.

Marketing involves working out who the product is aimed at. A company will use 'market research' to try to discover what people want. A sample of people who buy trainers might be asked what features they require from a sports shoe, for instance. If the people interviewed seem to want bright colours, the company will design and manufacture a range of dazzling trainers. The company will believe it has got a hot new batch of products on its hands, and the customer will think she is being offered what she truly desires.

Advertising is the next stage of promotion. Slogans and images will be used to inform possible customers about a product or service. An advertisement publicises a piece of merchandise, explains what it is, and attempts to make people feel that they desire and need a product. The trainer will be photographed to make it look 'sexy', modern or innovative, perhaps. And a slogan will be invented to persuade the targeted customer that with these trainers she will be faster, stronger or more desirable to others.

Marketing, then, tries to identify what products the market needs, and advertising tries to convince the market that a particular commodity will satisfy those needs. Critics argue that marketing and advertising manipulate people into wanting and buying things they don't really need. Others say that marketing and advertising serve consumers and give them choice.

● **INTRODUCTORY QUESTIONS**

Why do companies advertise?

(Possible answers) To reach their target market. To sell more of their goods/services.

What is the target market for the following products?

Razors – *mainly adult men (although they are marketed differently to women);*

Coco-pops – *young children*

Washing Powder – *adult women and more recently men*

CD's – *various, mainly young people*

Soft drinks e.g. Tango, Iron Brew – *young people*

If you were choosing when to advertise the above products on TV, when would you choose to air the adverts? What time of the day/week? During which programmes?

Can you think of any adverts you like? Are they targeted at your age group?

Can you think of any adverts that are really boring? What age group are they targeted at?

Hopefully, students should notice that they are more interested in adverts that target their own age group.

Otherwise advertisers are failing!

How many different ways are there to advertise?

Newspapers/magazines, TV, radio; outdoor displays (posters and buses etc), and leaflets/direct mail.

Through internet sites, and through unwanted emails (spam). Through logos on clothing and equipment.

Through sponsorship of sports and other events.

If a band never had their music played on the radio and never took out any advertising or played any concerts, how many records would they sell?

Very few

Companies also try to get 'free advertising' through PR – this is where newspapers and TV talk about your product without you having to pay. This is very common in the film, TV & pop world, where people are interested in reading about such things. But it rarely happens in other areas, such as insurance, although such products may be written about for free in small, specialist trade journals. Getting free advertising is the role of a PR section in a large company.

● **STUDENT ACTIVITIES**

1. THE MUSIC INDUSTRY

Each group of students should receive a set of student worksheets one to six. The various tables should be talked through explaining their significance. The Question Sheet could then be handed out or asked, in order to make students more familiar with the various tables.

2. THE AD CAMPAIGN

Each group of students represents an advertising agency. Their agencies are approached by various record companies and asked to come up with an advertising plan. (See Advertising Brief Sheet).

The agencies must choose which brief they want to work on. Their aim is to produce a brief to take back to the record label, outlining how they would construct an advertising campaign. The brief should contain some of the following:

- the age group the company is targeting
- which shops the label should work with for promotional tie-ins
- the medium used for advertising
- How much should be spent on the campaign
- A breakdown of what this money should be spent on

The agencies should use as much of the information in the Music and Advertising Fact Sheets as they can. Their advertising plans must involve at least one graph or table. The briefs could then be handed in or fed back in the form of a 'pitch'.

Extension activity

This could be turned into a larger maths project, with students spending several lessons using the statistics to put forward a presentation outlining how the record company should advertise.

● ASSIGNMENT/HOMEWORK

How many adverts are students exposed to in one day? Ask students to compile a diary, noting down all the adverts they see in one day. The adverts could be on posters, TV, radio, cinema, in magazines, on computer screens, on books, bags etc. They may be found in school, at home, or out and about!

- How many adverts does it amount to?
- How many of them were targeted at their age range?
- Which one was best, and why?

● FURTHER INFORMATION

Most of the statistics used in this section are produced by the BPI (British Phonographic Industry). Founded in 1972, the BPI now represent over 280 record companies, from large multi-nationals to small independent labels. They are also responsible for the annual BRIT awards. Their website www.bpi.co.uk contains further information and has updated statistics. Anyone interested in a career in music should explore the BPI career guide at www.bpi-med.co.uk

Advertising Standards Authority (ASA) www.asa.org.uk

The Advertising Association, an industry body, produces downloadable leaflets all about the world of advertising, specifically aimed at students. <http://www.adassoc.org.uk/inform/content.html>

Advertising Questions

1. Which shop is the most popular for 12-14 year olds? **Table A**
2. Which shop is most popular for 15-19 year olds? **Table A**
3. Which age group is Britannia's largest market? **Table A**
4. A mail order company is thinking of advertising in a youth magazine, what would your advice be? **Table A**
5. How much money did record companies spend advertising in daily newspapers in 1998? **Table B**
6. Which are the fastest growing areas for advertising expenditure? **Table B**
7. Draw a graph to show that companies are spending more of their revenue on advertising. **Table D**
8. 12-19 year olds account for what percentage of singles sales? **Table C**
9. What percentage of the total expenditure on magazine advertising did youth and teen magazines account for in 1996? **Table B**
10. Approximately what percentage of singles sales would the average 34-year-old account for? **Table C**
11. Approximately what percentage of singles sales would the average 13-year-old account for? **Table C**
12. In what year did R&B album sales start outselling MOR? **Table G**
13. Estimate album sales for Pop, Rock and Dance for the year 2005
14. How much would 5 adverts on Carlton cost? **Table E**
15. In 1999 which type of music was worth the most to the industry: rock or dance? **Table G&H**
16. What percentage of dance singles are bought by 12-19 year olds? **Table I**
17. Why does Rock not sell so many singles?

Advertising Answers

1. Which shop is the most popular for 12-14 year olds? **Table A - Woolworths**
2. Which shop is most popular for 15-19 year olds? **Table A - HMV**
3. Which age group is Britannia's largest market? **Table A - 50-59**
4. A mail order company is thinking of advertising in a youth magazine, what would your advice be?
Table A - Not worth it
5. How much money did record companies spend advertising in daily newspapers in 1998?
Table B - £3,700,000 (*students may forget the 000's*)
6. Which are the fastest growing areas for advertising expenditure?
Table B - Cinema, posters, satellite, colour supplements
7. Draw a graph to show that companies are spending more of their revenue on advertising. **Table D**
8. 2-19 year olds account for what percentage of singles sales? **Table C - 47.7%**
9. What percentage of the total expenditure on magazine advertising did youth and teen magazines account for in 1996?
Table B - 65.11%
10. Approximately what percentage of singles sales would the average 34-year-old account for?
Table C The 30- 39 group accounts for 19.6% of single sales

34-year-olds account for approximately a tenth of this age group so the answer would be
19.6%/10 = 1.96% (*a graph may give an even more accurate figure*)
11. Approximately what percentage of singles sales would the average 13-year-old account for?
Table C - The 12-14 group accounts for 17% of single sales

13-year-olds account for approximately a third of this age group so the answer would be **17.0%/3 = 5.66%**
12. In what year did R&B album sales start outselling MOR? **Table G - 1998**
13. Estimate album sales for Pop, Rock and Dance for the year 2005
14. How much would 5 adverts on Carlton cost? **Table E**
5 x £30,000 = £150,000, minus 25% = £112,500
15. In 1999 Which type of music was worth the most to the industry Rock or Dance?
Tables G&H - Dance accounted for 22.7% of singles sales, but only 12.1% of album sales – given that album sales were worth approx 7 times single sales then the overall worth to the market would be ((7 x 12.1) + (1 x 22.7))/8 = 13.4% . Using the same formula for Rock gives a result of 21.2%
16. What percentage of dance singles are bought by 12-19 year olds? **Table I - 54.1%**
17. Why does Rock not sell so many singles?
Using table 2 suggests that under 29s account for nearly 70% of all single sales. Whereas the over 30s account for nearly 60% of all albums sales. In other words, younger people buy more singles, older people buy more albums. This reflects the pattern of Rock sales suggesting that Rock is generally bought by older people (whereas dance is bought by younger people).

Advertising Briefs

COMPANY	Country Classics
details	A new sub-branch of one of the major companies looking to sell their American Country & Western artists and modern versions of classical music to the UK under a new label.
revenue	Estimated revenue £3,000,000.
brief to advertisers	Come up with an advertising plan. Where to advertise, to whom and how much should be spent.

COMPANY	Weasel (as in pop goes the...)
details	A new label with 3 teen bands; 2 all boy, and the hot new all girl band that emerged from the hugely successful all-female-interactive-TV-search-for-a-star-show Pop Tarts.
revenue	Estimated revenue £3,000,000 if at least one of the bands breaks through.
brief to advertisers	Come up with an advertising plan. Where to advertise, to whom and how much should be spent. Also, which shops should the label seek to offer tie-ins with (special promotions etc).

COMPANY	Teamex
details	A large record company has separate labels that cover every genre of music from Rock to R&B, to Pop, to Classical. Is unsure which type of music to push, and how.
revenue	Will not disclose – is willing to spend £2,000,000 pushing the acts on one of their labels.
brief to advertisers	Which area of music would be good to move into and what age group should it be aimed at? Where should they advertise?

COMPANY	R. Rockoll (putting the rock in roll!!!)
details	Looking to revive the british rock band to compete with the new wave of american “limp bizkit” style nu-metal imports. Three new acts are lined up. Sinking Lizards, Vamp 1471, Nu order.
revenue	The company is happy to spend £500,000 promoting them.
brief to advertisers	What age group should the advertising be targeted at and what shops should be used for tie-in promotions?

Student Worksheet 1

A) Which shops sell the most and to which age group (BPI statistical handbook 2000)

	Our Price	HMV	Virgin	MVC	Other music retailers	WH Smiths
total market share %	8	19	11	4	10	6
share per group %						
12 to 14	15	15	15	2	6	12
15 to 19	12	23	18	4	6	7
20 to 29	10	26	12	3	12	4
30 to 39	8	16	8	6	13	5
40 to 49	6	17	9	4	11	6
50 to 59	4	13	8	5	11	7
60+	2	10	8	5	10	8
	Woolworths retailers	Major super-markets	Britannia	Other mail order	internet	Other outlets*
total market share %	13	9	7	4	1	9
share per group %						
12 to 14	23	7	1	0	0	5
15 to 19	16	7	1	1	1	5
20 to 29	12	8	7	2	1	5
30 to 39	12	12	9	2	1	7
40 to 49	12	10	9	6	2	10
50 to 59	11	8	10	9	1	14
60+	8	7	8	14	1	18

Retailer Album Share by Demographic group 1999/2000 (% across)

*Other outlets include some smaller shops, market stalls, service stations, bookshops, department stores etc

Student Worksheet 2

B) Record company expenditure on advertising (000's – figures in thousands) (BPI statistical handbook 2000)

MEDIUM	1996	1997	1998	1999
Television				
ITV	£30,000	£23,000	£27,000	£23,000
GMTV	£1,800	£1,800	£2,600	£2,600
CH4	£19,000	£21,000	£22,000	£22,000
Channel 5	–	£1,300	£2,000	£3,000
Sky	£3,000	£3,000	£4,500	£5,000
MTV/ VH1/ CMT	£ 700	£700	£1,500	£3,800
Other satellite	£700	£1,500	£2,500	£3,000
Total TV	£54,200	£52,300	£62,100	£62,400
Newspapers and Magazines				
Daily newspapers	£3,500	£3,800	£3,700	£ 3,500
Sunday newspapers	£900	£1,000	£1,000	£1,100
Colour supplements	£200	£300	£600	£800
General Weekly mags	£1,000	£1,200	£1,000	£1,400
Women's mags	£700	£1,200	£1,000	£1,600
Youth & Teen mags	£14,000	£15,000	£11,000	£11,000
Others	£1,200	£1,300	£800	£1,100
Total magazines	£21,500	£23,800	£19,100	£20,500
Radio	£11,000	£11,000	£15,000	£13,000
Cinema	£60	£280	£320	£460
Posters (outdoor)	£3,500	£5,500	£12,000	£14,000
Total record company advertising	£90,260	£92,880	£108,520	£110,360

These figure may not be very accurate. It is hard to be sure of poster expenditure and the real radio figures may be higher. Likewise the magazine figures may be a little lower as the table does not include the discounts that companies get if they advertise a lot in the same magazine.

Student Worksheet 3

C) Expenditure by demographic group

(Sales broken down into age groups) (BPI statistical handbook 2000)

AGE	Survey Population	All singles	All Albums
12-14	3.5%	17.0%	3.6%
15-19	8.5%	30.7%	14.8%
20-29	16.2%	21.6%	22.1%
30-39	21.5%	19.6%	24.4%
40-49	16.3%	6.4%	15.8%
50-59	16.1%	3.3%	11.5%
60 +	18.0%	1.5%	7.8%

D) Record company advertising as percentage of revenue (BPI statistical handbook 2001)

YEAR	Advertising expenditure (millions) of revenue	Industry revenue	Advertising as a % (millions)
1990	42	678	6.1
1991	42	710	5.9
1992	48	693	6.9
1993	52	786	6.7
1994	67	918	7.2
1995	90	1016	8.8
1996	92	1077	8.5
1997	93	1059	8.8
1998	110	1121	9.8
1999	105	1134	9.3
2000	112	1170	9.6

Student Worksheet 4

E) Approximate advertising costs

figures from www.adassoc.org.uk and www.emapadvertising.com (2002)

ADVERTISING COSTS	
Daily Mail full page (colour)	£45,000
Sunday Times full page (black and white)	£55,000
TV Times full page (colour)	£18,000
J17 full page (colour)	£8,000
Smash Hits full page (colour)	£9,000
Mixmag full page (colour)	£4,000
Yorkshire Post full page (black and white)	£7,000
Carlton 30 second weekday peak time spot (1926hrs – 2330hrs)	£30,000
Grampian TV 30 second weekday peak time spot (1715hrs – 2300 pm)	£1,000
30 second spot (each day, one week) in London Cinemas (530 screens)	£25,000
30 second spot (each day, one week) in Lancashire Cinemas (250 screens)	£7,000
BRMB (Birmingham Radio) 30 second spot, Wed-Fri (1600hrs – 1900hrs)	£140
Virgin Radio (AM/National) 30 second spot, Thur-Fri (1600hrs – 1900)	£560

If you take five adverts with the same organisation you receive a 25% discount, ten adverts gets a 35% discount.

F) Examples from various genre:

Pop	Rock	Dance	R&B
George Michael	Limp Bizkit	Fatboy Slim	Craig David
Corrs	Travis	Basement Jaxx	Jamiroquai
Robbie Williams	Blur	Chemical Brothers	Gabrielle
S Club 7	Queen	Moby	inc. hip-hop
Birtney Spears	Coldplay	Aphex Twin	Eminem
			Puff Daddy

G) Album sales by genre (BPI statistical handbook 2001)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Pop	42	43	38	34	33	35	34	37	37	32
Rock	29	29	33	28	30	27	26	25	22	26
Dance	8	7	8	11	13	10	12	10	12	13
R&B	N/a	N/a	N/a	6	5	7	8	8	10	12
MOR/Easy listening	8	8	9	7	67	9	8	6	7	5
Classical	7	5	5	5	4	4	4	5	4	4
Country	1	3	2	2	2	2	2	2	4	2
Jazz	1.1	1.4	1.4	1.6	1.2	1.4	1.2	1.4	1.2	1.0
Reggae	1.1	0.9	1.5	1.3	0.8	0.4	0.8	1.0	0.6	.9
Other	3.0	3.3	3.0	4.5	5.2	4.9	4.5	4.6	3.5	4.1
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Points to note:

1994 was the first year that R&B was counted as a separate category. This explains why pop suddenly seems to drop in 1994.

In 2000 Hip-Hop accounted for 4% of Album sales, this is included in R&B's 12% share.

In 1999 the value of album sales was over 7 greater than singles sales.

Student Worksheet 5

H) Single sales by genre (BPI statistical handbook 2001)

	1992	1993	1994	1995	1996	1997	1998	1999
Pop	46	42	34	31	36	40	41	44
Dance	29	28	28	26	24	22	22	22
R&B	N/a	N/a	13	14	18	18	18	15
Rock	23	21	19	23	20	19	13	13
Country	-	-	-	-	-	-	2	2
MOR/Easy listening	0.3	1.0	2.0	3.4	0.6	1.8	2.3	1.8
Reggae	0.7	7.6	3.3	1.5	0.5	0.4	0.5	1.0
Other	1.3	0.5	1.2	1.6	0.6	0.3	1.1	0.7
Total	100%	100%	100%	100%	100%	100%	100%	100%

Points to note:

1994 was the first year that R&B was counted as a separate category. This explains why pop suddenly seems to drop in 1994. In 2000 Hip-Hop accounted for 5% of single sales, this is included in R&B's 20% share.

I) Expenditure per genre albums/singles 1999/2000 – a selection (BPI statistical handbook 2000)

Age group	Survey population	Singles %		Album %			
		Dance	Rock/pop	Dance	Rock/Pop	Classical	Country
12-14	3.5%	18.6	16.5	4.9	3.8	0.3	2.5
15-19	8.5%	35.5	27.7	25.4	15.1	1.0	5.5
20-29	16.2%	24.7	19.1	31.4	22.6	5.3	18.8
30-39	21.5%	14.2	23.3	21.7	26.6	10.1	29.1
40-49	16.3%	4.1	7.8	10.0	16.3	21.4	14.8
50-59	16.1%	2.4	3.7	5.0	10.1	33.0	19.0
60+	18.0%	0.6	1.9	1.5	5.6	28.9	10.4

Student Worksheet 6

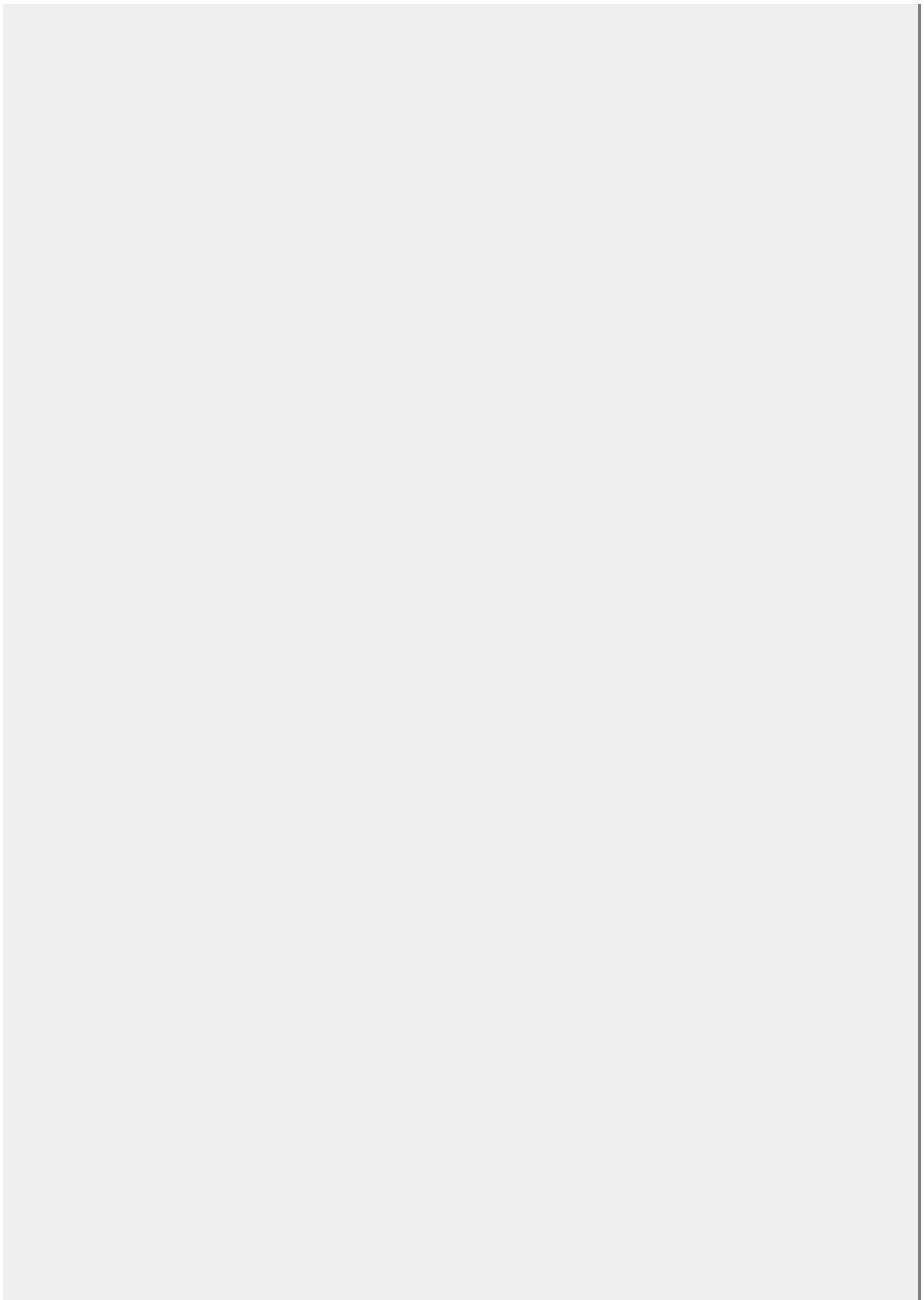
J) Market Penetration (BPI statistical handbook 2000)

"Market penetration" refers to the percentage of the population that have bought records in the last 12 months. In other words, what percentage of the population actually goes out and buys records. This sort of information is very useful for companies.

Imagine your company sold a brand of chocolate bars. It would be good to know whether you have a few customers who buy your bars a lot or lots of people who just buy the bar a little. With this information you can then make adverts that could appeal to existing customers, encouraging them to eat more bars; or you may want to target new customers and encourage them to try the bar for the first time.

Only 15% of the population brought a single last year; but amongst the 12-14 year olds this was very different: 56% (over half of the population) purchased a single.

		Singles	Albums	
Age group	Penetration %	Average spend buyer per year	penetration %	Av spend per buyer per year £
12-14	56	£27	70	£38
15- 19	36	£25	63	£107
20-29	19	£19	57	£91
30-39	13	£20	53	£82
40-49	13	£8	49	£76
50-59	6	£9	41	£66
60 +	5	£4	31	£54
Total	15	£18.14	48.7	£78.99
Total men	14	£19.78	50.2	£96.44
Total women	16	£16.62	48.4	£59.38





Business & Ethics

7 Business and Ethics

● **OVERVIEW**

A series of exercises exploring business and ethics. Students look at various dilemmas businesses and government might face when balancing the need to be competitive with the needs of employees, consumers and the environment.

● **AIMS**

- To make students aware of how various pressures on business can raise ethical dilemmas
- To explore how the government affects business

● **LEARNING OUTCOMES**

Students will be able to:

- explain the concepts of productivity and competition
- identify some of the ethical decisions that businesses may face
- discuss how governments can affect businesses

● **KEY TERMS/CONCEPTS**

Productivity, competition

● **BACKGROUND INFORMATION**

Businesses are set up in order to make a profit. However, the quest for profit can sometimes conflict with the needs of the environment, the demands of workers and the interests of consumers. These conflicting demands can raise ethical dilemmas. Should businesses use recycled paper, even if it costs more money? Should they offer workers holidays in excess of the minimum requirements? Businesses solve these ethical dilemmas in different ways, and sometimes, for example with the Body Shop, the solutions can form part of the ethos and values of the company.

But not every company behaves in this way, so is it the government's role to regulate business and ensure that minimum ethical standards are maintained? Defenders of market liberalisation claim that the free market can ethically regulate itself. If consumers really care about the environment they will buy ethical products and support green companies, and in the long run non-green companies will disappear. If companies want to attract and keep the best workers they will offer the best working conditions. Companies that don't look after consumer's interest will lose customers and fold. Thus there is no need to regulate businesses as the market will naturally regulate itself. Opponents of this view claim that regulation is necessary. Long term, structural unemployment means that workers are willing to accept very bad conditions in order to gain employment and thus, without regulation, will be exploited. Consumers do not have the luxury of choosing environmentally friendly goods and services if they are not competitively priced, so the green market remains niche and the costs remain high. Thus greater regulation is needed to protect the environment, workers and consumers.

The government wants to encourage business: high productivity means jobs, wealth creation and enterprise – economic growth. However, the government also represents workers and consumers. So, the government has to balance business demands with the interests of workers and consumers. If business is alienated, it may go abroad; if workers and consumer are angered, strikes and protests may occur and elections will be lost. Regulating business is a difficult juggling act.

● **INTRODUCTORY QUESTIONS**

Do any students work?

Do they feel that the company/business they work for looks after them well?

How environmentally friendly is the business?

● **STUDENT ACTIVITIES**

1. PRODUCTIVITY AND COMPETITION

Students, in groups, read through the information on productivity and competition, answering the questions. If necessary the sheet could be talked through with students.

Here are some possible answers to the questions

Increase productivity

The company could invest in new equipment and offer bonuses for workers to increase production.

Lowering cost price

Company could buy cheaper raw materials, lower wage costs. Increase efficiency (use less electricity etc.).

Interest rates

Most companies would prefer lower interest rates. Many companies have to borrow money to invest in new equipment or premises. The monthly repayments of loans will all be factored into the cost price. High interest rates will increase the cost price.

Exchange rates

Companies generally prefer a weaker pound. When the pound is strong (say £1=\$2) the price of British goods becomes more expensive for people in other countries to buy. (A sofa on sale for £1000 will cost an American \$2000 to buy). At the same time foreign goods become cheaper in Britain making it harder to compete in the home market. A weak pound (say £1 = \$1) makes British goods cheaper overseas and foreign goods more expensive over here. (The same sofa would now cost an American only \$1000) thus British companies become more competitive. However, a weak pound can make raw materials more expensive as these are usually imported and the pound would buy less. A weak pound also makes foreign imports more expensive and these two factors can increase inflation.

Law and taxes

Businesses generally prefer minimal legislation. They would prefer lower or no minimum wage, lower taxes, no environmental levies etc. If other countries do not have these then British companies may be less competitive. However, students should remember that for the government there is a need to balance the interests of companies with the interests of workers and the rest of society.

2. ETHICAL DILEMMAS

In groups, students answer the dilemmas on the business pressure work sheet. If there is disagreement within the group, the different options could be voted on. Each group's answers could then be fed back with a short discussion of each point.

Discussion points

1. You produce battery hen eggs?

Calling the eggs free-range would be illegal, and could cost your company a lot in the end! Putting 'produced in battery conditions' would not be good for sales! Many battery eggs are sold as "farm fresh", which consumer organisations think is misleading. The labelling of food is an increasingly important political issue. From a business point of view, it is important to try and create a nice image in the customer's mind to encourage the purchase. From a consumer's point of view it is good to have all the information about the food clearly labelled. Students should be aware that there are sometimes tensions between what is in a business' interest and what is in the consumer's interest.

2. You run a car wash company

Students may be familiar with some elements of the informal economy. It may have advantages for the individuals as they are able to work whilst still claiming benefits and companies may avoid having to pay certain charges, like the employer's contribution to national insurance. However, this is illegal and society as a whole loses out. Usually, tax is paid on income and this is used to pay for hospitals and schools etc. If no one paid taxes these hospitals and school would not exist.

3. You run a bakery

Often being environmentally friendly can save a business money, if a company makes sure it uses energy efficient lights, doesn't waste electricity etc. Also, if the bakery cuts down on its packaging generally this would save them money. However, at other times being environmentally friendly may cost a business. Because of this some people feel it is up to the government to force companies to be more environmentally friendly by imposing green taxes.

4. You run a pub

Perhaps if your pub had a sign up saying 'we recycle all bottles', it could be good for business.

6. You make light bulbs

Is it in the interest of your company to make a bulb that never wears out? Some critics of the free market claim that it sometimes encourages businesses to include 'built in obsolescence' in their products. For example, a business might be tempted to make TVs that after 7 years will stop working, and thus need to be replaced. However, such allegations are difficult to prove.

7. You produce footballs

Price fixing is illegal. See the article on CD price fixing in the lesson on competition. Once again, this can be very difficult to prove. Both car and CD prices have been under scrutiny in recent times.

3. GOVERNMENT AND BUSINESS

Using the government pressures worksheet, students, in groups, have to decide which policies to follow and for what reasons. These answers could be fed back and after discussion. The classes final policies could be voted on.

Extension activity 1

Students could research the law relating to business or the different political parties' business policies.

Students could also look at the annual report of a PLC, which should contain an environmental report and/or social audit

Extension activity 2

Students could look at the 3 business plans in the business plan section (page s39-41), use their own business plan if they completed it, and think about how the businesses could increase productivity or become more competitive.

Productivity and Competition

● **PRODUCTIVITY**

Imagine two similar factories with similar equipment, both making similar hot air balloons. Both factories employ one hundred people. Factory A produces a thousand balloons a year factory B eight hundred balloons. So factory A is producing ten balloons per worker whilst factory B is producing eight. This means that the workers in factory A are more productive.

In the long term, factory B may have to close down. The company will have to charge the public more for its balloons in order to pay staff wages. And the public will simply buy the cheaper balloons from factory A.

What could make one factory more productive than the other? Many factors can help to increase production.

- Better equipment
- Newer technology
- Better trained staff
- Incentives. If the staff received a bonus by producing a certain amount of balloons they may work harder
- Fear can also be used to increase production. In some parts of the world people will lose their jobs unless they meet tough targets. This can also help to increase production, but in a questionable way

EXERCISE 1

Imagine your school is a factory. Think about your own productivity. How much work do you actually produce in a week? Estimate the number of words you write.

Do you think you could improve your productivity? What could the school change to increase your productivity? Longer working hours? Earlier starts and earlier finishes? Longer breaks? Stricter discipline in classes? Incentives? Better grounds? Better equipment, e.g. more computers? Write a list of things that you think would improve your own productivity.

Competition

Your factory is producing hot-air balloons at £2000 a balloon: this is your cost price. This covers the pay for your workers, your rent for the factory, all your bills, your raw materials etc. However, your rival company in Belgium has invested in new technology and can now produce balloons for £1700 each which they then sell for £1900. This puts you in a difficult situation. Your customers are already starting to switch to the Belgian Company. In the short term, you can cut your price to £1900, but this will mean you are losing £100 a balloon, but at least the company is keeping going. However, you cannot keep this going forever. Somehow you will have to find a way of lowering your cost price and becoming more competitive. How can you do this?

EXERCISE 2

One way to lower your cost price would be to increase your productivity.

- How could you do this?
- Can you think of any other ways of lowering your cost price?

Other factors outside your control can also affect how competitive you are. Which of these would your company prefer?

- High interest rates or low interest rates? Why?
- Exchange Rates. Would your company prefer a pound that buys lots of foreign currency (a strong pound) or one that buys less (a weak pound)?
- Would your company prefer a higher or lower minimum wage?
- Higher or lower taxes on businesses?

Business Pressures

You produce battery hen eggs and need to decide how to package them

Would you:

- a) Say 'produced in battery conditions' on the box
- b) Just have a plain box
- c) Call them 'Farm fresh'
- d) Call them 'Free range'

Your car washing business employs six cleaners who wash the cars by hand

At the moment you employ workers at just above the minimum wage. This works out at £35 a day (plus holiday pay, plus NI contributions). A contact says he can provide you with workers on a daily basis, "no questions asked", for £25 cash a day and no paperwork required. What do you do? Stick to your old workers, or get the new workers in?

You own the "Use Your Loaf" bakery

A sales rep comes round offering you paper bags made from recycled paper. At the moment your paper bags cost you £500 a year, these would cost you £1200. What do you do? Stick to the old bags or take the new ones?

You are the manager of the "Hobgoblin" pub

Although you give some of your empty bottles back to the suppliers, the empty 'alco-pops' are not collected, so it's up to you whether to recycle or not. You would have to make 4 trips a week and spend 5 hours in total bagging them up and putting them in the bottle banks. Alternatively, the rubbish men will collect them every morning. You already work a 45-hour week. What do you do?

You run the "lean jean" fashion label

Your business is losing £1000 a week. But you cannot put your prices up as the shops would just buy jeans from elsewhere (possibly from abroad). To make the savings you can:

- a) Lose 2 workers and make the others work harder
- b) Reduce everyone's holiday allowance by one week and reduce the sick pay allowance to the minimum requirement
- c) Close down the business

You own "Enlightenment" - making light bulbs

You work out a way of producing cheap light bulbs that never wear out. You only need to replace them when they are smashed. Would you start making these bulbs or not?

You own "goala" - making footballs

Your two main competitors approach you and suggest that between you, you each raise the price of footballs by two pounds. Instead of competing with each other and keeping the price down, you could all get together and charge more. What do you do:

- a) Keep your prices as they are?
- b) Lower your prices to try to undercut your rival?
- c) Join forces with them and secretly 'fix' the price?

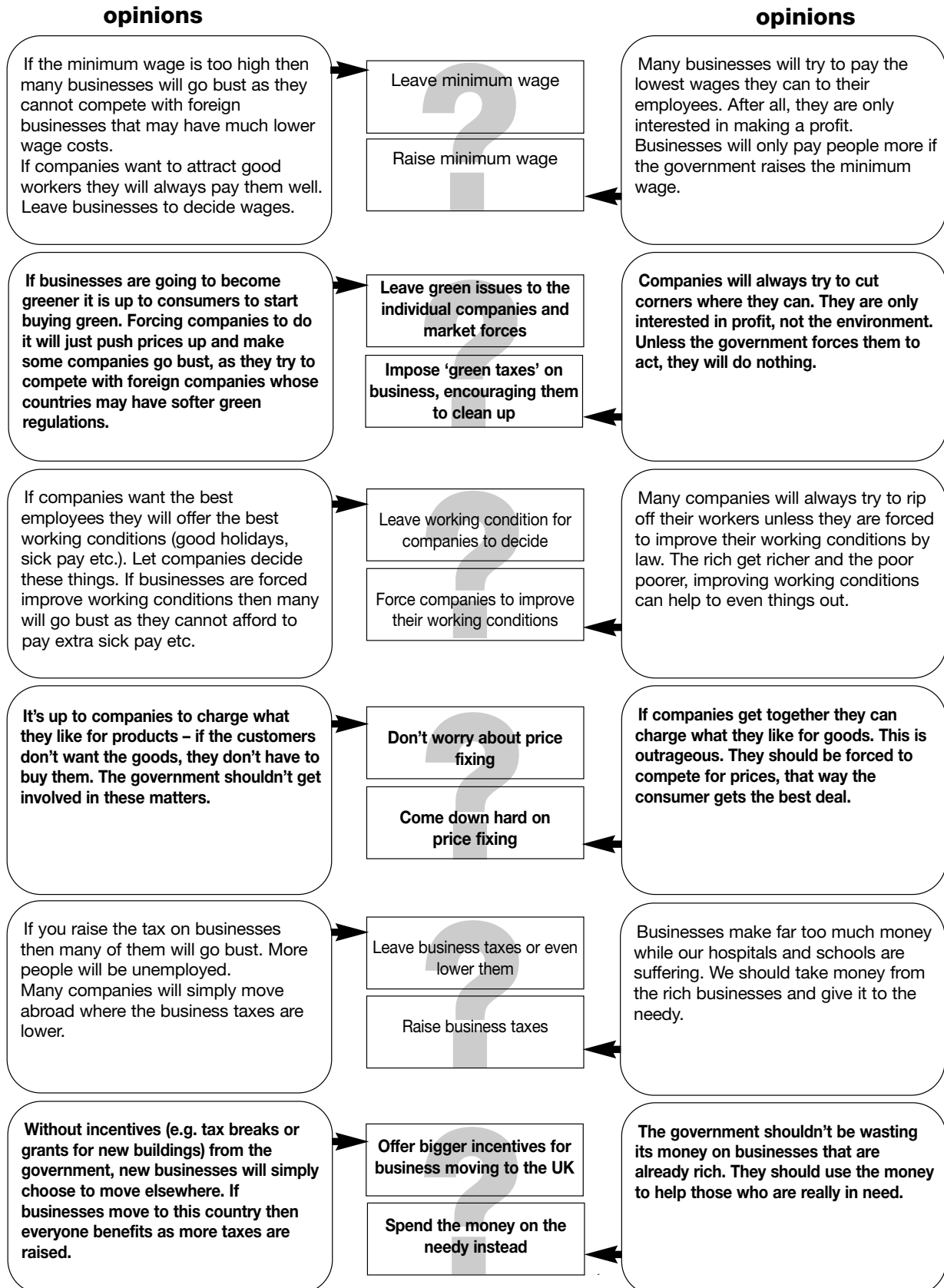
You own "Fun Fur" making toys for pets

Your company has made good profits this year. What do you do?

- a) Raise wages
- b) Give the money to a charity
- c) Reinvest the money to try and expand your business
- d) Keep the money yourself

Government Pressures

YOU ARE THE GOVERNMENT - MAKE YOUR DECISION





The Cost of Competition

8 The Cost of Competition

● **OVERVIEW**

Using a worksheet students have to compete to win a jeans manufacturing contract; then it is revealed how cheaply an Indonesian factory could produce the jeans. Students weigh up some of the pros and cons of globalisation.

● **AIMS**

- To explore how business pressure can affect the workers and the environment
- To look at some of the effects of globalisation

● **LEARNING OUTCOMES**

Students will be able to:

- explain how tendering works
- identify how foreign competition can undercut British businesses
- discuss the pros and cons of globalisation

● **KEY IDEAS/CONCEPTS**

Globalisation, competition

● **BACKGROUND INFORMATION**

Globalisation is the loose term for various economic and business trends that have been in existence for a long time, but have become rapidly more widespread in recent years. One of the main elements of globalisation is the trend for companies to establish operations beyond the boundaries of their country of origin, setting up factories, offices or projects in other parts of the world. The main driving factor is often the search for cheaper labour costs and overheads.

Defenders of globalisation argue that it creates and redistributes wealth, helps modernise developing countries, and benefits the consumer by providing cheaper goods. Globalisation, its supporters say, is inevitable and is the only viable way to eliminate poverty. Globalisation's critics contend that it is just a new way to exploit the world's poor. Companies employ the poorest people they can find to work in 'sweat shops', corrupt and bully governments, and pollute the environment.

Opposition to globalisation and the WTO (World Trade Organisation) has resulted in mass protests in cities such as Seattle, Washington, London, Genoa and Barcelona in the last few years. The anti-globalisation movement unites, among others, trade unionists, environmentalists, students, socialists, anarchists and cultural conservatives, and represents one of the more important new political movements in the West of recent times.

● **INTRODUCTORY QUESTIONS**

How much would the students clean a car for?

Imagine someone walked in the class and wanted his car cleaned: how could he get the lowest price?
*(possible answers) He could hold an auction and the lowest price win.
He could ask students to name their price on a piece of paper and then choose the lowest.*

Talk students through the process of tendering.

This is the process of asking for a quote and receiving offers. It can be used to get the cheapest price for a service if you are buying, or the most money if you are selling.

When TV companies bid for football rights, they are asked to submit their offers to the FA, and they choose the best one, usually the TV company that pays the most money.

In 1999, the government announced it would allow four phone companies to offer new generation mobile phone services. Phone companies had to submit a bid saying how much they would pay for this right. The highest four bids were granted the rights. This raised the government £22 billion pounds.

Local councils have been asked to offer many of their services to tender. For example, companies were asked to put in a bid for collecting rubbish. The best proposal (usually the cheapest, but not always) gets the contract.

● STUDENT ACTIVITIES

1. JEAN TENDERING

Scenario

Each group of students represent a jeans manufacturer. Most of the time the manufacturer makes clothes to other companies' specifications. In other words, they don't have their own label. One of the world's top brands has asked your company to put in a quote for producing 100,000 jeans to their new design. They want the quote presented as a price per jean.

Using the worksheet, each group has to make various decisions and try to come up with a price per jean.

The answers could be fed back. Which company came up with the lowest price? What did they choose? Did any company offer the jeans at a loss for the prestige of getting the contract?

Discussion points

Raw materials

What would happen if the goods were not made to a sufficient standard?

(Possible answers) The company would not be used again. If the jeans were sub-standard the client may refuse to pay for them.

Treatment

Why would you choose to build your own plant?

It could be cheaper in the long run. In general, companies should only invest heavily if the economic outlook is good. If the demand for jeans is going to drop, the company may be lumbered with debt.

Wages

What are the problems of paying people the lower wage?

Turnover may be high. Staff may not stay long and new staff do not usually produce as much, as they are still learning the job. Also, if staff feel the company is not looking after them then they may not be inclined to work as hard.

What are the problems of paying good wages?

Your company may become uncompetitive and may lose business. On the other hand, it can be argued that higher wages will encourage staff to work harder, so productivity will increase.

Other costs

Electricity costs are higher since the government has introduced a climate change levy (a tax) on electricity used by businesses. This is to encourage businesses to find ways of using energy more efficiently.

Reveal the Comparison Sheet

This shows how an Indonesian factory may compete for the same contract.

Would it help business if there were no minimum wage in this country?

Might help business, but would it help the workers?

How can your business compete with the company from Indonesia?

Possible answers could be:

- Build production facilities in North Africa and scale down the UK production
- Invest in high tech equipment – allowing you to turn around production at a quicker speed. The UK fashion scene no longer has ‘two seasons’ so labels are looking to bring new ranges out more often. Being able to produce quickly could give a competitive advantage over countries that take longer to change over production from one design to another.
- Try to start your own label. Employ some young designers and persuade some of the high street retailers to take your range.

Which of these answers do students prefer?

Note: During the industrial revolution the textile industry in this country was one of the main sources of employment, although workers often worked in appalling conditions. Even in 1900 about 10% of the workers in the country were employed in the textile business. By 2000 this was less than 1%.

What would happen to businesses in this country if the minimum wage was raised to £10 an hour and the government made every company pay high environmental taxes?

Many British businesses would go bust; they would not be able to compete with businesses abroad

What would happen if there were no laws about how much you could get paid?

Competition might force people to work for very little

In general, who benefits from low jean prices?

The customer

Who suffers?

Possibly the workers and the environment

2. GLOBALISATION

Having seen how foreign competition can affect British companies, students now explore the wider implication of global competition.

Using the pros and cons of globalisation cards, students first should sort the cards into pros and cons, then the cards in each pile should be ranked in terms of importance.

Discussion points

Did the students agree with their answers?

The class could debate and decide on the two most important pros and cons.

How can some of the negative effects of globalisation be overcome?

(Possible answers) Large companies could be persuaded to only use the factories with the best working conditions.

The governments in the countries where some of these factories exist could be persuaded to allow greater union powers. In the UK, the working conditions during the industrial revolution were appalling. Greater workers rights, union representation and collective bargaining eventually improved the lot of workers. (<http://www.spartacus.schoolnet.co.uk/IRchild.htm> has lots of accounts of child labour in Victorian times. The case of Robert Blincoe is particularly harrowing.)

● EXTENSION ACTIVITY

Students could research working conditions in Indonesia. www.caa.org.au is a good website and contains personal accounts of workers in so-called "sweat shops". Students could also research the websites of some of the large clothing and trainer manufacturers to see their policy/position on working conditions.

woven cotton from India		
High quality: grade A £180,000	Mid quality: grade B £150,000	Low quality: grade C £100,000
zips		
High quality £50,000		Low quality £30,000



Treatment

Quality dye £30,000 Mid quality dye £20,000 Low quality dye £15,000		
<p>Dyeing clothes uses a lot of water, which must be paid for. It also produces a lot of waste water, coloured with dyes. All these chemicals must be removed from the water either by you or by the local water company which charges for the service. (Advice: although using the water company may be cheaper this year, in future years their costs will increase, whereas the repayments will probably remain the same. Also, you may be able to charge other companies to treat cotton for them with your own plant.)</p>		
Use water pay water company to clean the water £60,000	or	Borrow £500,000 to build a small treatment plant which you will pay back over 10 years. One years payment with interest is £75,000



Process

Wages: you employ 40 people		
Minimum wage & minimum holidays £500,000		Above average wage & good holidays £650,000



Other costs

Building. You have two basic options here – you can pay rent or buy a building.	
Rent £150,000	Buying a building would cost £1,500,000 which you would have to borrow and then repay over 10 years at £180,000 a year
Previous loan repayment for new equipment in last year's expansion: £30,000	
Your wages: remember you are co-owners £_____ (fill in)	
Bills: electricity, gas, rates £30,000	
Depreciation: the total cost of machinery, computers and equipment in the plant is £1,000,000. This will have to be replaced from time to time. It is important to factor this in to your price – otherwise you may be making a loss. Generally, depreciation is estimated at 10%, which would come to £100,000 .	



Pricing

Add up the total and divide the amount by 100,000 (the number of jeans) this will give you a unit cost price per jean.

Unit cost =

Then decide what price per jean you would wish to put forward to the jean label. You must decide what to charge. Some may argue that you could even sell the jeans at a slight loss, because of the prestige of working with a top label would be good for the companies' long term interest. Other people would argue that you need to stop competing for the mass market, slim the company down and produce expensive 'high-end' clothes, perhaps with our own design team.

Tender Price =

woven cotton from India		
High quality: grade A £120,000	Mid quality: grade B £100,000	Low quality: grade C £75,000
zips		
High quality £35,000		Low quality £25,000

Treatment

Quality dye £15,000	Mid quality dye £10,000	Low quality dye £5,000
Water treatment laws are not as strong as they are in the UK so treatment is not a major issue. Water treatment £5000		

Process

Wages: you employ 90 people. The factory employs over twice as many people as the UK factory. It has less machinery so needs more manual work. However, labour is much cheaper, about 15 times cheaper than in England.

Minimum wage minimum holidays £85,000	Above average wage good holidays £110,000	Minimum wage but with a possible productivity bonus. £110,000 if targets are met £85,000 if not.
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Other costs

Building rent, again this is cheaper in Indonesia.
Rent £10,000
Previous loan repayment for new equipment in last year's expansion: £20,000
Your wages: remember you are co-owners
Bills: electricity, gas, rates £5,000 other costs Electricity costs are higher in the UK. Partly of this is because the government has introduced a climate change levy (a tax) on electricity used by businesses - this is to try and encourage businesses to find ways of using energy more efficiently.
Depreciation: the total cost of machinery, computers and equipment in the plant is £100,000 . This will have to be replaced from time to time. It is important to factor this into your price – otherwise you may be making a loss. Generally, depreciation is estimated at 10% which would come to £10,000 .

Pricing

Even using the most expensive products the total cost will be in the region of £330,000 working out at £3.30 per jean.

Hourly compensation for apparel manufacturing in 1998, in US dollars. This includes wages and other benefits.

USA	Malaysia	Mexico	Thailand	Indonesia
\$8.00	\$1.15	\$0.85	\$0.65	\$0.15

Data from Kurt Salmon Associates as found in www.sweatshopwatch.org
(UK pounds would be about one third less making the hourly figure for Indonesia in the region of 10p)

Globalisation

Globalisation - background

Globalisation is the loose term for various economic and business trends that have been in existence for a long time, but have become rapidly more widespread in recent years. One of the main elements of globalisation is the trend for companies to establish operations beyond the boundaries of their country of origin, setting up factories, offices or projects in other parts of the world. The main driving factor is often the search for cheaper labour costs and overheads.

Defenders of globalisation argue that it creates and redistributes wealth, helps modernise developing countries, and benefits the consumer by providing cheaper goods. Globalisation, its supporters say, is inevitable and is the only viable way to eliminate poverty. Globalisation's critics contend that it is just a new way to exploit the world's poor. Companies employ the poorest people they can find to work in 'sweat shops', corrupt and bully governments, and pollute the environment.

Opposition to globalisation and the WTO (World Trade Organisation) has resulted in mass protests in cities such as Seattle, Washington, London, Genoa and Barcelona in the last few years. The anti-globalisation movement unites, among others, trade unionists, environmentalists, students, socialists, anarchists and cultural conservatives, and represents one of the more important new political movements in the West of recent times.

● PROS

Cheap goods

Using the cheaper labour and raw materials available in other countries means that we can all enjoy quality products at low prices. Cheap goods mean that consumers enjoy a better standard of living. Consumers can then afford to buy expensive items – like DVD players, games machines – thereby helping new industries grow.

World unity

Global trade is not just good for businesses, workers and customers. It can also lead to international understanding. Globalisation helps people learn about other countries. This leads to understanding, friendship and peace. The chances of war decrease.

Increased employment in economically developing countries

Foreign businesses employ workers in economically developing countries. These workers will spend their wages in local shops and businesses, spreading their wealth. The government can tax these new workers and raise money for schools and health, for example. This helps create a skilled workforce.

The creation of international financial bodies

The WTO (World Trade Organisation) encourages globalisation and is a big and powerful international institution. Through loans and economic and management advice, it enables countries to enter the modern world market. It also acts like a policeman, making sure business is fair for us all.

Spreads technology

Foreign companies often bring new technology. The workforce of a developing country may have to be trained to use computers, for example. Fresh ideas, new machines and a better trained workforce can help a country improve its own industries and technology.

Wealth creation

Globalisation leads to better use of workers and resources, which results in greater wealth and increased production for the world as a whole. A richer world means that the people living in it are better off.

Decreases the gap between the rich and poor

Globalisation gives poor countries a chance to compete with the richer nations. The creation of wealth, exchange of technology and reform of economies helps developing countries become more modern.

Investment in the developing world

Companies from rich countries that want to employ people in economically developing countries have to pump money into those nations. Everyone benefits: the company gets good workers, and the poor country enjoys new wealth and higher employment.

Women's rights

During the Second World War, because so many men were away fighting, women were needed in factories. This encouraged women to demand that they be treated equally with men. Similarly, increased employment in developing countries means that women are often needed in the workplace. This can lead to women being treated better than before.

Spreads human rights

Some countries treat elements of their population very badly. People with different religious beliefs, for instance, are sometimes thrown in prison. Globalisation can show the rest of the world how these countries behave and can lead to improved human rights.

Homogenisation

Globalisation means that cultures mix. The richer nations' cultures can overwhelm poorer ones. In this way traditions, or even languages, can be lost. Everywhere starts to look the same, and the world becomes a less interesting place.

Exploitation of cheap labour

Rich countries want more globalisation because they can use the cheap labour of developing countries. If developing countries are desperate for work, they can be exploited. Companies from rich countries can make the people of poor countries work for very low wages.

Outside interference

In order to trade globally, a poorer country may be told by rich countries that it has to change the way it is run. Poor countries can be pushed around by wealthier nations. This gives one or two very big countries a lot of power.

Profits are taken by the rich

Companies from rich countries employ people from economically developing nations. But the enormous profits from the sale of the goods made in poor countries are kept by foreign businesses, and paid out to shareholders in rich countries.

Labour laws undermined

In order to attract foreign business and investment, some countries try to make their workforce as cheap as possible. To do this, they may ban labour unions. Globalisation, then, may deny poor workers political power and rights.

Undermines state

Powerful foreign corporations can bribe and corrupt governments to gain advantages. Global companies are beyond the control of any single government. In some cases this could be dangerous. Companies may start to have too much influence.

Pollution

Countries sometimes make themselves attractive to foreign business, allowing manufacturing processes that are banned elsewhere. Poor countries may become more polluted as a result. Equally, the availability of cheaper goods means that it's tempting to throw more things away: recycling is discouraged and waste increases. Transportation of goods around the world by air and land also causes pollution.

Lower wages

Because companies can save so much money by relocating manufacturing jobs to the countries with the cheapest labour costs, this means there is pressure to keep wages low everywhere, including in the UK.

Traditional industries damaged

Foreign factories may offer people in economically developing countries higher wages than they may have been earning in traditional industries. This robs traditional industries of workers, and they decline. If costs rise too high, foreign companies close their factories or offices. Globalisation can, then, leave poor countries even worse off than before.

Employment

As companies seek cheaper labour and minimal overheads, they can suddenly 'up sticks' and move somewhere more suitable, leaving behind increased unemployment. The large textile towns and cities in England have already suffered at the hands of globalisation.



Loans: buying a car

9 Loans: buying a car

● **OVERVIEW**

Students complete budget sheets for fictional characters. They then must decide which characters can afford a loan and which car they should buy.

● **AIMS**

- To explore the idea of budgeting
- To raise awareness of the cost of borrowing

● **LEARNING OUTCOMES**

Students will be able to:

- explain the principle of budgeting
- complete a budget sheet
- explain what a loan is
- identify how interest rates affect repayments
- explain the term APR

● **KEY TERMS/CONCEPTS**

Budgeting, loans, interest rates, APR

● **BACKGROUND INFORMATION**

The financial capability of students will vary widely - as it does across the adult population. Research has shown that 7% of all households in the UK have no financial service at all: that is, no bank account, credit card, pension, insurance etc. A further 20% of households just have one or two financial products. (From *Kept out or opted out? Understanding and combating financial exclusion*, by Elaine Kempson and Claire Whyley, published by the Polity Press). Thus some students in the class may have little or no knowledge of financial products. For many students, loans may be associated with debt collectors or with catalogue schemes that often target the financially excluded, so sensitivity may be required in teaching this and other areas of financial services. However, the large number of households financially excluded in the UK also suggests that this is an important topic to cover. The following background information may be of use in teaching this subject.

A loan is an advancement of money from a lender. A loan will have to be repaid in full within a set time. Lenders will also charge interest, so that the total amount repaid will be greater than the amount borrowed (unless the loan was interest free). Loans are typically available for amounts between £500 and £15,000, over a period ranging from 6 months to 10 years.

The interest rate charged will vary depending on the amount borrowed, the period over which the loan is to be repaid and the degree of risk to the lender. Generally, the more you borrow, the lower the interest rate offered. The lender's interest rates can either be fixed or variable, although the majority of personal loans offer a fixed rate.

Personal loans can either be secured or unsecured. Secured personal loans may have your property set against them as security for the amount borrowed, meaning that if you fail to repay your loan you may be at risk of losing your property. Secured personal loans usually offer a lower rate of interest compared to unsecured loans.

The Consumer Credit Act (1974) states that all credit agreements, loans, and mortgages require full written details of the true interest rate (i.e. annual percentage rate – APR) to be quoted; a cooling-off period to be given, during which borrowers may change their minds and cancel agreements; and all agreements to be in writing. (The Act does not cover overdrafts.)

APR. The APR is a measure of the cost of each credit agreement, taking into account all the charges made including interest. It enables you to compare the cost of each deal and work out which is the best value. As a general rule, the lower the APR, the better the deal.

Arrears. This describes the amount the borrower is behind in their loan repayments schedule. The amount is usually measured in either pounds or months.

County Court Judgements (CCJ). An adverse ruling by a County Court against a person who has not satisfied their debt payments with their creditors. Once the ruling has taken place it will be recorded against the person's credit history and will appear every time a credit search is done for the next seven years. If a person has a County Court Judgement against them they may find it harder to get lower cost loans and mortgages.

● **INTRODUCTORY QUESTIONS**

- Does everyone want to buy a car at some point?
- How much does a new car cost?
- How much does a second-hand car cost?
- What age do you think you'll be when you own your first car?
- How will you pay for it?
- What are loans?
- How do they work?
- What are interest rates ?
- If you were getting a loan, would it be better to get one at 25% APR or 7% APR (APR = Annual • Percentage Rate – see background notes)
- Does anyone in the class save money?
- How quickly do most people spend their allowance?
- Has anyone ever kept a budget?

● **STUDENT ACTIVITIES**

1. BUDGETING PART 1

Using the Budget worksheet, each group should try to work out the average monthly spending of a twenty-one-year-old living in a flat. They should also remember to allow for seasonal variations in spending wherever relevant. (It may be useful to bring in a local newspaper or a free advertiser that has rent prices.)

Discussion points

- Were the students realistic?
- What surprised students the most?

2. BUDGETING PART 2

Using the Young People Cards, students have to work out the budget for each of the characters (or just one or two of them).

3. BUYING A CAR

Using the Car Details worksheet, students have to work out:

- a) Whether each of the young people can afford to buy a car
- b) Which car they should buy (for the purposes of this exercise the same model may be purchased more than once, if the students so choose)
- c) Which loan they should go for

Discussion Points

Do the characters really need a car?

Can they afford them?

What would happen if the character was unable to make the repayments on the loan?

This would depend on the individual loan agreement. The character may be taken to court and receive a County Court Judgment (CCJ). Creditors may be entitled to seize certain goods, or a deduction may be made from your wages. A CCJ may make getting loans in the future much harder

Students should be made aware of “loan sharks” offering loans at very high rates of interest. Students should also be aware that if they ever did need to borrow money they should shop around for it, just as they would for any expensive purchase. Shopping around will nearly always save money. Many adults will shop around for ages to get the right car, quibbling about every detail and bargaining over every last penny, and then, without even thinking, automatically take the loan package offered by the car dealership, which could end up costing hundreds more than other loans available.

Extension activity 1

Students could write a tip list – 5 things to take into account before getting a loan.

Possible tips:

- *Treat a loan like any other large purchase i.e. always shop around for the best deal. The deal offered by the shop/seller may not be the best value*
- *Don't take out a loan for longer than you need. After all, do you still want to be paying for this item in two or three years time?*
- *What is the total amount you will repay?*
- *Always check the APR*
- *Be realistic about what you can afford to repay*
- *Are there any other ways of paying for the item? E.g. saving up or maybe using an overdraft or a credit card (the interest rates may be higher, but these can offer value if the loan is only required for a short time)*
- *Do you really need to buy the item in the first place?*
- *Seek independent advice*

Extension activity 2

Students could work out the total repayments for each of the loans on the car detail sheet.

Extension activity 3

Students could choose one of the characters and write down whether they think they should buy a car or not and why?

● ASSIGNMENT OR HOMEWORK IDEAS

1 Using the same categories as the budget sheets, students could estimate how much they spend in a week. For the following week students could then keep a record of every penny spent and compare this to their estimations. Were they surprised by what they found?

2. Students could keep any information they find on loans. Which student can find the cheapest loan for £1,000 over a two year period (24 months). How did the high street banks compare to other lenders?

● FURTHER INFORMATION

The Financial Industry Standards Association website <http://www.fisa.co.uk> contains information on what APR is, how it is calculated and even contains a downloadable programme to calculate APR.

The Face 2 Face With Finance modules produced by NatWest also cover various elements of personal finance. Details are provided on the resource page in the introduction.

BUYING A CAR I budget sheet

For the first column imagine you are a twenty-one-year-old sharing a flat with two other people

Spending per month (a month is 4.33 weeks)					
Category	1 What do you reckon it costs?	2 Tamsin Long	3 Sadie Prabatani	4 DJ Spinsta	5 Michael Thomas
Rent					
Bills (gas, electric, water, phone, council tax)					
Other loans, debts					
Food					
Clothes					
Entertainment, going out, buying CDs, magazines					
Holidays (how much does a holiday cost? divide by twelve to get a monthly cost)					
Pension					
Travel					
Total outgoings					
Total income					
Amount left over					

Budgeting

Remember: people also need to have fun – they need to buy clothes, CDs, go out etc. Work out how much to allow for this per week and then multiply it by 4.333 to get a monthly figure (x 52 weeks/12 months). Bear in mind that expenses may differ from winter to summer.

The average person living alone will need to spend about £25 a week on food. If the person wants to eat out or get a takeaway this will cost more.

Running a car will cost money. Insurance will be about £500 a year (it may be much more) and then petrol and tax will add up to about £20 a week.

Buying a car – getting the right loan

None of the characters have any savings to buy the car outright so the car will have to be purchased with a loan.

There are many different types of loan. Because none of the people own their own house they will have to get an unsecured loan. They may not even get this if they have had any debt troubles in the past.

Try to keep the loan period as short as possible. The car may not last for 5 years and it would be really annoying to keep on paying for a car that no longer exists. Try to get the sort of car you think the person wants, needs and can afford.

BUYING A CAR | car details

type of car	BMW 318i Touring Auto
details	<ul style="list-style-type: none"> • white • sunroof • alloys • power steering, • 4 months MOT
mileage	148,000
age	10 years
price	£1,500
seller	Crazy Dave's Mad Motors
quote from seller	'A classic motor. Sure, the mileage is high but cars like this are built to last.'
comment	Crazy Dave offers you finance @ 33% APR. Remember that insurance will be very high on this car (about £120 a month)

type of car	Ford Escort 1.4LX
details	<ul style="list-style-type: none"> • white • 4 door hatchback • K reg • sunroof • central locking • good condition inside & out
mileage	68,000
age	8 years
price	£1,700
seller	Private owner
quote from seller	'It's a lovely car. I don't really want to sell it, it's like losing a close friend.'
comment	Insurance will be cheaper – about £50 a month

type of car	Renault 1.2 Be Bop
details	<ul style="list-style-type: none"> • Black • 3 door • sunroof • face off stereo radio cassette • new front tyres • 8 months MOT
mileage	35,000
age	6 years
price	£2,600
seller	Deals on Wheels
quote from seller	'It's a lovely little runner. Only one owner – an old lady, kept in the garage, took it out once a week for shopping. You won't find a better one around.'
comment	Insurance will be about £40 a month

type of car	VW Golf 1.4
details	<ul style="list-style-type: none"> • Grey • 5 spoke alloys • 6 x cd player • full service history • long MOT
mileage	60,000
age	8 years
price	£2,500
seller	Private owner
quote from seller	'It looks good, it drives well, its given me no problems, what more I can tell you?'
comment	Insurance will be about £55 a month

Loans and Rates (length of loan)	Monthly payments		
	1 year	2 years	3 years
£1,500 @11% APR From a high street bank	£132	£70	£49
£1,500 @24% APR From Loan Rangers	£140	£78	£57
£1,500 @33% APR from Crazy Dave's	Dave only gives loans for 5years = £51.69/month		
£1,700 @11% APR From a high street bank	£150	£79	£55
£1,700 @24% APR From Loan Rangers	£159	£88	£65
£2,500 @11% APR From a high street bank	£220	£116	£81
£2,500 @24% APR From Loan Rangers	£234	£130	£95
£2,600 @11% APR From a high street bank	£229	£121	£84
£2,600 @24% APR From Loan Rangers	£243	£135	£99

Annual percentage rate (APR). If you know the APR this helps you to work out the total cost of a loan.

A loan with a high APR costs more than a loan with a low APR. Generally, it is best to go for the lowest APR.

BUYING A CAR | young people

Tamsin Long	
age	18
background	Left school at 16 with 4 GCSEs. Lives at home. Spends quite a bit on clothes and likes to go clubbing at the weekend.
job	Trainee hairdresser.
income (year)	£9,000 (£7,600 after tax and National Insurance)
fixed outgoings per month	Rent £200 to mum (includes food and bills). Travel £10, catalogue repayments £30 (via her mum).
reasons for car	Wants to be more independent She'll be the first of all her friends to have one
credit rating	Credit rating is good.
quote	'It's more than just hair, it's a lifestyle'.

Sadie Prabatani	
age	24
background	Left university two years ago with a degree in journalism. This is her first job. She shares a flat with a friend from university; stays in during the week .
job	Journalist.
income (year)	£19,000 (£14,600 after tax and National Insurance)
fixed outgoings per month	Rent £300, bills £70, student loan £100, pension £80.
reasons for car	Needs it for work, to travel around.
credit rating	Good.
quote	'Don't quote me.'

DJ Spinsta	
age	18
background	Left school at 16. No qualifications, wants to set up a DJ collective studio-stable. Lives at home.
job	Part-time in record shop.
income (year)	£6,000 (£5,600 after Tax and National Insurance)
fixed outgoings per month	Rent £100, a previous loan for equipment £60.
reasons for car	To move her stuff, to look the part.
credit rating	Possible to get credit, she is young and is on the electoral register.
quote	'In two years people will be queuing to give me cars. You got to be seen to be scene'.

Michael Thomas	
age	19
background	Left school at 18 with a GNVQ. Lives in a shared house with four friends from college.
job	Trainee Estate Agent.
income (year)	£11,000 (£8,900 after tax and National Insurance)
fixed outgoings per month	Rent £220, bills £40, saving for college £50.
reasons for car	To get around.
credit rating	Not good as he has not been registered on the electoral roll. High street banks may not give him a loan.
quote	'Keep it real.'



Credit Scoring

10 Credit Scoring

● **OVERVIEW**

Students role play banks and have to decide which customers to lend money to.

● **AIMS**

- To make students aware of how credit scoring works
- To explore the factors that affect credit scoring

● **LEARNING OUTCOMES**

Students will be able to:

- explain what credit scoring is
- list some of the factors that may affect credit scoring
- discuss how fair the system is

● **KEY TERMS/CONCEPTS**

Credit Scoring, County Court Judgement, Electoral Register

● **BACKGROUND INFORMATION**

Most people today have some form of credit, be it a car loan, a charge card, an overdraft, a mortgage, a mobile phone or a mail order account. Credit has become part of modern life. Being excluded from credit can seriously affect people's lives. Thus, understanding how lenders make credit decisions can be an important and valuable lesson.

Lenders have to make decisions about who they will and who they won't lend money to. Each lender will have their own system by which they make a decision. Typically this will involve some form of credit scoring. A lender will ask you to fill in an application form which will contain information about yourself. They may also seek other information about you - e.g. your past record in debt repayment, whether you have any outstanding County Court Judgements etc. from a credit reference agency (consumers should always be informed by the lender, orally or in writing, if a credit reference check is being carried out). Each relevant bit of information is then assigned a positive or negative score - e.g. if you have a history of not repaying loans, this will gain a negative score; if you have been with the same bank for a long time this will gain a positive score. After all the factors have been taken into account, your information will result in an overall score, e.g. 35 points. The bank may then have their own cut off point, e.g. 20 points. If you exceed that score then you will receive credit, if not, you will be refused. (In reality, banks would use complex mathematical analysis rather than a simple cut off point, but the principle remains the same).

The main credit reference agencies in this country are Experian, Equifax PLC, MCL Software Ltd and Callcredit PLC. These agencies do not make any decisions about whether to give credit or not. They provide information that the lenders will then use to make decisions. Some of the information they provide will be obtained from public records; for example, the electoral register, court judgments, bankruptcies. Other information is gained from individual companies such as banks, building societies and other financial institutions (most of the major lenders have agreements to share information). You can obtain your credit reference file from these agencies for the statutory cost of £2.

Credit scoring has been used to make credit decisions for the last 30 years; but in recent times its use has become more widespread. Phone companies may use a form of credit scoring to decide whether a customer should have a pre-pay or monthly account, shops to decide whether you can have instant credit. Even the utility companies may use scoring systems to decide the type of meter a customer may have. As more information is gathered on our spending habits, the way we pay our bills, how we service our debt

etc., it is likely that companies will increasingly use this information to make judgements about the types of goods and services we can have access to. Often this can be advantageous, helping companies to match their goods and services to our needs, but for those whose credit rating is not high, it can lead to a cycle of exclusion.

The OFT (Office of Fair Trading) guidelines on credit scoring set out that scorecards should not discriminate on the grounds of sex, race or religion. Credit should also not be refused solely on the grounds of place of residence.

A County Court Judgement is a record of a debt, entered on the public register to show that an individual has been taken to court for the recovery of a sum of money. Once the ruling has taken place it will be recorded against the person's credit history and will appear every time a credit search is done for the next seven years. If a person has a County Court Judgement against them they may find it harder to get lower cost loans and mortgages. (Judgments that are issued in Scotland are referred to as decrees.)

The Electoral Register is compiled from forms filled in by householders and shows who is entitled to vote. Each year the electoral registration officer conducts an annual canvass to ascertain who, in his or her area, is entitled to be included on the register. A form is usually used for this purpose, delivered to all homes in the area. Completing the electoral registration form is compulsory, and failure to register is a criminal offence. The resulting register is published on 1 December each year. The Representation of the People Act 2000 also introduced 'rolling registration'. This new scheme allows prospective electors to apply to be added to the register throughout the year. Registration should take no longer than six to eight weeks. Monthly registration details and application forms can be downloaded from www.rollingregistration.co.uk.

● **INTRODUCTORY QUESTIONS**

What do banks/building societies do?

(Possible answers) Amongst many services they offer a place to keep money, and savings. Provide services such as cheque books, cards and cash points. Offer loans and mortgages for personal use and for business.

How do they make money?

Various ways. One of their main sources of income lies in the different rates for saving and lending. If you put money in a bank you may get 5% interest a year. After one year that would give you a total of £105. If you borrowed from a bank you may pay 8% interest. Thus if you borrowed £100 you would have to pay back £108. So the bank receives money from savers and pays interest on this and then lends the same money to borrowers, charging a higher rate of interest.

Are banks good or bad? Why?

Possible opinions.

Good, because they keep money safe, they enable people to borrow money and thus buy houses and cars etc.

Bad, because they may lend money for ethically dubious purposes.

Do you think you will ever need to borrow money from a bank? What for?

Buy a house, have an overdraft as a student, take out a personal loan.

Have you ever lent money to anyone?

Would you lend money to anyone who asked?

If you were a bank would you lend money to anyone who asked for it?

● **STUDENT ACTIVITIES**

1. Setting up a bank

Students in groups, each represent a small, newly formed bank. After quickly deciding a name, the banks have to consider how they are going to decide which customers to lend money to and which to refuse?

Did the students want to know some information from the customers before deciding? If so, what information?

The groups should then draw up a form that people applying for a loan would have to fill in. They should think about the sort of information they might need to know before deciding to lend someone money. For example: name, age, reason for the loan, employment record, any other existing loan.

2. Credit scoring

Each 'bank' receives a copy of the Character Sheets. Explain that these people have applied for a loan from your bank. This is a summary of the information from their application forms and from a credit reference agency that the bank uses to find out about the person's previous loans, time on the Electoral Register and County Court Judgments etc. Explain these terms if necessary (see background notes).

Each group should discuss whether they would lend these people money on the basis of the information.

Hand out the Credit Scoring Card, talk students through the table and explain how a bank might use one - i.e. depending on the information, each applicant will gain a certain overall score. If that score is below a certain level, decided by the bank, a loan will be refused. If it is above a certain level then a loan will be given.

In groups, students should work out:

1) What the various characters score. (It would be helpful to start them off by showing that Michael Purse is aged 24, that scores 0 points, he has been in his current job for 3 years, that scores 9 points...etc.)

Answers should be:

<i>Michael Purse</i>	27
<i>Soraya Allen</i>	6
<i>Shaffique Choudrey</i>	119
<i>Sarah Peach</i>	10

2) Decide what the cut-off score should be for giving a loan

N.B. It is important to point out that the Credit Scoring sheet they have been using is fictional. Each bank will have devised its own system. This sheet is highly simplified and does not, for example, take into account: salary, the size of the loan required or the amount of existing loans that need to also be repaid. Students should also be aware that 'bounced' cheques are now often recorded and included in data for credit scoring.

Discussion points

Is this scoring system fair?

Credit scores are not allowed to discriminate against people on the basis of sex, race or religion, but they do discriminate against people on the basis of their age. The fictional credit score card directly discriminates against young people because of their age, but in how many ways does it also indirectly discriminate against young people?

(Possible answers)

Job: young people will be unlikely to have been in employment for many years

Time with bank: again this is not likely to be high

Time on the electoral register: young people cannot join the electoral register until they are 18

Number of previously paid loans: young people are unlikely to score in this category either

Also credit scores seem to be unfair against people who for whatever reason have had difficulty paying off loans in the past. This can lead to financial exclusion.

Is this fair?

Why would banks not want to lend money to young people?

Often young people may not have steady work; they may go to college or change their life plan, in which case they may not be able to pay off the loan. Some young people may not be responsible with money; they may borrow when they don't need to and be unrealistic in thinking they can repay it.

Extension activity 1

Students could fill out one of the young people cards using their own details, and then work out their own credit score. Would they qualify for credit under their own system (ignoring the fact that they may be under 18)?

Extension activity 2

Students could write a tip-list for someone leaving school on how they could improve their credit rating.

Possible tips:

- *Open a bank account as soon as possible*
- *Make sure you don't default on any existing loans*
- *Pay your bills (don't get a county court judgment!)*
- *Place yourself on the electoral register as soon as you can*
- *If you are refused a loan, think about why this might be before applying somewhere else, applying too many times can damage your credit rating.*
- *Try not to move house too many times!*
- *Wait until you have been in employment for a while before you apply*

● FURTHER INFORMATION

<http://www.experian.co.uk> – the consumer help section explains what a credit reference agency does. Has downloadable education leaflets.

Credit ratings | Personal details

Michael Purse	
age	24
job	Garage Assistant
for how long	4 years
salary	£10,000
address	6 Blackwood Road
length of time there	6 months
last address	16 Davy Street
reason for loan	new car
amount requested	£2,000
your company also writes off to a credit reference agency that has the following information:	
time with bank	6 years
county court judgements	0
no. of recently refused loans	2
years on the electoral register	4
no. of previous paid loans/credit	1
value of outstanding loans	£200
any missed payments	yes

Soraya Allen	
age	19
job	Assistant Carer
for how long	6 months
salary	£7,000
address	5 Hadrian Avenue
length of time there	9 years
last address	-
reason for loan	holiday
amount requested	£1,000
your company also writes off to a credit reference agency that has the following information:	
time with bank	2 years
county court judgements	0
no. of recently refused loans	0
years on the electoral register	not on register
no. of previous paid loans/credit	0
value of outstanding loans	£0
any missed payments	no

Shaffique Choudrey	
age	47
job	Health Worker
for how long	11 years
salary	£29,000
address	11 Greystoke Mansions
length of time there	7 years
last address	-
reason for loan	build a conservatory
amount requested	£10,000
your company also writes off to a credit reference agency that has the following information:	
time with bank	15 years
county court judgements	0
no. of recently refused loans	0
years on the electoral register	25
no. of previous paid loans/credit	5
value of outstanding loans	£1,000
any missed payments	no

Sarah Peach	
age	29
job	DJ
for how long	2 years
salary	£10,000
address	34a Downside Mews
length of time there	3 years
last address	76 Trombone Parade
reason for loan	new decks
amount requested	£2,500
your company also writes off to a credit reference agency that has the following information:	
time with bank	(no bank)
county court judgements	2 (unpaid phone bills)
no. of recently refused loans	0
years on the electoral register	2
no. of previous paid loans/credit	0
value of outstanding loans	£0
any missed payments	no

Credit ratings | Scorecard

Each bank or money lender will have its own way of calculating how risky it might be to lend someone money.

The following is an example. The lender will take various bits of information from the application form and then ask for more information from a credit reference agency. Each factor/answer will be assigned a score. The scores are then totalled up and if the score is higher than the cut-off rate set by the bank, then the person will receive a loan. If the score is lower then they will be refused.

fictional credit scorecard

Factors	age	18-22	23-28	29-39	40+	
score		-5 points	0 points	15 points	20 points	
number of years in current job		up to 1 year	1-5 years	6-10 years	10+ years	no job/self employed
score		-3 points	9 points	15 points	20 points	-5 points
number of years in current property		up to 1 year	1-5 years	6-10 years	10+ years	no data
score		-5 points	4 points	9 points	15 points	-5 points
Time with bank		up to 1 year	1- 5 years	6 -10 years	10+ years	no bank/data
score		-5 points	5 points	10 points	20 points	-10 points
Number of county court judgments		0	1	2	3+	no data
score		10 points	-5 points	-18 points	-30 points	0 points
recent refused loan applications		0	1	2	3	no data
score		0 points	-5 points	-7 points	-11 points	0 points
years on the electoral register		up to 1 year	1-5 years	6-10 years	10+years	not on register
score		-5 points	10 points	15 points	20 points	-10 points
no. of previous paid loans/credit		0	1	2-4	5+	no data
score		0 points	5 points	10 points	20 points	0 points
recent missed payments		yes	no			no data
score		-5 points	0 points			0 points

● QUESTIONS

What do the various characters score?

What should the cut-off rate be set at?

Is this scoring system fair?

What can you do in the next few years to help your credit rating?



Work Experience Project

11 Work Experience Project

● **OVERVIEW**

Students, during work experience, focus on their placement as a business.

Citizenship can be used as a focus for some of the learning around work experience. Students could explore some of the political elements of work in the run up to placement. Looking at issues such as discrimination, the huge differences in pay or the work/life balance. *Work Matters*, also by the Institute for Citizenship, contains several lessons on these topics.

During placement, students could also carry out a citizenship focused enquiry. Such as:

Looking at democracy in the work place

How much representation do the workers have? How strong is the union representation? Are workers consulted?

Exploring the work/life balance

How many hours do employees work? Do they socialise with their colleagues? Would workers like to work less? Do people feel stressed?

This section contains ideas for carrying out a citizenship focused enquiry, whereby students examine their placement as a business.

● **AIMS**

- To help students understand the world of business through their work experience placement

● **LEARNING OUTCOMES**

Students will be able to:

- explain some of the key features of a business
- identify some of the key business features of their work placement
- reflect on how the business could change

● **BACKGROUND INFORMATION**

The nature of students' work placements will vary enormously. Some may work for a section of the council, others in shops and offices, some even in schools. However, despite the wide range of experiences it is still possible to analyse most placements as a business. Most placements will have clients, owners, income, outgoings etc. And being in a placement is an ideal way of seeing some of these businesses' elements in action.

During the placement, students should not find it too difficult to find out the information. Many workers are often happy to talk in general terms about a business, its history, how it will look in 5 years etc. Such "shop" talk is all too prevalent in the work place! However, students will need to be sensitive about finding out and discussing the information and should ask permission before carrying out the research.

● **STUDENT ACTIVITIES**

Show students the work experience project sheet and talk them through the various boxes. Students, in groups, are then given the Potted Account of Crazy Dave's Monster Warehouse! (worksheet). Using Crazy Dave's as a case study, the students have to identify all the features outlined on the project sheet (e.g. description of the client base, the USP etc.) The results could then be fed back.

The students should complete the work experience project during their work placement, the project sheet forming the front page of their project. The sample sheet shows the sort of answers that students may be expected to give.

Students should be encouraged to ask different people in the placement about the different topics covered. Most employees in a company have strong opinions about how the company could be improved, where it is heading, who the main competitors are, etc. And they will be only too pleased to air their views! Asking such questions should prove a useful way of learning about a business - it could also help the student to integrate in the workplace.

● **EXTENSION ACTIVITY**

Students could repeat the exercise by using the school as an example of a business.

Work Experience Project I Master Sheet

Business analysis sheet completed by: _____

Topics investigated	Completed? N/A not applicable NC not completed	Page number	Hints
Name of business			What is the full name of the business?
Description of business			What does the business do?
History of business			When did the business start? How has it changed?
Who are the competitors in the market?			Which businesses are doing a similar thing and competing for the same clients?
Does the business have a USP? (unique selling point)			Is it the cheapest, the best, the quickest, offer the widest range, the most reliable?
Approximate number of employees			Approximately how many people does the business employ?
Who owns the business?			You do not need to name any individuals. Is the business owned by one person, a group of people, is it a public company owned by the shareholders?
Description of client base			Who does the business sell its goods or services to? The general public? If so, what type of person? Perhaps to another business? If so, what type of business?
What part of the business did you work in?			Within any business there are different sections or jobs, what section of the business did you work in?
Is the business expanding?			Did the business used to be bigger or smaller? Are there plans to take on more workers?
Where will the business be in ten years' time?			Is the business planning any major changes?
Environmental impact of business			Does the business recycle waste? Does it use a lot of electricity? Does it produce pollutants?
What would you change about the business?			Would you do things any differently?

Work Experience Project I Sample Sheet 1

Business analysis sheet completed by: Gemma Jones

Topics investigated	Completed? N/A not applicable NC not completed	Page number	Hints
Name of Business	yes	1	What is the full name of the business?
Description of business	yes	1	What does the business do?
History of business	not completed	-	When did the business start? How has it changed?
Who are the competitors in the market?	yes	1	Which businesses are doing a similar thing and competing for the same clients?
Does the business have a USP? (unique selling point)	yes	1	Is it the cheapest, the best, the quickest, offer the widest range, the most reliable?
Approximate number of employees	yes	2	Approximately how many people does the business employ?
Who owns the business?	yes	2	You do not need to name any individuals. Is the business owned by one person, a group of people, is it a public company owned by the shareholders?
Description of client base	yes	2	Who does the business sell its goods or services to? The general public? If so, what type of person? Perhaps to another business? If so, what type of business?
What part of the business did you work in?	yes	2	Within any business there are different sections or jobs, what section of the business did you work in?
Is the business expanding?	yes	2	Did the business used to be bigger or smaller? Are there plans to take on more workers?
Where will the business be in ten years' time?	not completed	-	Is the business planning any major changes?
Environmental impact of business	yes	3	Does the business recycle waste? Does it use a lot of electricity? Does it produce pollutants?
What would you change about the business?	yes	3	Would you do things any differently?

Work Experience Project I Sample Sheet 1

Page 1

Name of business

Carpetland.

Description of the business

The shop sells carpets to the public and some to businesses. They can deliver the carpets and fit them.

Who are the main competitors in the market?

The main competitors are Carpet World, which is outside Newtown. There is also a smaller shop in the high street called Underlay Underlay! John Lewis and B & Q also sell carpets, but they don't have many.

Approximate number of employees

The company has about 30 employees, although about 10 of them are part-time. Some of them only come in on Saturday.

Does the business have a USP?

Carpetland has the "biggest choice at the best price". They use this in their adverts on the local radio. Their prices are very low.

A Potted Account of **Crazy Dave's! Monster Warehouse**

Crazy Dave's! sells jeans. The company has two different operations: retailing (selling to the public) and wholesale (selling in bulk to other shops). On the retailing side, Crazy Dave's! has seven small shops in town centres around the country. The shops only sell jeans and are known for their wide range and cheap prices. They stock nearly every brand, from Calvin Klein to Lee; from Wrangler to Dolce and Gabbana. Their typical customer is aged 16-30 and male, although women's sales have increased a lot over the last few years. On the wholesale side, Crazy Dave's! has a large central depot that sells jeans on to other small businesses around the country. These tend to be local bargain shops (everything for £1 type of thing) that also stock a small range of clothes.

The company was started in 1982 by Shaffique Prabatani and has grown steadily since then. Last year the company started its own range of clothes "Crazy Denim". Crazy Dave's! designs the jeans but they pay another company in Tunisia to manufacture them. At the moment, the "Crazy Denim" label is only sold through the Crazy Dave's! shops and accounts for only 5% of their sales. In the future, they are hoping that the "Crazy Denim" label will be sold at other shops.

The company uses non-recycled bags, and does not recycle the many cardboard boxes used every day. However, the main warehouse does use energy efficient lighting.

The company employs 80 full-time staff and twenty part-time workers. 55 workers are based at the main office/depot and the rest work in the 7 shops. Most of the staff feel quite secure in their jobs and are confident about the company's future. The company has plans to open another 2 shops next year, and 3 more the year after.

Ricky recently spent a week doing work experience in the central office/depot. Some of the employees Ricky spoke to thought that the company should forget about the cheaper brands of jeans and focus on the well-known ones. They reckoned the cheaper brands gave Crazy Dave's! a bad image. Other people thought that Crazy Dave's! should give up competing with the 'big boys' like Mad House and the Blue Jeans Trading Company, and branch out from just selling jeans. That way they could reach a much larger market.

Ricky thought that the company needed a canteen. There were 55 staff in the central depot and they all had to wait for the sandwich man to come round each morning and even then they had nowhere to eat the food.

