[Personal Financial Management Unit Standard]

Each Package contains:
Student Workbook (this sample)
Assessor Guidelines
Teaching Powerpoint
Assessment

28104

Analyse the impact(s) of external factors on personal finances

Level	3
Credits	3
Version	1

STUDENT WORKBOOK

NAME:

TEACHER:

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Outcomes and evidence requirements

Outcome 1

Analyse the impact(s) of external factors on personal finances.

Evidence requirements

1.1 External factors are identified and explained in terms of impact(s) on personal finances and the financial significance of the impact(s).

Range:

- three external factors that cover local, national and global factors.

Award of Grades:

Achieved, Merit, or Excellence

This unit standard can be awarded with *Achieved, Merit*, or *Excellence*.

Criteria for Achieved

For the *Achieved* grade to be awarded, the outcome must be achieved as specified in the outcome statement. Leaner must analyse the impact of external local, national and global factors on personal finances.

For *Merit* or *Excellence* to be awarded, the candidate must meet the *Merit* or *Excellence* criteria specified below.

Criteria for Merit

The analysis includes a detailed explanation of the external factors and their impact(s) on personal finances and includes examples of a range of short, medium and long term impacts.

Criteria for Excellence

The analysis includes a comprehensive explanation of the external factors and their impact(s) on personal finances and includes consideration of considering:

- indirect impacts e.g. through changes in supply and demand;
- consequences of the impacts.

Definition

External factors refer to:

- international events
- interest rate changes
- inflation
- economic environment changes – growth
- societal or demographic trends
- climatic change
- political change
- environmental issues
- legislation
- natural disasters
- man-made disasters or events
- technological developments
- transport development

Local Factors	National Factors	Global Factors
Legislation	Interest rates	International events (such as war or economic crises)
Natural disaster	Inflation	Interest rates
Man-made disaster	Political change, such as a change of government	Inflation
Transport development, such as cheaper or faster transport systems	Legislation, such as a change in GST or tax rates	Economic environment changes
Climate change or other environmental issues	Natural disaster	Climate change or other environmental issues
	Societal or demographic trends, such as the "baby boomers" reaching retirement	Political change, such as a change of government in world-leading countries
	Man-made disaster	Natural disasters
	Technological developments, such as internet banking	Man-made disasters
	Transport development, such as cheaper or faster transport systems	
	Climate change or other environmental issues	

External Factors

	Event	Local	National	Global
1	international events			*
2	interest rate changes		*	*
3	inflation		*	*
4	economic environment changes			*
5	societal or demographic trends		*	
6	climatic change			*
7	political change		*	*
8	environmental issues			*
9	legislation	*	*	
10	natural disasters	*	*	*
11	man-made disasters or events	*	*	*
12	technological developments		*	
13	transport development	*	*	

International Events:

Wars and Disputes

- War has profoundly influenced economic history across time and space.
- Winners of wars have shaped economic institutions and trade patterns.
- Wars have influenced technological developments.

Above all, recurring war has drained wealth, disrupted markets, and depressed economic growth.

Wars are:

a. expensive (in money and other resources),
b. destructive (of capital and human capital), and
c. disruptive (of trade, resource availability, labour management).

- Large wars constitute severe shocks to the economies of participating countries.
- War generally impedes economic development and undermines prosperity.
- In addition to draining money and resources from participants' economies, most wars create zones of intense destruction of capital such as farms, factories, and cities.

These effects severely depress economic output for the country at war.

- It is ironic that, from a certain perspective, war can be beneficial for an economy.
- War leads to higher government spending, higher employment and can therefore provide a boost to domestic demand, economic growth and help reduce unemployment.

Economic Crisis

- The most recent financial crisis, also known as the Global Financial Crisis (GFC) and 2008 financial crisis, is considered by many economists to have been the worst financial crisis since the Great Depression of the 1930s.
- It resulted in the threat of total collapse of large financial institutions, the bailout of banks by national governments, and downturns in stock markets around the world.
- The crisis played a significant role in the failure of key businesses, declines in consumer wealth estimated in trillions of U.S. dollars, and a downturn in economic activity throughout the world, leading to the 2008–2012 global recession.

Tasks:

1. Describe how **one war**, such as in Ukraine or in The Middle East, could **affect New Zealanders' financial** situation.

Give examples of a range of short, medium and long term impacts on personal finances of the chosen war.

a. Short Term:

b. Medium Term:

c. Short Term:

3. Explain how the **New Zealand economy** was affected by the **Global Financial Crisis** (GFC).

4. Fully explain, using examples, the impact of the **GFC on an individual's** personal finance.

Interest Rate Changes

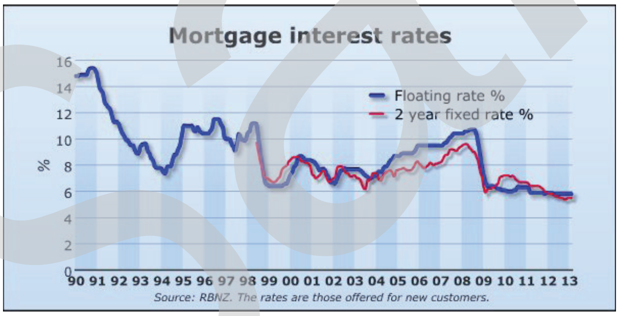
Increased Interest Rates:

Increases the cost of borrowing.

- Interest payments on credit cards and loans are more expensive.
- Therefore this discourages people from borrowing.
- People who already have loans will have less disposable income because they spend more on interest payments.
- Therefore other areas of consumption will fall.

Increase in mortgage interest payments.

- Interest payments on variable mortgages will increase.
- This will have a big impact on consumer spending.
- This is because a 0. 5% increase in interest rates can increase the cost of a $100,000 mortgage by $60 per month.
- This is a significant impact on personal disposable income.



Increased incentive to save rather than spend.

- Higher interest rates make it more attractive to save in a deposit account because of the interest gained.

Higher interest rates increase the value of $NZ

- Investors are more likely to save in NZ banks if NZ rates are higher than other countries
- A stronger NZ$ makes NZ exports less competitive (more expensive in relation to others countries) – reducing exports and increasing imports.
- This has the effect of reducing aggregate demand in the economy.

Rising interest rates negatively affect both consumers and firms.

- Therefore the economy is likely to experience falls in consumption and investment.

Government debt interest payments increase.

- The NZ currently pays billions a year on its own national debt.
- Higher interest rates increase the cost of government interest payments.
- This could lead to higher taxes in the future.

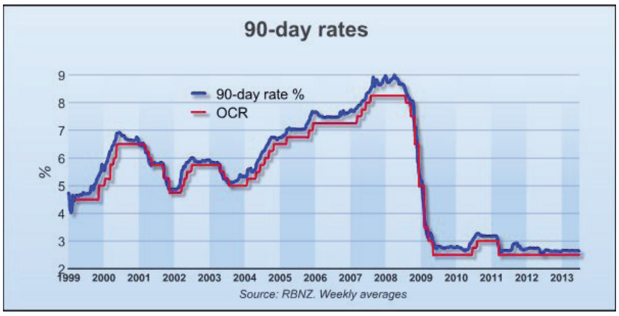
Reduced Confidence.

- Interest rates have an effect on consumer and business confidence.
- A rise in interest rates discourages investment; it makes firms and consumers less willing to take out risky investments and purchases.

It affects people in different ways.

- The effect of higher interest rates is not evenly spread.
- Those consumers with large mortgages (often first time buyers in their 20s and 30s) will be disproportionately affected by rising interest rates.
- For example, reducing inflation may require interest rates to rise to a level that cause real hardship to those with large mortgages.

- However, those with savings may actually be better off.



Source: RBNZ. Weekly averages

Lower Interest Rates:

Summary:

- Lower interest rates make it cheaper to borrow.
- This tends to encourage spending and investment.
- This leads to higher aggregate demand (AD) and economic growth.
- This increase in AD may also cause inflationary pressures.

Reduce the incentive to save.

- Lower interest rates give a smaller return from saving.
- This lower incentive to save will encourage consumers to spend rather than hold onto money.

Cheaper borrowing costs.

- Lower interest rates make the cost of borrowing cheaper.
- It will encourage consumers and firms to take out loans to finance greater spending and investment.

Lower mortgage interest payments.

- A fall in interest rates will reduce the monthly cost of mortgage repayments.
- This will leave householders with more disposable income and should cause a rise in consumer spending.

Rising asset prices.

- Lower interest rates make it more attractive to buy assets such as housing.
- This will cause a rise in house prices and therefore a rise in wealth.
- Increased wealth will also encourage consumer spending, as confidence will be higher. (wealth effect)

Depreciation in the exchange rate.

- If NZ reduces interest rates, it makes it relatively less attractive to save money in NZ (you would get a better rate of return in another country).
- Therefore, there will be less demand for the NZ$ causing a fall in its value.
- A fall in the exchange rate makes NZ exports more competitive and imports more expensive.
- This also helps to increase aggregate demand.

Impact on Different Groups in Society

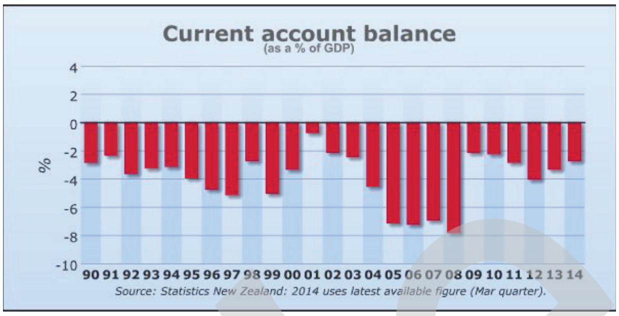
- A cut in interest rates will have a different impact on different groups within society.
- Lower interest rates are **good news** for **borrowers**, **homeowners** (mortgage holders). This group may spend more.
- Lower interest rates are **bad news** for **savers**. For example, retired people may live on their savings. If interest rates fall, they have lower disposable income and so will probably spend less.

Impact on Different Groups in Society

- If a country has a high proportion of savers, then lower interest rates will actually reduce the income of many people.
- In NZ, we tend to be a nation of borrowers and have high levels of mortgage debt, therefore cuts in interest rates have a bigger impact in NZ than other countries with a higher proportion of people who rent rather than buy.

Impact on Current Account

- Lower interest rates encourage consumer spending; therefore there will be a rise in spending on imports.
- This will cause deterioration in the current account.
- However, lower interest rates could cause depreciation in the exchange rate.
- This makes **exports more competitive** and, if demand is able to change easily, the impact of a lower exchange rate could cause an improvement in the current account.
- Therefore, it is not certain how the current account will be affected.



The current account balance is the sum of the balances of trade in goods and services, current transfers, and investment income. More simply, the current account measures what a country saves minus what it spends or invests.

Tasks:

1. In your own words, explain the major impact of an **interest rate rise** on consumers' personal finance.

In your own words, explain the major impact of an **interest rate decrease** on consumers' personal finance.

Inflation

Inflation is a general increase in prices and fall in the purchasing value of money.

Demand-pull inflation

- Caused by total demand being more than the available supply.
- Total demand is made up of consumer spending, investments, government spending, and whatever is left after subtracting imports from exports.
- Factors that commonly lead to demand-pull inflation include a sudden increase in the amount of money in an economy and decreases in taxes on goods, which leaves consumers with more disposable income.

Since people have more money to spend, manufacturers raise the general prices of goods and services.

- Another common cause of demand-pull situations is an increase in consumer spending because of increased optimism caused by a boom in the economy.
- When people are more confident about their financial future, they tend to spend more, contributing to a rise in prices.

Cost-push inflation

- Cost-push inflation occurs when manufacturers and businesses raise prices as a result of shortages, or as a measure to balance other increases in production costs.
- An example of this is rising labour costs. When workers demand wage increases, companies usually pass on these costs to their customers.
- A boom in the economy can lead to increased consumer spending and accompanying demand-pull inflation.
- Governments can cause inflation when they increase the money supply beyond what is needed by the economy.
- Wars can cause short-term inflation when the government is forced to recoup the costs of doing battle.
- Cost-push inflation can be caused by an increase in labour costs that forces a company to pass on costs to customers.