

How changes in fiscal policy might affect honda uk

[Economics](#)



How Fiscal Policy decisions have affected or Affect Honda- Fiscal Policy is the Government's policy towards public spending, taxes and borrowing. Fiscal Policy was created by John Maynard Keynes who believed that by changing levels of taxation and government spending, the government could influence productivity levels. The Fiscal Responsibility Act is put in place to make sure that the Government never borrows over 40 percent of national income.

Direct taxes are taxes that are paid by individuals and business on their income or profit and include the following; Income Tax- Income tax would be paid by all employees working anywhere including Honda, employees earning under ? 37, 400 will have to pay 20 percent tax and anyone earning over the amount will have to pay 40 percent. This will affect businesses as people won't be left with much money to spend after being taxed. National Insurance Contributions - Employees of Honda and Honda can choose to pay this to enable people to claim benefits if they need to and also form a state pension for when they retire.

This will affect Honda as they will be losing money if the Employees want to pay this. Corporations Tax - This is a tax on company profits. Honda would try to pay the least amount of Corporation tax that they possibly can and this can be done by reinvesting back into their business for the future. This will affect Honda as they are losing more profits due to taxes. Indirect taxes are taxes taken indirectly from individuals by being added by businesses to the prices charged to the customer. Value Added Tax (VAT) - This is money that is charged on most goods and services that VAT registered businesses provide in the UK.

It is added onto most goods which is usually included in the price customers pay. The current VAT on products is 17.5 percent. This affects Honda again as they are losing money by paying VAT. Excise Duty - This is tax that is paid on goods that may be harmful or cause damage such as alcohol, tobacco and fuel. This will not affect Honda as they do not sell those products. Air Passenger Duty - This is tax by airlines per flight operated. It has recently increased in price which means the prices of flights have also gone up. This may affect Honda if they are importing products from abroad using airlines.

Honda may also have the ability to claim tax allowances on things that they have purchased or investments they have made. These claims are made against the taxable profits made by Honda and help to reduce tax payments. Honda may use these Capital Allowances to pay for things like Plants and Machinery, other equipment and research and development. Capital Allowance helps Honda to keep reinvesting into them for the future. These claims have affected Tesco in a positive way because they have more money to reinvest, so they can better Machinery and Stuff they need to produce the cars.

Tax allowances are reviewed in light of government spending and the economy as a whole. The latest allowances and rates are announced by the government and then administered by HM revenue & customs. It is possible that governments to change taxation for a short time. This may affect Honda negatively if the Tax prices are raised, as they will have to pay a bigger percentage to the government than usual which could slow down business

for them. As fiscal policy controls changing levels of taxation and spending, it also influences public sector borrowing.

When public sector borrowing is high, it can mean that the amount of money that is available for other businesses to borrow becomes limited. This means that if Honda would want to borrow for machinery they will not be able to and this could lead to a reduction in production of the cars. Re-distribution of income is where money is moved from people who are able to earn money in larger amounts to those who are poorer. Fiscal Policy enables this by taxing higher wage earners at higher levels than those on lower incomes and also by providing additional support and benefits to help lower income households.

Examples of such measures include child tax credits which are paid to families with up to a maximum household income of £59,000. This can help Honda because some people will be getting more which would allow them to spend at Tesco. Even the high earners paying these taxes could afford their products as they are earning a high wage. How Monetary Policy decisions have affected or affect Honda- Monetary policy works in a different way to fiscal policy, but also seeks to help support and economy.

Monetary policy works by influencing: The rate of interest that is offered by the central bank which it is operating, Money Supply and The way that the exchange rate works in a country. In the UK the central bank that controls the rate of interest is the Bank of England. The changes in interest rates, the value of currency and the supply of sterling (£) all affect aggregate demand in the economy. Demand in turn could then affect Honda which has a knock

on effect on the way they trade and their ability to make profits and invest. Trading conditions will affect Honda as due to currency changes, imports and exports may be more expensive.

By the end of 2009, the Bank of England Monetary Policy Committee had cut base interest rates to 0.5 per cent, which was the lowest that they had ever been. The base interest rate is the rate that is used by banks to lend to each other. This rate also influences the amount that banks charge to lend money to individuals and to businesses, as well as the amount of interest that is paid on savings and investments. Having a low base rate means that people are likely to want to save their money and will want to spend it instead, which will affect Honda positively as there would be a demand for their products and services.

Having low base rates also means that less people are saving money. This might affect the supply of money in the economy. When interest rates are at a low level, aggregate demand is stimulated as more money is available for people to spend. It is also cheaper for Honda to borrow money and invest into them. People would also have more money as they'd be storing less in the bank which means they have more to spend. When the value of sterling is lower against other currencies, it makes imports more expensive and exports cheaper. This affects Honda because in most cases they could be making less money or a loss than they usually make.

The Bank of England can influence the value of interest by changing interest rates or selling sterling. Raising interest rates and buying foreign currency will have the opposite effect as this will reduce aggregate demand and

reduce inflation. Inflation is the measurement of the increases in Prices. The target for the UK government is to keep inflation at around 2 per cent to support employment and economic growth. Two per cent inflation gives stability to the economy so it is just as bad to be below 2 per cent as it is to be above it. Monetary policy influences inflation because rates of interest affect spending and therefore demand.

Monetary policy also affects the supply of money, again influencing demand and costs, and therefore inflation. For Honda people would have a demand for their vehicles which will result in Honda producing more cars. When the inflation rate rises to 2 per cent, wages will be increased too. This controls cost-push inflation. Low inflation means that workers are more secure in their jobs because costs are stable. When inflation levels are high, Honda must reduce their employee levels to control their high wages, which will then lead to a reduction in aggregate demand.

If more people are working, aggregate demand is likely to go up and, therefore, business confidence should go up again as more spending takes place. Actual changes in interest rates affects the levels of business investment, but anticipated changes can also affect the economy. This may be through what are known as second round effects. This could be when Honda isn't directly affected by a change in interest rates are instead influenced by other businesses Honda works with which are, and so they will see change in demand or customer spending.