

How characteristics of uk economy impact on organisations economics essay



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Within this report I hope determine in detail all the characteristics of the UK economy, government fiscal and monetary policies and how each one effects on the Tesco PLC organisation. I plan to give a clear and comprehensive look into each of the factors which build the UK economy and analyse and evaluate with strong evidence of application to theory throughout the report.

The UK subscribes to a democratic, parliamentary system of governance known as the Westminster system. The structure of the administration ensures that there is an adequate separation of powers between the executive branch, led by the prime minister, the bicameral legislature and the judiciary, and that there is a system of checks and balances in place. The current population of the UK is 61. 1 million.

The UK was one of the largest macroeconomys in the world. It was seen to be one of the strongest and most stable economies before 2007, however post 2008 economic deceleration began and the GDP growth rate fell to 0. 7%. In 2008, the economy entered into a recession, with a predicted negative growth rate of -4. 5% for the following year. (Data monitor Statistics)

The current conservative government's main economic aims are Economic growth with more goods and services produced in the economy, alongside low inflation, little unemployment with a Fair distribution of income. (HM Treasury) Taxation comes in two forms direct taxation (taxation on income and profits) and indirect taxation this is taxation on expenditure (VAT, excise duty).

The UK government spends in the region of £400bn a year. Over a third of this money goes in welfare benefits such as pensions, unemployment benefit and other forms of income support. The rest is spent on health, education, defence, roads, law and order and on supporting businesses and local communities. (Data Monitor Statistics)

Businesses can benefit direct or indirectly from the rest of the spending. Governments supply money in the form of grants, subsidies and tax breaks (paying less tax than you should) to encourage businesses in certain areas of the economy. A business that is starting out, or is going to provide employment in a depressed area may be able to benefit from such help i. e. Tesco.

Tesco is currently the fourth largest retail company in the world (Global Powers of Retailing Report) and is UK's leading food and grocery retailer. The company operates 4, 811 stores in 14 countries worldwide. It operates in the UK, other European countries, the US and Asia. The UK, Tesco's largest geographical market, accounted for 67. 6% of the total revenues in FY2010. Revenues from the UK reached £42, 254 million (\$67, 153 million) in 2010, an increase of 2. 2% over 2009. (Datmonitor Statistics)

This is a fascinating statistic, which proves why Tesco along many other companies suffered a hit due to the economic slowdown of 2009. The UK economy contracted 2. 4% in the first quarter of 2009, a decline not exceeded in 51 years (Office of National Statistics).

Gross Domestic Product (GDP) increased by 0. 8 per cent in the third quarter of 2010, unrevised from the previous estimate. GDP in the third quarter of <https://assignbuster.com/how-characteristics-of-uk-economy-impact-on-organisations-economics-essay/>

2010 is now 2.8 per cent higher than the third quarter of 2009. (Statistics.gov)

The definition of economic growth is an increase in Real GDP (gross domestic product), which is usually calculated annually. Therefore in order to calculate economic growth, GDP, which is the total value of production in an economy, needs to be calculated. There are three ways of doing this, the expenditure method, the income method and the output method. There are small discrepancies between the values of GDP using each method, and so in the UK the official measurement used by the government is an average of all three methods.

However the government can measure this differently via the GNP (Gross National Product). The GNP is calculated by the country's total economic activity, or the wealth of the country. GNP is usually assessed quarterly or yearly, and is defined as the total value of all goods and services produced by firms owned by the country concerned. It is measured as the GDP plus income earned by domestic residents from foreign investments, minus income earned during the same period by foreign investors in the country's domestic market. GNP does not allow for inflation or for the overall value of production. It is an important indicator of an economy's strength. It can be argued that GNP is a better guide to the welfare of British residents than GDP, but GDP is a better measure of how well the economy is producing. At the moment of writing the UK's GDP currently is \$35,400 per capita (PPP) (Datamonitor).

Furthermore the graph below shows the quarterly economic growth rate since 2006 for the GDP.

Source data: IMF, World Economic Outlook Database, September 2009

As you can see the GDP growth was choppy during 2006-08, with the highest growth rate of 3.1% recorded in 2007. After attaining a high growth rate of 3% in 2004, however in 2008, the economy entered recession, and the economy is expected to record a deceleration of -4.5% in 2009. The state stepped into nationalize ailing banks, indicating a shift in policy direction. Moreover, a rise in government borrowing has increased its debt, which is now one of the highest among the EU nations. (Datamonitor Statistics)

The last time the UK suffered from a recession was between 1991 and 1992, the economy actually shrunk, and real GDP fell. This can be linked to other leading indicators. However, since this time the UK has achieved steady and sustainable economic growth, which has been one of the highest rates in Western Europe, allowing the UK to be competitive. This economic growth has probably been aided by an expansion in the labour market, due to the influx of migrants into the UK. The government is expected to exceed its target of 2.75% growth this year, and this is likely to continue for the foreseeable future. It would seem that this can only be positive for the UK economy, improving individuals' standards of living and helping to increase confidence in the economy, increasing investment and therefore increasing aggregate demand.

Aggregate demand is the total demand for goods and services produced in the economy over a period of time. Defining Aggregate Demand is aggregate
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planned expenditure for goods and services in the economy. It is made up of the expenditure of four sectors; namely, households (consumer's expenditure), government sector (government expenditure) and the overseas sector (export minus imports).

Aggregate demand normally rises as the price level falls. This can be explained in three main ways:

As the price level falls, the real value of money balances held increases. This increases the real purchasing power of consumers. A lower price level increases the real interest rate – there will be pressure on the monetary authorities to cut nominal interest rates as the price level falls. Lower nominal interest rates should encourage an increase in consumer demand and planned investment.

If the UK price level is lower than other countries (for a given exchange rate), UK goods and services will become more competitive. A rise in exports adds to aggregate demand and therefore boosts national output. For instance there could be an increase in export demand causing an injection of foreign demand into the domestic economy. The government may also increase its own expenditure and businesses may raise the level of planned capital investment spending.

Furthermore the Phillips curve diagram below shows the result of a rise in aggregate demand on real GDP (Gross Domestic Products). Expansionary fiscal policy and monetary policies may have undesirable side effects.

However, economic growth also has costs. Inflation can be caused if the increase in Real GDP exceeds the rate that aggregate supply can increase.

If the aggregate supply does not increase, then the inflation rate will rise, which can cause many problems for the economy. The UK will need to be careful that this does not happen, as inflation has been on the increase.

Inflation means a sustained increase in the aggregate or general price level in an economy. Inflation means there is an increase in the cost of living. It is the Bank of England's job to maintain the value of money by keeping the rate of inflation at a low level. Inflation in the UK is fairly low today, but it used to be much higher. In the 1970s, it averaged 13% a year and reached a peak of 27% in August 1975. Things got better in the 1980s, but inflation still averaged 7% a year. (Bank of England)

There are a number of ways of calculating inflation; in the UK the two main measures used are the CPI (Consumer Price Index) and the RPI (Retail Price Index). Today the UK inflation target is based on the Consumer Price Index (CPI),

If the Bank of England anticipates inflation falling below the government's target of 2% and economic growth is sluggish or the economy is facing a recession. They are likely to cut interest rates.

Lower interest rates in theory, should stimulate economic activity. This is because lower interest rates reduce borrowing costs. This increases the disposable income of consumers with mortgage interest payments and should encourage spending. High inflation is bad news for the economy as

costs and prices keep rising. And bringing inflation under control can be painful. Interest rates might have to go up significantly, leading to weaker economic activity with company closures and job losses.

Inflation affects Tesco in much the same way as changes in tax would (Direct taxation through Pay-As-You-Earn income tax will affect PDI so that a rise in tax rate will reduce PDI and vice versa. Likewise indirect taxation such as VAT will affect the price of the product.) So if the changes in interest rates went down so may the prices. The lower the rate of inflation, the better it is for businesses, as it means that people can spend more and the prices of the products will be affordable. If the rate of inflation was high, people will be spending less, as their income will be less. This will also lead to the increase of the prices of goods.

The inflation will affect employment as if the inflation is high, people will be spending less as their income is low, which means the Tesco will not be making enough money therefore resulting in the increase of products' prices. If Tesco is not making a great deal of profit, then it cannot afford to pay its employees, and therefore there will be a low rate of employment. Low employment will mean that people will not be able to afford to buy a lot of goods, and so Tesco may become extinct.

Unemployment is defined as the proportion of the working population that are not in work, but are actively seeking employment. In the UK nearly 2.4 million people were unemployed in 2009, which was the highest in 12 years. (Data Monitor Statistics)

There are two methods that the UK government uses to quantify the level of unemployment, the Claimant Count and the Labour Force Survey. The Claimant Count measures unemployment by the number of people that claim Job Seekers Allowance. This method may be inaccurate, mainly because not everyone who is unemployed claims unemployment benefits, and so underestimates unemployment.

The Labour Force Survey (LFS) is carried out quarterly by the International Labour Organisation (ILO) and is a survey of around 60, 000 UK households. It records the number of people who are available for work, are without a paid job and have looked for work within the last four weeks. It is considered to be the most accurate measure of unemployment as it is used by many countries and so comparisons can be easily made.

Unemployment may affect sales of Tesco because if the unemployment rate was to rise this would mean that people would not be earning as much money and they might have to cut back on luxuries such as chocolate and other things that are not needs

The Balance of Payments is a record of transactions between one country and the rest of the world. In the UK it is split into two main accounts, the current account and the capital account. When adding the values of the two accounts together, and allowing for errors, the total equals 0, and so it is important that the focus should be directed at the current account, rather than at the overall balance of payments. One consequence may be a rise in the price level as the economy approaches the full employment level. The higher level of spending may also increase any existing deficit on the current

account of the balance of payments so Tesco will be able to afford high wages and even expand their business in most countries.

The exchange rate mechanism is very important in the UK. London has the largest foreign exchange market in the world. The London foreign exchange market accounts for over 60% of the global turnover of foreign exchange. An exchange rate expresses the value of one currency against another. The exchange rate in itself is not considered to be a key macroeconomic objective, but needs to be considered due to its impact on other key aggregates.

A change in exchange rate affects aggregate demand of Tesco. If a government wants to raise aggregate demand to reduce deflationary gap, it may try to reduce the exchange rate. This reduction would increase the price competitiveness of Tesco's products and therefore increase exports and reduce imports of Tesco. If the fall in the exchange rate increases demand for Tesco's products, it's likely that employment and output will rise in the short run. However, by increasing demand for Tesco's products and raising import prices it may lead to inflationary pressures.

Interest rates are set by the Bank of England's Monetary Policy Committee monthly in the UK. The MPC decides whether interest rates should go up, go down or stay the same, their decision is based on 'the objective is to keep aggregate demand as far as possible in line with the productive capacity of the economy'.

Interest rates can affect the Tesco because if the interest rates were high then Tesco would not want to borrow as much money for expansion. Also if <https://assignbuster.com/how-characteristics-of-uk-economy-impact-on-organisations-economics-essay/>

consumers had loans they would again have less disposable income to buy luxury items. If the minimum wage was brought down, this would mean more money for Tesco as they won't have to pay their workers as much money but would also result in low sales from the consumers as their wages could go down and they might not be able to spend money their products. Also if the unemployment rate was high or the disposable income rate was low the potential customers may be forced to buy different products that are cheaper and that they need rather than desire.

All businesses are affected by economical factors nationally and internationally. Within the UK the type of the economy make out how a buyer may act within society. Whether an economy is in a boom, recession or recovery will also affect the customer's confidence. Customer confidence is also enhanced by The Office of Fair Trading (OFT) is a non-ministerial government department of the United Kingdom, this was established in the Fair Trading Act 1973, which enforces both consumer protection and competition law, acting as the UK's economic regulator. The OFT's goal is to make markets work well for consumers, ensuring vigorous competition between fair-dealing businesses and prohibiting unfair practices such as rogue trading and scams

Economies around the world also have an impact on UK businesses; cheaper labour abroad affects the competitiveness of UK products nationally and globally. A big company such Tesco has to be aware of economic conditions to ensure they use strategies and tactics that protect their business.

As society changes, as behaviours change organisations must be able to offer products and services that aim to complement and benefit people's lifestyle and behaviour. All these Factors have their advantages and disadvantages, to which I believe I have stated thoroughly throughout this report.