

Economy – Interest Rates

Interest rates are the “cost of money”. If you borrow money then you may have to pay back the original amount PLUS a charge for borrowing the money. That charge is known as interest. It is a percentage of the original amount. You may have to pay the interest weekly, monthly or annually. It is also the reward for saving – you receive a percentage of the original amount.

There is never just one interest rate. There are many rates based on whether you are a borrower or saver, the type of borrowing you are making and your personal or business circumstances. However the rates will tend to move up and down with the BASE RATE, which is a central rate, set by the **Monetary Policy Committee** of the **Bank of England**.

The following types of borrowing and saving often have an interest rate attached:

- ▶ Bank loans
- ▶ Mortgages (borrowing to purchase a property)
- ▶ Debentures
- ▶ Deposit accounts
- ▶ Bank current accounts
- ▶ Credit cards

A change in interest rates affects businesses in the following ways:

- ▶ If the business has loans then an increase in interest rates will mean higher repayments, reducing profits.
- ▶ If the business wants to borrow money to say build new premises, then they are less likely to go ahead with the project when interest rates increase.
- ▶ Customers are going to find that they are more attracted to saving than to spending if interest rates go up and less likely to borrow money to spend as well. This may reduce sales for the business.

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