Candidate 2 evidence

<u>Application and understanding</u>

Savers will be positively impacted as they would earn more interest on their savings. The amount earned in interest would mean they have more disposable income and therefore higher standard of living. Unless inflation is higher, then the purchasing power of savings would decrease. People may be more inclined to save if interest is higher increasing leakages in the circular flow, decreasing national income.

High interest rates mean that there will be a higher monthly mortgage payment. This may reduce the demand for new homes and weaken the housing market because first time buyers will not be able to afford the mortgage. Mortgagees will be less common as people will find it hard to pay off mortgages and seek other options like renting. This means that it will be more difficult for those trying to sell their house as there is less demand, meaning they will not get a fair price.

Due to a reduced demand for new property, there will be an opposite effect on the demand for rented properties, as in the short term it is a much cheaper and more viable alternative. With more demand for rented properties, rent prices will increase. This means that people will have less disposable income, or even have to go into debt, reducing standards of living. People may not be able to afford rent increases which may lead to evictions. The stress of potentially being evicted and finding it hard to find residence can lead to mental health problems.

High interest means the cost of borrowing will be expensive, so things like taking out loans, using credit cards and financing a big purchase like a car, become more difficult and less appealing. People having to postpone big purchases like cars or renovation leading to a lower quality of life as people are stuck with outdated cars that constantly require costly repairs or houses in desperate need of renovation.

Individuals who are in debt will be facing high debt repayment costs, making it harder to repay. Because monthly payments on credit cards will increase, this means that there will be an additional strain on those who are already in debt. This leads to individuals struggling to prevent their financial situation from getting any worse and going into more debt. This means they may resort to extreme measures to save money, e.g. eating less or washing less. Reduced consumer spending may further impact their overall quality of life.

Workers may be made redundant - companies will need to spend more to borrow and will need to reduce their costs to do so, leaving employees out of a job. Individuals will then not be able to afford basic needs like food which can lead to health problems, or mental health issues developing because of people feeling loss of purpose in life causing depression.

Businesses may find it difficult to grow or to purchase new capital due to high interest. This means that it will take longer for firms to purchase new capital or new production facilities as they will not want to pay high interest rates on the loans they take out. This means that they will instead save for big purchases, therefore slowing down the company's growth and limiting their potential for growth.

Banks will be making high profits from lending if interest rates are high. This will strengthen the financial sector and lead to a greater ability to lend to the economy. This means that if organisations can afford it, then there is more money available for borrowing, increasing the gap between the large and small firms.

Consumers will be forced to cut back on spending due to having less disposable income because of high borrowing costs (e.g. dining, entertainment, or holidays), which can lead to slower overall economic growth due to less economic activity in the hospitality, travel, and entertainment industries. An impact of this is bankruptcies for smaller, less competitive organisations. This will create monopolistic markets and prevent small organisations from doing well.

The UK government are in around £2.8 trillion debt. The government needs to borrow to fund their budget, and high interest rates mean a high debt servicing cost. This means a change in priorities of their budget and will force the government to alter their spending towards debt servicing and paying it off. Meaning other sectors will have less funding like education or healthcare. This will make the government unpopular and reduce the chance of them being re-elected.

Analysis and Interpretation

According to an article published by ONS in 2024 (appendix 1) “Estimates of the total value of excess saving accumulated by UK households since the start of the pandemic range from £143 billion to £338 billion (7.9% to 18.7% of household annual total resources).” This supports my theory that interest rates are leading to households saving more. With a high interest return on their savings, consumers will have more disposable income, this leads to an increase in spending. However, with more money being saved, then leakages occur resulting in less money in circulation. With less money in circulation, there will be a reduction in spending and demand meaning a slower growth of GDP and could lead to a recession in the economy.

According to a web page on The Bank of England website (appendix 2) “Higher interest rates lead to higher payments on many mortgages and loans, meaning people must spend more on them and less on other things.” This supports my theory that mortgages will become more expensive and therefore more difficult to pay off mortgages. This will lead to less first-time homebuyers. This causes house prices to decline as there is less demand, slowing the housing market.

According to an article published by Letting Agent Today in 2025 (appendix 3) “Higher mortgage rates since 2022 have compounded the squeeze on new investment, meaning the number of private rented homes across Great Britain has been static at c5.5m since 2016. Demand has grown faster than supply, which is why rents have risen by 24% over the past three years.” This supports my theory that renting becomes more popular as interest rates remain high meaning it will also become more expensive. Less affordable housing could lead to oversubscribed council housing, with people being forced in the homeless shelters due to lack of affordable housing, therefore increasing homelessness and poverty within the UK. Also, with more people renting, then there is a lack of long-term housing, forcing the work force to move homes. This could mean that they will need to find new jobs if they can't work remotely, increasing unemployment.

According to an article published by The Bank of England in November 2024 (appendix 4). "the amount of debt held by UK households relative to their income has fallen further since Q3" This may support my theory that high interest rates will lead to a reduction in borrowing levels. This leads to individuals reducing their borrowing activities. With less borrowing, then consumers will have less purchasing power as they will be less likely to finance purchases using credit cards or loans. This leads to a lower standard of living as people will not be able to make large purchases that may be necessary or beneficial in their lives e.g. cars, house repairs/renovation.

According to an article published by Money Advice Trust in 2025 (appendix 5) “A worrying number of people resorted to severe measures in order to help pay their household bills over the winter months. 7.1 million people (13%) reduced how often they washed their bedding and clothes, while 7.5 million (14%) cut back on the number of showers taken.” This supports my theory that individuals are resorting to extreme measures to avoid going further into debt. These sacrifices may put their hygiene at risk and reduce their quality of life.

According to an article published by Vox EU CERP in 2025 (appendix 6) “By the third quarter of 2023, firms report that higher interest rates had lowered investment and employment by 8% and 2%, respectively.” This supports my theory that workers may be made redundant. Individuals are likely to develop health problems and mental health issues because of less motivation in life, increasing rates of depression.

According to an article published by Vox EU CERP in 2025 (appendix 6) “At the aggregate level, firms reported, as of 2023 Q3, that higher interest rates have resulted in 8% lower capital expenditure than would have been the case if interest rates had remained unchanged.” This supports my theory that high interest would slow down or stop businesses from expanding their operations or making large purchases grow. The result of this is lower levels of economic growth.

According to an article published by Brunel University in 2024 (appendix 7) “One of the main reasons banks made so much money last year was the steady rise in the Bank of England base rate since the end of 2021 That rate went from 0.25% to its current level of 5.25%.” This supports my theory that banks and other financial institutions will be making high profits due to high interest rates.

According to an article published by Forbes in 2025 (appendix 8) “In terms of consumer spending, the ONS says household expenditure fell in real terms (stripping out the impact of inflation) by 0.2% in the second quarter. It says we are spending less on tourism, clothing and footwear, food and non-alcoholic beverages, and restaurants and hotels.” This supports my theory that increased interest rates discourage consumer spending as borrowing is less affordable. A reduction in spending means reduced growth in some industries.

According to an article published by the Guardian in 2024 (appendix 9) “the annual interest repayments on government debts is expected to rise from about £80bn today to £240bn by 2070 in today’s money, further increasing the debt pile.” This supports my theory that the Government will need to dedicate more of their budget to combat high interest rates and prevent them from plummeting them further into debt. This means a reduction in funding for public services like healthcare and education.

Conclusions and Recommendations

In conclusion, a high interest will positively affect savers and negatively affect the economy. I know this because research tells me that with higher interest being made of saving, consumers will be left with higher income, allowing them to increase spending of disposable income. However, with more money being saved, resulting in leakages, this means slower economic growth and expansion.

In conclusion, a high interest rate will negatively affect borrowers. I know this because research tells me that mortgage repayments and interest on other forms of borrowing like loans or credit cards, have higher repayments and therefore less disposable income and therefore a lower standard of living and elevated stress levels causing mental health issues.

In conclusion, a high interest rate will negatively impact businesses. I know this because research tells me that companies will have to reduce outlays to meet the cost of borrowing. Due to less consumer spending, there will be a reduction in businesses sales and therefore profits. These factors slow down businesses' ability for investment spending and therefore reducing economic growth.

I would recommend that the Government grants landlords' subsidies to keep rent at an affordable rate. I recommend this because my research showed me that if rent is high then consumer spending will be low. Along with rent increases, so too does CPI, meaning higher inflation.

Candidate 3 evidence

APPLICATION OF KNOWLEDGE AND UNDERSTANDING

Individuals will be positively impacted as they will have a higher disposable income if the national minimum wage increases so they will be able to afford basic necessities such as food and drink more easily. Individuals are also more likely to be able to afford luxuries such as going on holiday. Individuals may also see an improvement in their mental health as they will face less financial stress and have a better standard of living and levels of poverty will fall in the UK.

However, in order to implement the increase in the national minimum wage, firms may have to make workers redundant to tackle the rising costs of production due to having to pay higher wages. This will negatively impact individuals as some workers may lose their jobs. This will result in more people unemployed and potentially in poverty reducing the general standard of living in the UK.

Firms will have to pay higher wages to their employees meaning they would be negatively impacted by the increase in national minimum wage as their costs of production will increase. This means that they will have to increase the prices of their products to maintain their profit margin which could result in a fall in the demand for their product and also lead to cost-push inflation. However, if the firm's product is price inelastic (for example fuel) then they could see a rise in revenue. As an alternative to raising their prices, firms may choose to absorb the increased costs of production instead of passing these costs onto consumers. This would result in the firm receiving less profit.

With the increase in the national minimum wage in the UK, firms may choose to relocate abroad to countries where there is a lower national minimum wage and labour costs and therefore the costs of production are lower. This would have a negative impact on the UK as lots of individuals would lose their jobs thereby increasing unemployment.

The increase in the national minimum wage will incentivise more individuals to seek work and train for professions. As a result, there will be a larger labour workforce in the UK which will positively impact firms as they can find and employ higher skilled workers more easily. This means that they will see an increase in their productivity which is their output per input, resulting in an increase in profits as they will be producing goods and services with lower costs and resources. Firms may also see a rise in productivity due to worker morale improving as they are getting paid more so they will work more efficiently.

With the increase in minimum wage and more individuals seeking work, the Government will be positively impacted by this as benefit payments will decrease, such as job seekers' allowance. This means the government can invest more elsewhere such as education and healthcare by building new schools or hospitals.

The government will also benefit from the increase in national minimum wage, from increased tax revenues - with more individuals working and earning an income there will be more individuals paying income tax. In addition, as individuals have higher disposable income, they will be buying more goods and services so the government will receive higher revenue from indirect taxes such as VAT. Increased tax revenue positively impacts the government as they will have more money to spend on services, improving the economy.

Individuals will spend more with their increased disposable income. This could result in a negative impact as there would be an increase in consumer spending in the UK economy. With the increased consumer spending it could cause an increase in aggregate demand which could eventually result in demand-pull inflation where demand is greater than supply, so firms raise their prices to bring the price back to the equilibrium.

The wealth inequality gap between low-income earners and high-income earners will decrease. This will positively impact the government as one of the Government's objectives is to close the income gap.

ANALYSIS AND INTERPRETATION

According to an article published by GOV.UK in February 2025 (source 6), "the increase in national minimum wage will cause a significant pay boost worth £1,400 per annum for an eligible full-time worker" resulting in an improvement in the standard of living. This serves as evidence for the economic theory that an increase in national minimum wage will result in employees receiving higher wages so will have more disposable income. With this they will be able to afford to pay for their basic needs and wants which in turn will increase the general standard of living in the UK.

However, an article published by the Guardian (source 9) states that "despite increases in the national minimum wage, 300,000 children were still experiencing poverty". This disproves the economic theory that as the national minimum wage increases, the levels of poverty will be eliminated. It may be a factor that can help reduce poverty but is nowhere near sufficient to abolish it.

An article published by the BBC (source 7) states that "Sainsbury's has announced that they will cut 3,000 jobs due to the increase in the national minimum wage". This supports the economic theory that the increase in the national minimum wage will cause firms like Sainsbury's to make workers redundant to offset the potential increase in costs of production. This means that the level of unemployment in the UK will increase and in turn the government will have to pay out more in benefits such as jobs seekers' allowance.

An article by Economics Observatory (source 11) states "24-26% of firms had increased productivity following rises in the minimum wage". This supports the economic theory that as the national minimum wage increases, workers will be more motivated to work harder as they are getting more income. This will increase the firm's productivity as they will be producing more output with less input.

From an article from Blick Rothenberg (source 8), it is said that "the increase in national minimum wage by 6.7% instead of the 5.8% recommended by the Low Pay Commission could increase tax receipts by £150 million". This supports the economic theory that as individuals receive higher wages, they will be paying more taxes to the government, increasing tax revenues by a significant amount. This means the government can use this increased revenue to invest back into the economy and other sectors.

The Institute for Fiscal Studies (source 5) states "while wage inequality has generally been rising since the start of the 1980s, the 90:10 ratio for males has fallen substantially since 2016, because of the introduction of the national minimum wage". This supports the economic theory that as you increase the national minimum wage, low-income earners will earn more which will decrease income inequality. However, this could be demotivating for high-income workers.

From the same source (source 5), I found "some employers have reported that they had to increase prices due to minimum wage increases". This supports the economic theory that if the national minimum wage was to increase, firms will have to pay higher wages and to combat this firms will increase the prices of their products to try and maintain their profit margin causing cost-push inflation. However, this may mean that they will see a fall in demand for their products resulting in lower revenues and profits. Only if demand for their products is price inelastic (for example for products such as alcohol, tobacco and oil), will they receive higher revenues.

According to an article by Hawkins and co (source 10) it states, "a higher minimum wage can stimulate consumer spending, boosting demand for goods and services". This supports the economic theory that as national minimum wage increases, individuals, with their increased disposable income, will have more to spend on luxuries. This will increase the aggregate demand for goods and services, increasing economic growth but could result in demand-pull inflation.

CONCLUSIONS/RECOMMENDATIONS

I conclude that an increase in national minimum wage will have positive and negative impacts on individuals. My research shows, on the positive side individuals will receive higher disposable income, be more motivated to work harder, be lifted out of poverty and income inequality gap will close thereby improving their overall standard of living. On the other hand, individuals may be negatively impacted by firms making individuals redundant to tackle the rising costs of production and still be left in poverty.

I conclude that an increase in the national minimum wage will have a positive effect on the Government. My research showed that an increase in the national minimum wage will result in a reduction in the cost of benefits payments for the government, higher tax revenues, lower unemployment as more individuals will be incentivised to work and a reduction in the inequality gap between lower and higher paid individuals. These will all contribute to meeting the Governments objectives.

I can also conclude that an increase in the national minimum wage will have a negative effect on firms. As my evidence showed, the increase in the national minimum wage will cause firms to pay higher wages to their employees, increasing their costs of production and lowering profits. Because of this firms may have to make workers redundant or raise the price of their products, resulting in higher unemployment and cost-push inflation.

I would recommend that the government does not increase the national minimum wage by any more than inflation. My evidence suggests that if the national minimum wage increases by a significant amount, consumer spending will also increase by a significant amount and firms will have increased costs of production. This could result in both types of inflation, demand-pull and cost-push inflation.

Finally, I recommend that the government reduces the level of taxation on firms. My evidence highlights that firms will either raise their prices or make workers redundant due to the increase in the national minimum wage. However, with lower taxes they will be more able to absorb the increase in national minimum wage and therefore retain their workforce reducing the threat of inflation and unemployment.