Subject: Economics	Topic: The role of credit in the economy	Year Group: 12

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Types of credit

1	Loans	a thing that is borrowed, especially a sum of money that is expected to be paid back with interest.
2	Overdrafts	An overdraft lets you borrow money through your current account by taking out more money than you have in the account. The interest charged is normally higher than you would be charged on a loan
3	Trade credit	Trade credit is a type of commercial financing in which a customer is allowed to purchase goods or services and pay the supplier at a later date.

Role of banks in the economy

Channelling savings towards investment – Individuals and corporations deposit their surplus funds with banks (savings) who then use these funds to lend to other individuals and corporations.

Role of banks in providing credit – Banks provide credit in various forms and therefore play a vital role in the economy.

Interest rates and collateral – banks charge borrows and reward savers with interest. Borrowers that are able to offer collateral on their credit are charged lower rates of interest than those without collateral.

Risk & liability

Running a business will involve taking calculated risks. There will be degrees of risk that entrepreneurs will need to take over the course of the business.

Unlimited liability - In the event of a default banks can pursue owners personal as well as the business assets in order to recoup their money	Limited liability - In the event of a default banks can only pursue the business assets of the owners and not their personal assets.

Risk & liability

Sources of credit

Banks	A financial institution that is able to offer loans and mortgages.
Other firms	Firms often lend money to other firms in return for interest
Venture capital	External source of finance that involves a business making a proposal to external investors who decide whether to provide funding as a grant/loan.
Share capital	An external source of finance, this is the funding that comes from individuals/organisations buying ownership of a company.
Leasing	The act of renting a piece of equipment, machinery or business location.
Owner's capital: personal savings	The personal savings of the person to whom a business belongs.
Retained profits	Internal source of finance: the money left over after all expenses have been paid. This is money that a business can reinvest in itself instead of paying to shareholders as dividends.
Sale of assets	Exchanging company owned property, such as equipment and machinery, for money.
Individual investors	Individual investors are often serving or retired businesspeople that are looking to invest their own money into new business ideas or products. They know the risks and will only invest if they think the idea has 'legs'
Online collaborative funding	Websites that are dedicated to raising finance for businesses through peer-to-peer lending rather than through a formal financial institution.

You need to have a sound understanding of the pros and cons of each type of credit and be able to comment on the most suitable type of credit for different situations