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**Impact of Brexit on UK's  
Financial system**  
Key Stage 5  
Subject: Financial Economics  
**Teacher Guide**

2021



# Resource One

## Model Answers



**Answers** 1. Which financial instrument has the least maturity period?

According to the classifications mentioned in resource-1, the financial instruments traded in the Money markets have least maturity periods. For example, commercial papers, treasury bills etc.

2. Which financial market category includes the trading of government issued bonds?

The government issued bonds are traded in the bond markets as mentioned in the definition of Bond Markets in resource-1

3. What does Risk-return tradeoff mean? Explain in detail.

The Risk-return trade-off concerns the investor to choose between risk and return. If the investor chooses to invest in safer financial instruments, the return is fixed and low. However, if the investor shows an appetite for risk and invests in riskier financial instruments like equity markets, the probability for higher returns increases. This is the classic risk-return trade-off

4. In which category of the financial markets are equity stock indices like FTSE100 and S&P500 included according to you?

The FTSE100 and S&P500 are market indices representing the top 100 companies and top 500 companies in the UK. These indices are the average of stock prices of these companies. As this concerns with the trade of equity, it is a part of over-the counter markets as well as the capital/equity markets. As mentioned there can be different ways of classification of financial markets.

# Resource One

## Model Answers



**Answers** 5. Company ABC Ltd is a registered organization on the London Stock Exchange. The company issues a share capital of \$3.9 million on 10<sup>th</sup> May 2021. If the number of shares issues was 130000, what is the price per share? How many shares can Mr. Tall buy is he wants to invest a total of \$6000 in ABC Ltd?

Issued Capital = \$3900000

Number of Shares issued = 130000 shares

Price per share =  $3900000/130000$

Hence, price per share = \$30

Mr. Tall wants to invest \$6000 and price per share is \$30

Number of shares bought by Mr. Tall = total investment amount/price per share

$=\$6000/\$30$

Hence, the total number of Shares bought by Mr. Tall =200 shares

# Resource Two

## Model Answers



- Answers**
1. What is the main purpose of establishing the European Union? Who all are the member countries?

The main purpose for the establishment of the European Union was to promote peace after the World War II between all the neighbouring countries and establish a unified monetary and economic system. At the time of establishment, six main countries were the members: Belgium, France, Germany, Italy, Luxembourg and the Netherlands.

2. Draw a simple timeline for all the milestones discussed in the chapter, on a chart paper. Discuss these with an adult.

Refer to: <https://www.bbc.co.uk/newsround/50166269> and create a timeline on a chart paper with the major milestones as mentioned in the resource

3. What is Article 50? When was the treaty for Article50 signed by the UK?

According to the Article 50, a treaty signed by all EU member nations in 2009, whenever a country demands to leave the European Union, a two year deadline is triggered. Within these two years all the negotiations take place including deals on trade and tariff between the EU commission and the country.

4. Under which ruling party was Brexit successfully achieved and on which date?

Brexit was achieved under the ruling of the Conservative party led by the prime minister Boris Johnson on 31<sup>st</sup> January 2020 at 11:00 PM.

# Resource Two

## Model Answers



**Answers** 5. Why was Irish Backstop necessary?

Irish Backstop was absolutely necessary because the Northern Ireland is a part of the UK and hence, it was important to make sure there is no defined border between the UK and the republic of Ireland. Otherwise, it would have caused problems in terms of trade with Ireland.

6. Which campaign did the prime minister David Cameron support? Which campaign did Theresa May and Boris Johnson support?

Prime minister David Cameron was an active supporter for the UK staying in the EU and was against Brexit. However, Theresa May and Boris Johnson are active supporters of Brexit and worked to get a successful deal to achieve Brexit.

# Resource Three

## Model Answers



**Answers** 1. What are the two main winners from Brexit in terms of industries?

The two industries that benefitted from the historic event of Brexit are the manufacturers of specialized machine parts (automakers), UK mining firms and the US bankers established in the UK.

2. What is meant by the gross domestic product?

Gross Domestic product is the sum of all the goods and services produced in an economy during one year including the imports and exports of the economy.

3. What is the relationship between the GDP of a country and its currency?

When the economy of any country has higher production of goods and services, the GDP rises. With this, the value of currency of that economy rises as more produce can be exchanged for a single unit of that currency.

4. What is the contribution of the financial sector in UK's GDP per year?

The financial system of the UK has a huge impact and contributes for more than 12% of UK's total GDP growth.

# Resource Three

## Model Answers



**Answers** 5. Suppose the exchange rate between the UK and India is £1=₹100 (₹ is the symbol of Indian currency i.e., 'rupee'). When the value of pound sterling deteriorates, this exchange rate drops to £1=₹90. With this information, if Mr. Jay wants to import 300 KGs of mangoes (price of 1KG = ₹50), how much will it cost him before the currency deterioration and after? Please state your answer in terms of pounds required.

Initial exchange rate £1=₹100

New exchange rate £1=₹90

Import of 300 KGs of Mango by Mr. Jay where 1KG = ₹50

Total cost of mangoes imported = 300KGs x ₹50

= ₹15000

Cost (in pounds) with initial exchange rate

= total cost in rupees/rate of rupee at that time

= ₹15000/100

= £150

Cost (in pounds) with new exchange rate

= total cost in rupees/rate of rupee at that time

= ₹15000/90

= £166.67

Hence, when the value of pound drops, Mr. Jay has to pay more pounds to get the same amount of mangoes.

# Resource Four

## Model Answers



**Answers** 1. What are the eight main changes to be expected post Brexit?

The eight main changes expected post-Brexit are changes in validity of European health insurance, bringing back blue passports, drivers facing stricter rules as they are no more allowed to use phones during driving, effective implementation of the new points based system, end of free mobile roaming for British users, stricter travel restrictions due to covid-19, important changes in the copyright laws and new complications in the trade laws.

2. What are the changes that will be positive for British citizens and which ones can be negative?

Some positive changes for British citizens can be like free movement of labour, the right to be forgotten, control over fishing waters and expectation of reduced VAT. However, some negative impacts can involve increased migrant workers, ambiguity in anti-trust laws and questionable validity of the EU health insurance.

3. What is competition law?

The law that promotes healthy-competition in the economy and bans the anti-competitive agreements between firms is termed as the competition law or the anti-trust law.

4. What is CMA? Why do you think the work-load for this authority will increase post-Brexit?

CMA is the competitions and markets authority of the UK and the work load for CMA will now be increased because the UK will now diverge from the EU's competition law altogether and hence will have to establish new laws and regulations and amend the existing ones.



# Resource Four

## Model Answers



**Answers** 5. Why are green-activists against removal of VAT from basic items?

The VAT, if removed from the basic items like electricity and gas, might lead to an over-usage of these items by the citizens leading to harming the environment. This is the reason why green-activists are against removing VAT from basic goods and services.

6. Why is Monopoly not healthy for any economy? Which parties are harmed by the monopolistic practice?

Monopoly in an economy means a single producer/seller dominating the market which gives the seller the power to demand whatever price it wants. This is the most harmful for the consumer.

# Resource Five

## Model Answers



- Answers**
1. What is the process of cost-benefit analysis? List the five main stages of analysis.

A step-by-step analysis of any particular situation or alternative used to determine options which provide best results achieving the benefits. The five stages of the analysis include understanding all the variables affecting the analysis, deciding in what context the costs and benefits are to be analysed, properly identifying all the variables and measurement indicators that will affect the analysis, forecasting the impact caused during the lifetime, converting the analysis into figures to understand the monetary aspects.

2. What was the chequers plan? When was it introduced?

The chequers plan, officially known as the future of relationship between the UK and EU is a white paper published on 12<sup>th</sup> July 2018 by the former prime-minister Theresa May. This plan was mainly concerned with four main areas: economic partnership, security partnership, future areas of cooperation such as aviation and nuclear power and the frameworks needed to enforce the agreement. However, this plan was rejected by the EU.

3. List 5 each of the costs and benefits involved with Brexit.

**Costs:**

- UK will have to revisit the 759 trade agreements it has through EU and this will require time and resources.
- Also, there are costs for leaving the EU and replicating it as well.
- Due to this the government and resources will be tied up for quite a while, not to mention the damage to more than 3,00,000 businesses which were wholly or partly dependent on the membership of EU.
- Ambiguous relationship with Northern-Ireland

# Resource Five

## Model Answers



- Answers**
- Fall in the value of Pound sterling
  - Fall in housing prices (loss of jobs leading to increased unemployment and hence the recession and fall in house prices)
  - Loss of income for UK universities (With new rules in place, it might not be as easy for citizen of the EU nations to study in the UK as it was)
  - Free trade with EU allowed the businesses in the UK to grow
  - Investments from EU businesses in the UK worth billions of pounds every year will now stop

### **Benefits:**

- One of the major pros for Brexit was the freedom of making decisions which are beneficial for the economy seen in resource-2
- Control on immigration laws and freedom to decide the rules in a trade-deal with any country
- Control over the fishing waters
- Domestic security will improve
- EU membership fees amounting to billions can now be used in the issues that matter for UK
- EU VAT contributions and agriculture subsidy policies cost UK consumers hundreds of pounds every year which will now be saved

### 4. How many trade agreements will UK have to revisit due to Brexit?

The UK will have to revisit 759 trade-agreements that it has with various economies through the EU

# Resource Five

## Model Answers



**Answers** 5. Why can you not implement the cost-benefit analysis of Brexit to its final stage?

We cannot implement the cost benefit analysis for Brexit to its final stage because of two main reasons:

- The information is not yet available about the clear impact of Brexit on a particular industry because UK is still in the transition phase
- Due to covid-19 pandemic, it is difficult to differentiate the impact of Brexit with the impact of pandemic.

# Resource Six

## Model Answers



**Answers** 1. What is the impact on trade post Brexit? Analyse briefly.

Trade was one of the most prominent arguments that the trade will fall after leaving EU which it has by 22% since the last year. However, UK has already started entering various trade deals with Russia, US and there are many other countries on the list. So far, the trade deals in the UK were made through EU and hence, it will take some time to revamp all these trade agreements. Hence, a 22% fall in trade was already expected.

2. What are the G7 countries?

The G7 countries include, Canada, France, Germany, Italy, Japan, the UK and the US

3. What percentage of US's investment bank EU staff works in the UK?

87% of US investment bank's staff are working in he UK.

4. What is the European derivatives market worth?

The size of European derivatives market is worth more than \$830 trillion as of 2019 and these are cleared using London based clearing houses.

5. Why is there ambiguity in the reports and figures of the impact of Brexit on UK?

The main reason for ambiguity in reports of impact of Brexit on the UK is because of the covid-19 pandemic. Due to this, it is difficult to differentiate as to the slowdown in the economy was due to pandemic or Brexit.

# Resource Six

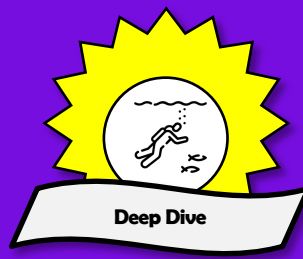
## Model Answers



**Answers** 6. What is the nature of loss seen due to Brexit? Support and elaborate on your arguments.

The nature of loss seen due to Brexit is analysed as mostly temporary. Every economy, while having a historic moment, goes through a down-turn economically and financially. However that does not mean that the change incurred is harmful or bad. In the longer-run it can prove to be positive.

# Final Reflection Activity Further Guidance



1. Read the white-paper on Brexit by Theresa May available on the government's website. Analyze her arguments and stand-point. Try to undertake a brief cost-benefit analysis from this paper for the decision of Brexit.

You can find the white paper here: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/786626/The Future Relationship between the United Kingdom and the European Union\\_120319.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/786626/The_Future_Relationship_between_the_United_Kingdom_and_the_European_Union_120319.pdf) It is advised while reading that you make notes of the important points and add them to your final projection. Use the techniques of cost-benefit analysis explained in resource-5 and follow the stage wise procedure to reach a final standpoint. Your two sides of argument should be whether the deal presented by the prime-minister Theresa May are beneficial for UK's economy or not.

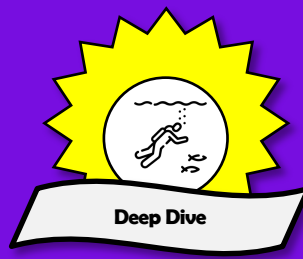
2. Analyze the performance of the following stocks using the most recent data available from reliable sources: Barclays, British telecom and British Petroleum. Can you mark the rise and fall on the stock prices with reference to the Brexit timeline from resource-2? Compare each one of these stock with the overall rise and fall in FTSE100 and understand the impact these three stocks have on the index with a regression analysis.

You can get the data available for the three main stock here: [British telecom](#), [Barclays](#) and [British petroleum](#). On all these three websites you can select a range of years from where you can see the rise and fall in their share prices. Select a year range between 2019 to 2021 which will cover Brexit as well as Covid-19 pandemic. Here mark the bigger ups and downs noticed and compare them with the Brexit timeline. See if the decisions made on Brexit by the parliament affect the Share prices and by what percentage?

3. Using the methods explained in the coursebook, develop a time-line on Covid-19 pandemic. Following the timeline, conduct a detailed cost-benefit analysis and research the data available. With your analysis, understand the nature of change in the economy due to the pandemic and make comments on what you think the future holds.

The covid-19 pandemic hit the UK's economy on January 29<sup>th</sup>, 2020, when two patients tested positive. You can develop the timeline of the pandemic including the lockdown and curfews implemented by the government and find the information here: <https://bfpg.co.uk/2020/04/covid-19-timeline/> After developing the timeline, analyze on what aspects you can develop a cost benefit analysis for, for example, one scenario can be to understand the costs and benefits of the implemented lockdowns and understand if they made any changes in the increase or decrease of positive cases per day. Here it is possible to convert the analysis into numbers as you can see the costs involved with the lockdown and benefits seen in terms of positive cases going down.

# Final Reflection Activity Further Guidance



4. Write a detailed Essay on Brexit including all the information provided in the coursebook and check your understanding of financial markets and the whole event. Include your personal thoughts and comments on what you think the future holds.

Using the resources provided in explore section of every chapter and with a detailed understanding of the coursebook, you can develop your essay with positive and negative aspects of Brexit. Do not forget to include a section explaining your stand-point on all these arguments. Make sure you include data sources to support your arguments.





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