**The Impact of Interest Rates: Activity**

Twelve months ago, Cotgrove’s was a thriving business. The small firm had three shops that sold electrical appliances such as televisions, games consoles, washing machines, cookers and carpet cleaners. The last shop had only recently opened. To finance the opening, Cotgrove’s had borrowed £100,000 form its bank at a fixed rate of interest over four years. The repayments were £30,000 a year spread over four years. Cotgrove’s also had an overdraft facility on its current account at the bank up to £30,000.

Since this time the Bank of England has put up interest rates from 2.5 per cent to 6.0 per cent. It was worried about rising inflation in the economy. The rise in interest rates has had a dramatic impact on Cotgrove’s. Sales have fallen 20 per cent. The company has been left with all the costs of running three shops but with fewer customers buying their products. Its overdraft has risen as Cotgrove’s has struggled to pay its day to day bills. The actual overdraft now stands at £27,000 and is still rising. To get some more cash flowing through the business, Cotgrove’s has decided to run a sale offering large discounts on its stock on products.

**Questions:**

1. Who is the ‘Bank of England’? How do they influence the ‘Interest Rate’? (**2**)
2. What is the difference between a ‘Fixed Interest Rate’ and ‘Variable Interest Rate’? (**2**)
3. How does an increase in the ‘Interest Rate’ affect consumer spending? (**4**)
4. Explain how a rise in ‘Interest Rates’ has led to a fall in spending in spending at Cotgrove’s. (**3**)
5. Evaluate whether or not the sale will help solve Cotgrove’s problems in both short term and long term. (**6)**