

Please read the student notes carefully before attempting each part of the assignment.

Part A (45% of the mark for this assignment)

Question 1

Caledoscope Ltd is a graphic design company operating mostly online with about 200 employees scattered between Aberdeen in Scotland and Manchester in England. Table 1 shows information on pay and tax for selected employees of the company.

1.1 Describe what is meant by a progressive income tax system and discuss one way that an income tax system may be structured so that it is progressive.(4 marks)

1.2a Complete Table 1 by using the [Income tax and National Insurance Calculator](#) to find Sarah's and Mehmet's pay after income tax and National Insurance have been deducted and, for each of them, their average income tax rate (not the average total tax rate). (4 marks)

1.2b Based on Table 1 (now that you have completed it), explain which income tax system, that of Scotland or England, is more progressive. (2 marks)

Table 1 Examples of pay at Caledoscope (2020/21 tax year)

Employee	Residence	Gross pay (£)	Pay after income tax and National Insurance (£)	Average income tax rate (%)
Janet	England	65,000	46,340.00	20.77
Sarah	Scotland	65,000		
Avi	England	36,000	28,120.00	13.06
Alan	Scotland	36,000	28,032.43	13.30
Mehmet	England	21,000		
Jan	Scotland	21,000	17,940.85	8.00

1.3 Avi's line manager has agreed that Avi's net pay will increase to £30,000 three years later (in 2023/24). Over these three years, inflation is predicted to average 3% per year. Using the [Inflation calculator](#), select and report the relevant result from your calculation to help you explain whether in 2023/24 Avi is likely to enjoy a standard of living that is higher, lower or the same as today. (5 marks)

(Total marks: 15 marks)

Question 2

Simon is an administrator living in Glasgow, earning £19,750 a year after deductions for tax, National Insurance and pension contributions. He is about to move into a flat with Michelle and her two young children. Michelle works in a café and makes £11,395.84 after tax and national insurance. She also receives £1,820 a year in child benefit. No-one described above has any other source of income.

2.1a Using the [Household income equivalence calculator](#), calculate the annual equivalised net income of Simon and Michelle's new household together. (2 marks)

2.1b With the aid of the same calculator, comment on how their individual household living standards have changed compared to when they were living separately. (4 marks)

2.2 Draw up a monthly cash flow statement using the following expenditure information for Simon and Michelle in their new shared flat.

- Rent: £950 a month
- Home Insurance £354 per year
- Credit card repayments £53 per month
- Council tax: £1200 a year
- Food and household items: £135 a week
- Alcohol, going out, leisure activities: £175 a month
- Water, gas and electricity: £350 a quarter
- Phones and broadband: £124 a month
- Transport: £350 a month
- Clothes: £175 per month
- Other spending: £145 a month

(4 marks)

2.3 Simon and Michelle want to save up for a family holiday in Spain, and they estimate they will need £2000. Comment on their current financial situation and consider potential adjustments they might make to their cash flow in order to save the £2000. (5 marks)

(Total marks available for Question 2: 15 marks)

Question 3

3.1 Toby has been listening to his friend Greta and decided to invest in renewable energy and install solar panels to his cottage. The total cost of the solar panels is £4,000. However, he doesn't have the money to pay the full amount upfront so is looking at two different financing options.

Option A is to buy it partly on his credit card which has an APR of 27.9%. Toby has no outstanding credit on the card at present, but he'll have to use up his whole credit limit. Even then, he will need to find £1,200 from elsewhere, which he can just about scrape together, but it will wipe out his savings. He would then aim to pay off the credit card by paying £75 per month.

Option B is the credit deal offered by the retailer. He can pay a fixed sum each month, spreading the cost over 36 months at an APR of 15.8%.

3.1 Briefly explain what APR is and what someone shopping around for credit might use it for. (3 marks).

3.2 Fill in Table 2 using the Borrowing and saving calculator to calculate the missing figures and show your workings.(6 marks)

Table 2 Total interest options

	Monthly payment	Repayment period	Total interest
Option A			
Option B			

3.3 Describe one advantage and two disadvantages of Option A over Option B. (6 marks)

(Total marks available for Question 3: 15 marks)

Word limit for Part A: 800 words

Part B (45% of the mark for this assignment)

Read Extracts 1 and 2 and answer the following question. Note that both extracts are about consumer debt – borrowing by households that is not secured against an asset such as a house.

Using the module materials and the two extracts below, discuss the proposition that since 2006 the rise in UK consumer debt has been manageable for a majority of households, but a cause of acute and mounting distress for specific types of vulnerable household.

Extract 1 – key findings from a report on UK consumer debt

- A decade of falling interest rates has not seen falls in low-income households' exposure to debt
- The proportion of low-income households using some form of consumer debt rose by 9 percentage points between 2006-08 and 2016-19 – a far steeper rise than the 1 percentage point rise (to 64 per cent) among high-income households
- This rising use of consumer debt has been concentrated in products with high interest rates that have not got cheaper over the past decade (unlike mortgage debt, which low-income households are less likely to have taken on)
- Credit card use (with an average quoted interest rate today of 20 per cent, up from 15 per cent in 2008) among low-income households grew by 13 percentage points between 2006-08 and 2016-19. The use of overdrafts (with an average quoted interest rate of 15-20 per cent) grew by 4 percentage points
- More than half (53 per cent) of low-income households with consumer debt reported difficulties in meeting accommodation costs in 2016-19, up from one-in-three households in 2006-08

Source: Resolution Foundation (2020)

Extract 2 – Key findings from official statistics on household debt in Great Britain

In April 2016 to March 2018, of all households, 4% were identified as having problem debt compared with 6% in April 2014 to March 2016,

[...]

The percentage of households with problem debt tends to decrease as household total wealth decile increases.... In April 2016 to March 2018, of all households in the lowest wealth decile, 15% were in problem debt. The percentage of households with problem debt in the next four wealthiest deciles was 5%, a third of the number of households in the bottom decile. This compares with only 2% of households in the wealthiest 50% of households (top five wealth deciles).

[...]

As well as being more likely to be in the bottom wealth decile, households in problem debt are also more likely to be renting their home. In April 2016 to March 2018, of those households with problem debt, 66% rented their homes, compared with 34% of all households.

Households in problem debt are more likely than all households to have a household head who is unemployed. In April 2016 to March 2018, of all households in problem debt, 6% had a household head who was unemployed, compared with 1% of the overall population.

Source: ONS (2019)

Note: Extract 2 refers to 'wealth deciles'. A decile is a segment of 10% of the total number of households, ranked by wealth or income. So, for example, the highest wealth decile contains the 10% of households with most wealth, and the lowest wealth decile contains the 10% with least wealth. Extract 2 also refers to 'household heads'; for this essay you do not need to define 'head of household', and can assume it is the member who has been the main income earner through all or most of the period.

(Total marks available for Part B: 45 marks)

Word limit for Part B: 900 words

Part C (10% of the mark for this assignment)

Drawing on your recent experience of the team-working activity in Week 9 (Activity 9.4), discuss one advantage and one challenge of working in a team.

(Total marks available for Part C: 10 marks)

Word limit for Part C: 200 words

Student notes for Part A

Question 1 focuses on how tax and inflation affect individuals' take-home pay and standard of living. Relevant sections of the module materials are Chapter 2 (especially Sections 3.3, 3.4 and 6.1) and the related online study in Week 7 (in particular, Sections 3 and 5). You will need to use the Income tax and National Insurance calculator, as well as the Inflation calculator, both of which are available from the 'Resources' section of the module website (along with other calculators).

Question 2 focuses on household cashflow, budgeting and equivalence scales. It looks at how living standards and budgeting for goals may alter as a result of a change in household circumstances; in this case, the forming of a new household. You will need to use the Household income equivalence calculator – make sure you read the labels on the calculator carefully to ensure you enter the correct inputs. You may find it useful to use the Personal budget calculator, too. Relevant material can be found in chapters 2 and 3 and the related online weeks 7 and 9.

Question 3 asks you to think about borrowing and interest payments. This draws on topics that you will have covered in Weeks 10 and 11. You will need to use the Borrowing and saving calculator to answer question 3.2. Note that the table asks you to include the total interest paid (not the total amount repaid).

Note: for all three questions, you are strongly advised to show or explain the amounts that you entered in the calculators and any other workings, since it may be possible to gain marks for a largely correct method, even if your final answer is wrong.

Student notes for Part B

Material to answer Part B can be found in Chapters 1,2,3 and 4 of Personal Finance, Electronic Tutorials 1,2,3 and 4, and in the Extracts provided. In Chapter 3, sections 2 and 3 explore reasons why households may not always be able to keep their expenditure below their income, and so run up debt. Section 4 looks at how spending patterns differ across households, and for the same household through time (the life course). In Chapter 4, sections 2, 3.1, 4.1, 4.2, 6.2 and 6.4 are especially important.

You are asked to consider why the rise in household debt since 2006 may have caused problems for some specific types of household, even if the majority report that their debts have remained manageable. The module materials and the Extracts suggest various characteristics that may make a household vulnerable to having problems with consumer debt, even if this debt is relatively small (compared to that of many other households). Remember that the question is focused on unsecured (consumer) debt.

The word limit means you cannot cover all the relevant areas in depth. Focus on ensuring that your answer presents what you consider to be the most important aspects, and that it is clear and well structured. Use your Introduction to set out the main areas you intend to cover.

You are not required to provide graphs or other diagrams to support your answers, although you may do so if this helps your presentation. You are expected to write in continuous prose, without the use of bullet points or subheadings. When you refer to specific parts of the module material or Extracts, make sure you reference these correctly. You can paraphrase the information and arguments you refer to, rather than quoting them directly, if this helps to stay within the wordcount. Section 7 of the Module and Study Guide also provides helpful advice and it is strongly recommended that you read this before planning your essay.

- In-text citation: ONS (2019) cited in Open University (2020).
- Reference list: Open University (2020) 'TMA 02' in DB125 *You and your money* [Online]. Available at [please insert the website address of the page containing TMA 02] (Accessed [please insert the date that you accessed these assessment materials]).

Student notes for Part C

This task is about reflecting on working in teams, drawing on your recent experience of the team-working activity in Week 9. You are not being asked to describe the team-working activity itself, rather what insights you have gained from the experience of taking part in it. Even if for some reason it didn't go as expected, there are still relevant insights to gain from this and you should explain them as part of flagging your challenge.

