**What is 'the economy'?**

Each of us goes about our business in our own way. A teacher receives a monthly salary paid directly into the bank, and draws out the cash needed to buy the shopping, buy petrol and give the children some pocket money. The children may spend this on chocolate, Coca-Cola and packets of crisps.

Although, as individuals, we 'do our own thing', the actions and decisions taken by millions of people and businesses make up 'the economy'. Collectively, chocolate purchases in Britain add up to £3,500 million per year. This, in turn, provides the income for chocolate producers and shopkeepers, who employ tens of thousands of staff.

If the value of all spending on all products bought in the UK is added together, it comes to an annual figure of over £1.5 trillion (a thousand billion). This spending provides the vast revenues that companies need in order to pay for Britain's 30 million workers, and enough profit left over to pay for business growth.

The key thing to remember is that the economy is intertwined. Cadbury is successful only if families have enough cash to be able to buy chocolate bars. Therefore, if there were a big cutback in consumer spending, perhaps in the wake of government spending cutbacks, many firms would struggle, including Cadbury.

When times are bad, almost every business suffers; this, in turn, can lead to job losses. When the economy is recovering, things get better for almost all firms.

**Current economic climate**

Business thrives on confidence. Confident consumers are willing to dip into their savings for a holiday, or to borrow to buy a new carpet or car. Confident investors are willing to put more money into businesses in return for shares. And the companies themselves will spend to invest in their future: new factory buildings, new machinery and new computer systems. All this spending can create an upsurge in economic activity.

The reverse also applies: gloom can spread doom. Therefore, the economic climate is important. The sections that follow give an idea of the factors that help to create an economic climate, either of optimism or of pessimism. These factors include:

• the business cycle

• changes in inflation

• changes in interest rates

• changes in exchange rates

• changes in taxation and government spending.