FP-BoK Topic 07: Economics

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TOPIC 07 OVERVIEW: ECONOMICS

Both CFP professionals and QAFP professionals are expected to possess a working knowledge of the Canadian economy, including identifying and explaining the indicators that may signal the past, current or future phase of the economic cycle. All professionals are expected to be able to use the foundational knowledge of demand and supply to trace the expected (or explain the past) impact of world events and fiscal and monetary policy on economic variables, including an individual's investment values.

Sub-Topic	Knowledge Topics Common to Both QAFP Professionals and CFP Professionals	Knowledge Topics For Which CFP Professionals Are Expected to Have Deeper Knowledge
7.1 Microeconomics	✓	✓
7.2 Macroeconomics	✓	✓

Taxonomy of the FP-BoK

The **verbs** used in the FP-BoK articulate the depth of knowledge expected of QAFP professionals and CFP professionals. The verbs are grouped into four **knowledge levels** which set out the depth or level of knowledge required for each knowledge topic.

KNOWLEDGE LEVELS

Knowledge Level	Associated Verbs Used in the BoK
Awareness	Define, Identify
Understanding	Explain
Application	Determine, Compare, Estimate, Calculate, Convert
Evaluation	Evaluate, Interpret

GLOSSARY OF VERBS USED IN THE FP-BOK

Verb	Description
Define	To state exactly the meaning of
Identify	To be aware of / to recognize and correctly name / to locate an appropriate resource
Explain	To make clear the meaning of / to describe something in more detail or reveal relevant facts or ideas related to it
Determine	To ascertain / to come to a decision, such as by investigation or reasoning
Compare	To note the similarities and differences between two or more things
Estimate	To determine an approximate value for
Calculate	To find the value using mathematics
Convert	To change from one form or purpose to another
Evaluate	To reach a conclusion or make a through careful study
Interpret	To give the meaning of / to construe or understand / to translate orally

TOPIC 07 KNOWLEDGE REQUIREMENTS

7.1 MICROECONOMICS

7.1.1 MICROECONOMICS THEORY

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define microeconomics.
- Identify how the price paid for a good, service or other asset is determined (through demand and supply).
- Define demand.
- Identify determinants of demand, such as:
  - Price of goods or services
  - Price of related goods or services (substitutes or complementary goods and services)
  - Consumer income or wealth
  - Consumer expectations of future prices, income or wealth
  - Consumer behaviour
  - Number of consumers
  - Price elasticity
- Identify the expected effect on demand of a change in each determinant of demand.
- Identify the effect of taxation on demand.
- Define supply.
- Identify determinants of supply, such as:
  - Price of goods or services
  - Cost of producing goods or services
  - Price of related goods or services (substitute or complementary goods and services)
  - Producer expectations of the future prices of goods or services
  - Number of sellers
- Identify the expected effect on supply of a change in each determinant of supply.
- Identify the effect of taxation on supply.
- Define market equilibrium.
- Identify how market equilibrium is achieved.
- Identify the effect of a change in demand or supply on market equilibrium.

Additional Knowledge Expected of CFP Professionals

- Explain how the price paid for a good, service or other asset is determined (through demand and supply).
- Explain determinants of demand, such as:
  - Price of goods or services

    - Price of related goods or services (substitutes or complementary goods and services)
    - Consumer income or wealth
    - Consumer expectations of future prices, income or wealth
    - Consumer behaviour
    - Number of consumers
    - Price elasticity
- Explain the expected effect on demand of a change in each determinant of demand.
- Explain the effect of taxation on demand.
- Explain determinants of supply, such as:
    - Price of goods or services
    - Cost of producing goods or services
    - Price of related goods or services (substitute or complementary goods and services)
    - Producer expectations of the future prices of goods or services
    - Number of sellers
- Explain the expected effect on supply of a change in each determinant of supply.
- Explain the effect of taxation on supply.
- Explain how market equilibrium is achieved.
- Explain the effect of a change in demand or supply on market equilibrium.
- Define arbitrage.
- Explain the role of arbitrage in achieving market equilibrium.

7.2 MACROECONOMICS

7.2.1 MACROECONOMICS THEORY

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify key economic trends, such as:
    - Globalization
    - Volatility in asset prices
    - Growing debt to GDP levels
    - Uncertainty in global markets
    - Economic stability/instability
- Define macroeconomics.
- Define an economic cycle.
- Define a market cycle.
- Identify phases of the economic cycle, such as:
    - Expansion
    - Peak
    - Contraction
    - Trough
- Identify expected characteristics of each phase of the economic cycle.
    - Interest rates
    - Inflation
    - Gross domestic product
    - Exchange rates
    - Asset values
- Identify the expected effect that macroeconomic variables (such as inflation, interest rates, and exchange rates) may have on the economic cycle and asset values.
- Define recession.
- Identify the relationship between economic cycles and investment market cycles.

Additional Knowledge Expected of CFP Professionals

- Explain key economic trends, such as:
    - Globalization
    - Volatility in asset prices
    - Growing debt to GDP levels
    - Uncertainty in global markets
    - Economic stability/instability
- Explain expected characteristics of each phase of the economic cycle.
    - Interest rates
    - Inflation

- Gross domestic product
    - Exchange rates
    - Asset values
- Explain the expected effect that macroeconomic variables (such as inflation, interest rates, and exchange rates) may have on the economic cycle and asset values.
- Explain the relationship between economic cycles and investment market cycles.

7.2.2 ECONOMIC INDICATORS

Knowledge Common to Both QAFP Professionals and CFP Professionals

Leading Economic Indicators

- Define a leading economic indicator.
- Identify indicators that lead the economic cycle, such as:
    - Stock market
    - Housing starts
    - Commodity prices
    - Manufacturers' new orders
    - The yield curve
- Identify how leading indicators may signal the next economic cycle.

The Yield Curve as a Leading Indicator

- Define the yield curve.
- Identify the significance of the slope of the yield curve.
    - Upward-sloping / normal
    - Downward-sloping / inverted
    - Horizontal / flat
- Identify how the slope of the yield curve may signal potential changes in the economic cycle.

Coincident Economic Indicators

- Define a coincident economic indicator.
- Identify indicators that coincide with the economic cycle, such as:
    - Gross Domestic Product
    - Personal income
    - Retail sales
    - Industrial production
    - Manufacturing and trade sales volume
    - Number of employees of non-agricultural payroll
- Identify how coincident indicators may confirm the current phase of the economic cycle.

GDP as a Coincident Indicator

- Define Gross Domestic Product (GDP).
- Identify the components of GDP.
    - Consumer spending
    - Investment spending
    - Government spending
    - Net exports
- Define the types of GDP.
    - Nominal
    - Real
    - GDP per Capita
- Identify the factors that may impact GDP growth, such as:
    - Political change
    - International conflict
    - Technological advancements
    - Medical discoveries or disease
    - Environmental disasters
    - Terrorism
    - Geopolitical factors
    - Domestic government policy (sanctions, protectionism)
    - Foreign government policy
    - Foreign fiscal policy
    - Foreign monetary policy
- Define Dross National Product.
- Identify the potential effects that a change in Gross Domestic Product may have on inflation, interest rates, exchange rates and asset values.

Lagging Economic Indicators

- Define a lagging economic indicator.
- Identify indicators that lag the economic cycle, such as:
    - Unemployment rate
    - Duration of unemployment
    - Changes in the Consumer Price Index (Rate of Inflation)
    - Average prime interest rate charged by banks
    - Level of inventory
    - Ratio of consumer credit to personal income
    - Level of private sector capital investment
    - Exchange rate
- Identify how lagging indicators may confirm that an economic cycle has passed.

The Consumer Price Index as a Lagging Indicator

- Define types of price changes, such as:
    - Inflation
    - Deflation
    - Disinflation
    - Hyperinflation
- Identify measurements of inflation, such as:
    - Consumer Price Index
    - Core Consumer Price Index
    - General Level of Prices
- Identify the potential effects that inflation and deflation may have on macroeconomic variables (such as Gross Domestic Product, interest rates, exchange rates) and asset values.

Unemployment Rate as a Lagging Indicator

- Define the unemployment rate.
- Identify the potential effects that a change in Gross Domestic Product, inflation, interest rates and exchange rates may have on unemployment.

Exchange Rate as a Lagging Indicator

- Define an exchange rate.
- Define a currency appreciation.
- Define a currency depreciation.
- Identify who benefits and who is disadvantaged from an exchange-rate change.
    - Appreciation
    - Depreciation
- Identify the expected effects that a change in exchange rates may have on Gross Domestic Product, inflation, interest rates and asset values.

Additional Knowledge Expected of CFP Professionals

Leading Economic Indicators

- Explain indicators that lead the economic cycle, such as:
    - Stock market
    - Housing starts
    - Commodity prices
    - Manufacturers’ new orders
    - The yield curve
- Explain how leading indicators may signal the next economic cycle.

The Yield Curve as a Leading Indicator

- Explain the significance of the slope of the yield curve.

    - Upward-sloping / normal
    - Downward-sloping / inverted
    - Horizontal / flat
- Explain how the slope of the yield curve may signal potential changes in the economic cycle.

Coincident Economic Indicators
- Explain indicators that coincide with the economic cycle, such as:
    - Gross Domestic Product
    - Personal income
    - Retail sales
    - Industrial production
    - Manufacturing and trade sales volume
    - Number of employees of non-agricultural payroll
- Explain how coincident indicators may confirm the current phase of the economic cycle.

GDP as a Coincident Indicator
- Explain the components of GDP.
    - Consumer spending
    - Investment spending
    - Government spending
    - Net exports
- Compare Gross Domestic Product and Gross National Product.
- Explain the potential effects that a change in Gross Domestic Product may have on inflation, interest rates, exchange rates and asset values.

Lagging Economic Indicators
- Explain indicators that lag the economic cycle, such as:
    - Unemployment rate
    - Duration of unemployment
    - Changes in the Consumer Price Index (Rate of Inflation)
    - Average prime interest rate charged by banks
    - Level of inventory
    - Ratio of consumer credit to personal income
    - Level of private sector capital investment
    - Exchange rate
- Explain how lagging indicators may confirm that an economic cycle has passed.

The Consumer Price Index as a Lagging Indicator
- Explain measurements of inflation, such as:

    - Consumer Price Index
    - Core Consumer Price Index
    - General Level of Prices
- Compare measurements of inflation.
- Explain the potential effects that inflation and deflation may have on macroeconomic variables (such as Gross Domestic Product, interest rates, exchange rates) and asset values.

Unemployment Rate as a Lagging Indicator

- Explain the potential effects that a change in Gross Domestic Product, inflation, interest rates and exchange rates may have on unemployment.

Exchange Rate as a Lagging Indicator

- Convert between currencies for a given exchange rate.
- Explain who benefits and who is disadvantaged from an exchange-rate change.
    - Appreciation
    - Depreciation
- Explain the expected effects that a change in exchange rates may have on Gross Domestic Product, inflation, interest rates and asset values.

7.2.3 ECONOMIC POLICY

Knowledge Common to Both QAFP Professionals and CFP Professionals

Fiscal Policy

- Define fiscal policy.
- Identify who is responsible for Canadian fiscal policy.
- Define a government budget surplus.
- Define a government budget deficit.
- Identify the types of government debts that exist.
    - National debt.
    - Provincial debt
    - Municipal debt
- Identify the impact a government's budget has on its financial position.
- Identify when budget proposals by the federal or provincial/territorial governments become law.
- Identify the fiscal policy tools available to the government.
    - Spending
    - Taxation
- Define types of fiscal policy.
    - Contractionary

    - Expansionary
- Identify the expected effects that a fiscal policy decision may have on asset values.

Monetary Policy

- Define monetary policy.
- Identify who is responsible for Canadian monetary policy.
- Identify the Bank of Canada's current monetary policy.
- Define types of monetary policy.
    - Expansionary
    - Contractionary
- Identify the expected effects that a monetary policy decision may have on asset values.
- Identify that foreign central bank policy decisions may affect the Canadian economy.

Additional Knowledge Expected of CFP Professionals

Fiscal Policy

- Explain the impact a government's budget has on its financial position.
- Compare the government deficit and government debt.
- Explain when budget proposals by the federal or provincial/territorial governments become law.
- Explain the fiscal policy tools available to the government.
    - Spending
    - Taxation
- Compare contractionary and expansionary fiscal policy.
- Explain the expected effects that a fiscal policy decision may have on macroeconomic variables (such as gross domestic product, inflation, interest rates, exchange rates) and asset values.

Monetary Policy

- Compare contractionary and expansionary monetary policy.
- Explain the expected effects that a monetary policy decision may have on macroeconomics variables (such as gross domestic product, inflation, interest rates, exchange rates) and asset values.

7.2.4 FOUNDATIONS OF MONEY

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define the system that secures the modern money supply.

Open Banking

- Define open banking
- Identify how open banking works to facilitate the sharing of financial data between financial institutions.
- Identify potential risks associated with open banking, such as:
    - Risks to privacy of consumer financial data, including:
        - Malicious applications
        - Data breaches
        - Misuse of information and data
    - Liability to financial institutions
    - Increased costs resulting from consolidation

Blockchain

- Define a blockchain
- Identify the purpose for which a blockchain may be used

Digital Currency

- Define digital currency
- Identify types of digital currency, such as:
    - Cryptocurrencies
    - Virtual currencies
    - Central bank digital currencies
- Identify the advantages and disadvantages of digital currency
- Identify how digital currency is regulated in Canada

Additional Knowledge Expected of CFP Professionals

- Explain the system that secures the modern money supply.
- Identify the tax treatment of digital currency transactions in Canada
- Explain the advantages and disadvantages of digital currency