

## Introduction

### Candidate A evidence

#### Topic – To what extent is the low exchange rate of sterling impacting the UK economy?

This report will examine the effects of the depreciation of the value of sterling before and in the wake of the Brexit vote and evaluate the harms and benefits felt since the vote. The report will look to explain these effects through appropriate economic theory and investigation into real world economic agents and how they have been influenced. Prior to the vote, the UK economy was facing a variety of challenges such as the productivity puzzle, stagnating UK economic growth as well as the wider slowdown of growth in the Eurozone, ultimately affecting the £'s value. But, in the early hours of the 24<sup>th</sup> of June 2016 the sterling saw its largest ever drop in value as it plummeted in value from a peak of \$1.50 to \$1.32, reaching a 31-year low.

### Candidate B evidence

#### Topic – The effect of minimum alcohol pricing on Scotland's economy

The purpose of this assignment is to investigate and highlight the economic impact that minimum alcohol pricing has on the Scottish Government, business and individuals and whether it should be raised further. Scotland previously did not have a minimum price for alcohol however on the 1<sup>st</sup> of May 2018 Scotland set a minimum price of £0.50 per one unit of alcohol. In 2017/18, there were 35,499 hospital admissions where alcohol was the main factor.

## Candidate C evidence

### Topic – How does an ageing population affect the UK economy?

This report will look at the impact on the UK economy of an ageing population, examining the impacts on the government, businesses and individuals.

During 2017 the percentage of elderly dependants (people aged 65 and older) in the UK was 18.2% whereas in 2007 it was only 15.9%. This percentage is expected to rise by 2.5% to 20.7% in 2027.

## Research

### Candidate A evidence

#### Topic – What is the effect of low wage growth on the main agents of the UK economy?

Source 1 – BBC News article: 'UK wage growth fastest for nearly 10 years'

I used this source because it was a very informative article. It provided up-to-date data comparing recent trends in inflation and in wage growth in the form of a graph. I could then analyse this graph to gain insight into real wages and standards of living when wage growth is slow, which is relevant to my aim.

Source 2 – Guardian article: 'UK wage growth slides to lowest rate in six months'

I found this source very useful because it was written just over six months ago, meaning it provided relevant and current information regarding wage growth. What was also useful was that it gave the opinions of some respected economists about wage growth and related issues. Moreover, it was free to access, making it easily accessible online and a cost-effective way of gathering research.

Source 3 – BBC News article: 'The Global Economic Challenge: Slow wage growth'

This was very helpful as it was written by the chief business correspondent for the BBC, meaning she is likely to be well-informed and knowledgeable on the topic and present the issue fairly without bias. However, it was written in 2014, so it may not be fully correct today, reducing its usefulness. Also, it focusses on the global effects, so, potentially, not all of the content of the article is useful to this report.

## Candidate B evidence

### Topic – Examining the impact on the UK economy of decreasing corporation tax

One source I used was the BBC website (appendix 1), which was useful as the BBC is an organisation that is government funded meaning they would have a duty to be unbiased in their research so the information provided about corporation tax here is honest and reliable.

Another source that I used was the Telegraph (appendix 6) when looking at the impact of reductions in corporation tax on the Treasury. This source was useful as I was able to access it free of charge as the information was online and available to the public, this meant that this form of research was cost effective.

Another source was the New York Times website (appendix 4) in finding out the effect on the American economy when they recently reduced corporation tax levels. This article was published in January 2019 showing the information is timely and up to date, this also means that the information is more relevant to the topic being researched.

## Candidate C evidence

### Topic – How does an ageing population affect the UK economy?

The Economics Help website provided detailed information on the impact of an ageing population as well as how the government could respond to problems that may occur. This is a well-known website therefore it is a trusted source of information. The information provided was specific and relevant to the issue that I am researching.

The Office for National Statistics website provides figures about the UK's population including the changes in birth and death rate as well as the percentage of elderly dependants. This website is reliable as it is a known source all across the UK and it provides detailed, relevant information. This website estimates what it thinks the population will be like in the future therefore the author must have knowledge about the topic. The information is also written in an unbiased manner.

The Jamaica Gleaner website provides general information about an ageing population for the most part but at some points throughout the article it is specific to Jamaica, making the information less relevant. However the article is written by a lecturer in the Department of Economics at the University of the West Indies therefore you know that the source of the information is credible.

# Application and understanding

## Candidate A evidence

### Topic – The effect of minimum alcohol pricing on Scotland's economy

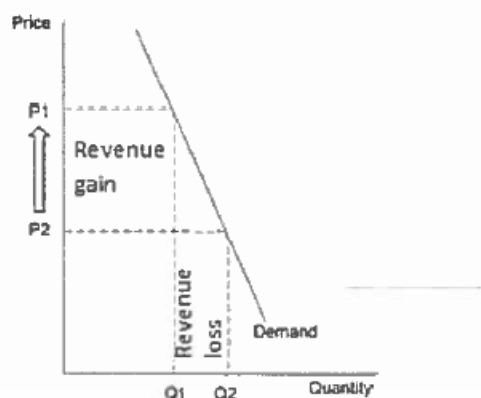
#### Impact on firms

As the diagram suggests, a minimum price floor creates a surplus. This is a result of consumer demand contracting due to the increase in price of a good or service however the level of supply extends, leading to the oversupply of that particular good.

The minimum alcohol pricing may have an overall negative impact on the producer as this will lower aggregate demand for previously sought-after alcoholic beverages. Aggregate demand is the total demand for goods and services within a particular market or economy and is given by the formula;  $AD = C + I + G + (X - M)$ . This decrease in aggregate demand may lead to some brands of alcohol going out of business as their previously cheap drink has

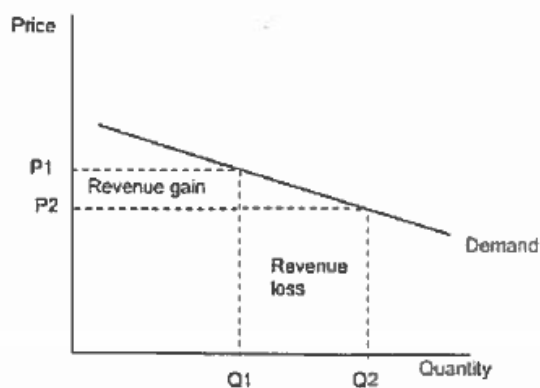
now significantly increased in price, therefore encouraging consumers to purchase alternative drinks.

However, the minimum alcohol may have a positive effect on producers as demand for alcoholic beverages in total is price inelastic. This means that although quantity demanded has fallen, it has not fallen by as high a percentage as the rise in price. This is due to the lack of close substitutes available for alcohol in general. However this may not be the case for individual products on the market. The diagram below shows consumer habits when the price of alcohol is increased.



In the diagram, the previous price was set at P2 with the quantity demanded at Q2. When this price is increased to P1, the quantity demanded also shifts to Q1. As shown in the diagram, the revenue gain created by increasing the price of the product is larger than the revenue loss created by the reduced quantity demanded by consumers. Therefore this generates increased revenue for the producer as the percentage gain is larger than the percentage loss.

However within the market, some beverages may be price elastic. An example of this is spirits sold at an on-licence premises like a bar or restaurant. This will decrease the producer's sales revenue as consumers are likely to continue purchasing the product even though it has seen an increase in price.



In the diagram, the original price was set at P2 with the quantity demanded at Q2. When the price increase was introduced, the price was raised to P1 and quantity to Q1 similar to the price inelastic diagram. However, the revenue loss is much greater than revenue gain. This is due to consumers finding cheaper alternatives and substitute goods for the product that has increased in price. This shows that this will come as a loss to the producer as they will be losing revenue by increasing the price of a product.

## Candidate B evidence

### Topic – What is the effect of low wage growth on the main agents of the UK economy?

#### Individuals

If wage growth is slow, there is a chance that inflation will be greater than pay rise i.e. the rise in the general level of prices will be greater than the increase in wages. This would mean consumers would have less disposable income. A consequence of this is that consumers cannot satisfy all their wants and needs, as they have reduced purchasing power (reflects the ability of consumers in how many goods and services they can buy). This reduces their standard of living. In addition, real wages will decrease if inflation is greater than wage growth.

There could also be an increase in the 'working poor'. This is because a small increase in price/decrease in real wages is bearable if your existing salary is high, but for lower income earners, it can be hard-hitting, requiring changes to spending habits. This increases inequality, and decreases levels of consumer confidence. Consumer confidence is a measurement of consumers' feelings about current and future economic conditions regarding their personal financial situation and that of the economy as a whole.

If workers are working for less take home pay, and are becoming worse off due to slow wage growth, there is likely to be increased frustration and de-motivation in the workplace.

#### Firms

Continuing on from my theory about individuals, if workers are less motivated, productivity may decrease for the firm.

When wage growth is slow, consumers have less purchasing power, so aggregate demand in the economy will decrease. With reduced demand, less of firms' output is being sold, decreasing Total Revenue for businesses, potentially reducing profitability. However, costs of production will not rise by much if wage growth is slow and there are no other changes to fixed/variable costs, helping firms remain profitable.

Assuming costs of production stay relatively the same as wages are not rising fast, domestic firms may be able to become more competitive internationally, as they could sell their good or service at a lower price. This would increase their attractiveness to foreign buyers, as it would take up less of their income/revenue to consume the good or service. With low

demand in UK economy, and potentially increased demand from foreign buyers, some domestic firms may re-locate outside the UK.

It is harder for firms to expand when there is weak demand in the economy. Weak demand is a direct consequence of slow wage growth.

## Candidate C evidence

### Topic – Examining the impact on the UK economy of decreasing corporation tax

Decreasing corporation tax would allow firms to benefit from the reduction in the tax they pay allowing these retained profits be used for investment into expansion meaning they would require the use of other firms in order to expand for example, they would need the services of a building firm to build new factories for them which would benefit the UK economy through this multiplier effect.

Firms would also require more employees as they expand due to the decrease in corporation tax meaning that government spending on benefits such as Job Seeker's Allowance will reduce meaning that more would be able to spent on improving health and education.

Decreasing corporation tax may mean that foreign firms would be attracted to operate in the UK due to the lower rates when compared to other countries, this would mean that individuals would be given greater choice as there would be more competition in the market. Foreign firms would also be able to boost the UK economy as they would for example need local suppliers.

A decrease in corporation tax also means that firms would be less likely to carry out means to avoid tax because the amount they would be paying is lowered, avoiding tax means there is less of a reward for firms and it the risk would stay the same which would put off these firms. This means that because more firms are paying corporation tax in full, then overall corporation tax revenue would increase for the UK government.

# Analysis and evaluation

## Candidate A evidence

### Topic – To what extent is the low exchange rate of sterling impacting the UK economy?

The same source also states that input costs associated with raw materials and fuel prices increased, while output prices for exports rose in sterling terms. This tells me that the depreciation of the pound had effects on imported goods and imported raw materials for firms. This proves that a weak pound does lead to higher costs of imports. Because of this, firms see a rise in their costs of production and may be forced to raise their own prices in response. In this case, firms that provide price elastic good may see a much greater loss of revenue due the % change in the quantity demanded being greater than the % change in price. Additionally, it shows that manufacturing firms realised they could increase their prices abroad because their goods had been made relatively cheaper by the drop in value of the pound, with larger firms noticing the potential earlier than smaller. (Appendix 2.2)

Finally, the article states that export turnover growth saw a much greater increase than import turnover, and that most manufacturers benefited from the poor pound. This suggests that exporters benefit more than importers after a currency devaluation. This backs up the idea that when a currency loses its value rapidly, it has largely positive impacts on export turnover, helping to adjust the BOP current account deficit. (Source 5) Although many firms did increase their export turnover, it is unclear whether their increased costs of productions, caused by more expensive imports, offset any potential gains. As export turnover increases and imports decrease, this further reduces the trade deficit that faces the UK. This was evident in the year 2018, where exports reached a record high of £621

billion from June 2017 to 2018 and the BOP trade deficit narrowed by £6 billion from £31 billion to £25 billion.



## Candidate B evidence

### Topic – Examining the impact on the UK economy of decreasing corporation tax

However, the increase in employment due to these foreign firms means that many individuals become over dependent on these firms to provide jobs for them. In an article by The Irish Times (appendix 5), it is shown that in Ireland, one in five are employed either directly or

indirectly by foreign multinationals which is at its highest level for 67 years. This shows that because individuals rely heavily on these multinationals, the job security of more workers is put at risk as if foreign multinationals decided to pull out of their operations in Ireland then it would lead to unemployment rates increasing. This in turn would increase the government spending on those unemployed for example benefits such as universal credit.

Also, as mentioned in the Journal Ireland (appendix 3), Ireland have come under large criticism and it was described by Nobel Prize-winning Economist Professor Joseph Stiglitz as stealing corporation tax from other countries. This means that if the UK were to lower corporation tax and attract large multinationals, their relationship with other countries would worsen which may mean they might lose out on the benefits received from trade agreements with these other countries which would be a disadvantage to firms as they may have to pay more on tariffs for buying resources abroad for example which would increase costs for firms. Other countries may lower their rates too so the UK might not get any benefit.

In an article from the New York Times (appendix 4), it is shown that a \$1.5 trillion tax-cut in the USA (the deduction in corporation tax being a large part of this) has meant that in 2018 growth increased by 3%. This shows and supports the theory that tax cuts allow firms to invest back into their business and expand. This can also be beneficial for individuals as the growth of different firms increases consumer choice for them.

However, in the same article (appendix 4), it states the additional tax revenue that the USA is expected to receive from this growth is yet to show up and overall tax revenue from 2017 has decreased by 2.7%. This shows that if the UK were to decrease corporation tax then if they were on the same area of the Laffer curve as USA, overall tax revenue may decrease even if the overall economic growth that is created takes place as firms are not increasing the amount they pay on tax as much as expected.

## Candidate C evidence

### Topic – How does an ageing population affect the UK economy?

As mentioned previously, the government have had to increase their spending on pensions. This has increased from £64 billion in 2000 to £150 billion in 2015. The amount spent on pensions has more than doubled in just 15 years. This has occurred despite a decreasing working population. Surprisingly however the working population's income tax decreased from 22% in 2000 to 20% in 2015 meaning that in order to afford to the increase in pensions, it is likely that the government's debt has increased or their overall spending has decreased.

As the population is ageing, a smaller percentage of the population are children. Therefore a smaller proportion of the government's expenditure will be spent on education and childcare. However it is debatable as to whether the amount spent on education should remain the same or increase to improve the quality of education.

In 2008/9, 20.4% of adults were victims of a crime committed in the UK. The crime rate decreased to 13.4% in the 2016/17 which suggests that as I mentioned earlier, an ageing population is a factor that has helped lower the crime rate in the UK.

## Conclusions and recommendations

### Candidate A evidence

#### Topic – To what extent is the low exchange rate of sterling impacting the UK economy?

The recent low exchange rate of sterling has had a mostly beneficial impact on UK firms. My evidence showed me that demand for UK goods has increased abroad, and that firms saw this and increased their prices to maximise their turnover.

I also conclude that consumers have had both benefits and drawbacks due to a poor value of pound sterling. From my research, I found that foreign consumers benefited from relatively cheaper goods in their country, which drove demand for exports up. I also found that UK consumers are continuing to buy the same level of imports, but at an increased price, which has damaged standard of living.

I can also conclude that the Government and UK economy have both somewhat benefited from a poor pound. My research states that the UK BOP current account trade deficit has shrunk greatly due to increased exports and decreased imports, both caused by the low value pound. However, GDP growth has also slowed, due to major uncertainty caused by both Brexit and the weak value of the pound.

## Candidate B evidence

### Topic – The effect of minimum alcohol pricing on Scotland's economy

I conclude that the continuation of minimum alcohol pricing will have an overall positive effect on producers because my evidence shows that alcoholic beverages are mostly price inelastic, resulting in the percentage increase of revenue gain is larger than the percentage decrease in revenue loss.

I recommend that the minimum alcohol pricing strategy be replaced by a tax. My evidence suggests that this will allow the Scottish Government to raise revenue through the tax and this will also mean that they will have an increased disposable income to spend on other necessities like education and healthcare. This will also come as a benefit to the Scottish economy as the increased Government spending will boost the economy.

## Candidate C evidence

### Topic – What is the effect of low wage growth on the main agents of the UK economy?

To increase consumers' purchasing power, I recommend that the Bank of England should reduce interest rates to make borrowing more affordable. This would stimulate aggregate demand, and in turn benefit firms and economic growth.

For firms, as workers are less motivated and inefficiency increases, it will be harder to maintain competitive prices.

I recommend that the government increase the minimum wage to increase purchasing power for low income earners. This would increase consumer spending, and in turn increase revenue for firms, helping UK firms expand.

For government, even though tax revenue has reduced (from both direct and indirect), I recommend an increase in capital spending to prevent any further decrease in future productivity which would discourage foreign investors.