## Candidate 1 evidence - Introduction

The purpose of this report is to find out how the falling oil price affects global economies in both the long and short run.

To address this issue I will look into the causes of the falling oil price and which countries are currently benefiting from the falling oil price and why. I will also look into which countries are currently suffering from the falling oil price and why and then effect of a low oil price will have in the long term.

## Candidate 2 evidence - Introduction

This report will outline the current supply and demand issues which have led to the fall in global oil prices and how this has affected and will affect the UK economy as a whole, but with a particular focus on Scotland given that Scotland's economy relies heavily on the industry. Oil prices fell from $110 per barrel in 2014 to $38 per barrel by the end of 2015. Falling oil prices are significant because they affect: the oil industry; the local communities and oil workers; UK consumers; UK inflation; UK economic growth; UK unemployment; and the government's budget.

I intend to investigate in turn:

- The supply and demand factors in the oil market
- The future for oil prices
- The economic impact of lower oil prices on consumers and the wider UK economy
- The specific impact on the area around Aberdeen

## Candidate 3 evidence - Research

**Topic: What are the effects of an ageing population on the UK economy?**

Source 1

https://www.weforum.org/agenda/2015/08/what-are-the-economic-consequences-of-rapidly-ageing-populations

This source gives information on the effects of an ageing population on differently developed countries around the world. The author is the head of pensions at Allianz Asset Management so we can assume she is well informed and reliable. The article was published in 2015 meaning that the information and statistics are up to date and useful in this report.

Source 2

http://www.economicshelp.org/blog/8950/society/impact-ageing-population-economy/

This source gives details on the main impacts of an ageing population and what these mean for the uk government, as well as government responses to the problem. It gives relevant information relating to the question, as well as details about both the cause and effects of an ageing population. The author of the source is unknown however it comes from a well known and trusted source.

Source 3

http://www.bbc.co.uk/news/business-11281670

This source gives figures on increases in life expectancy, however it mainly focuses on worldwide statistics so is made slightly less useful. It comes from the BBC which is a large global corporation meaning that it will have been well researched with access to reliable statistics and information.

## Candidate 4 evidence - Research

**Topic: Should the UK government cut corporation tax?**

I used the government website, www.gov.uk to find out the current and previous rates of corporation tax. This was a useful source because it is a reliable source that I have permanent access to as it is in the public domain. This website also provided me with relevant information that I was able to use in this report.

I also used http://economicshelp.org/ to help with the analysis of my points. This was useful because it was a cost efficient way to gather information as it was free to view, no matter how many times I visited it.

## Candidate 5 evidence - Application of Knowledge and Understanding

**Topic: Should the UK government cut corporation tax?**

Corporation tax will impact the UK government and firms. There are both advantages and disadvantages to the UK government for keeping corporation tax at the same, but there are only disadvantages to firms.

*Advantages to the UK government of keeping corporation tax at its current rate:*

1. If the UK government chose to keep corporation tax the same it would mean that the tax revenue wouldn't decrease which means they can continue to increase capital and current spending. This means improving the services like school for example which is an advantage because it may allow those who may not be able to afford private education access to a high level of free education.

*<u>Disadvantages to the UK government and firms of keeping corporation tax at its current rate</u>:*

1. A disadvantage to the UK government or corporation tax staying the same is that some businesses may struggle to survive with the current corporation tax rate, this may mean that unemployment would increase through the high cost of paying corporation tax and this would increase the costs of the UK government because more people would be claiming unemployment benefits.

2. A disadvantage to firms is that more of their profits will be taxed and this means that they are less likely to be able to grow and expand. This may prevent the economy from increasing its gross domestic product (GDP) as firms won’t be able to grow and increase output.

3. Another advantage to firms is that current rates of corporation tax may influence multinational businesses to try to avoid paying taxes. This is a disadvantage to firms as it means that they are paying more corporation tax than larger businesses which gives the larger business an unfair advantage in the market.

If corporation tax is cut then it will also impact the UK government and firms. There are advantages and disadvantages to both UK governments and firms for this happening.

*<u>Advantages to the UK government of cutting corporation tax</u>:*

1. once corporation tax cuts occur, it may benefit the UK government by increasing FDI which mean that the GDP can increase as more goods and services are being produced within the UK, benefiting the UK government as it becomes more attractive to invest into as it may have increased economic activity which can drive more FDI into the country. FDI also decreases unemployment which reduces the costs of the government.

2. An advantage to firms of this cut is that they will have more retainable profits which allows businesses to pay less in tax to the government meaning that they have more profits to retain that may be saved as a provision or could be re-invested into the business. This means that the business can grow and may be able to even take on more apprentices to train which can improve the quality of the workforce to employ from.

*<u>Disadvantages to the UK government and firms of cutting corporation tax</u>***:**

1. One disadvantage to the UK government of cutting corporation tax is that it will mean the government has increased borrowing. This will be because it will take a long time for any FDI to inject revenue and along with the reduced tax revenue it means that the UK governments expenditure will be more than its income which is a disadvantage because they are already in a deficit.

2. A disadvantage to firms is that due the attraction of FDI it increases the competition for the firms and can mean that consumers have a higher choice of business to choose from, meaning some businesses will miss out on sales and in result profits will decrease.

# Candidate 6 evidence - Application of Knowledge and Understanding

**Topic: Is the government right to introduce a compulsory living wage?**

The national living wage is an hourly rate set independently and calculated according to the basic cost of living in the UK. The current UK Living Wage is £7.20 per hour and will replace the current minimum wage of £6.70 and will become law in April 2016. This has come into place as the standard of living is increasing marginally in comparison to the increase in population, this shows the inadequacy of the current minimum wage.

Effect on Government

The introduction of a National Living wage will help lower paid British Citizens be less reliant on benefits from the government as their incomes will rise and people are more dependent on money from consumers and firms. They will have less needs to claim benefits and as a result government spending will fall. The government will benefit through increased revenue as they will be receiving a higher amount of income tax from workers as there is more income to be taxed. The effect of this is the Budget deficit, which is when expenditures exceed revenue should fall.

If workers have more income, meaning aggregate demand will rise. Graph 1 shows how as demand shifts to the right, quantity supplied increases as well as price, this is because firms aims are to make a profit. As consumers demand more due to higher income so demand pull inflation, demand pull inflation is when the aggregate demand in an economy strongly outweighs the aggregate supply causing prices increase. Increased inflation can have negatives for businesses for example high and constantly changing inflation is atrocious for business confidence as they are unsure of total revenue and cost of production. This uncertainty might lead to a lower level of capital investment spending as businesses are unsure whether they will have a guaranteed profit. The government will also have increased expenditures as workers in the public sector which is controlled by the government will be entitled to the Living Wage. The introduction of the new living wage may also cause the government to not complete one of the governments'' four main aims, to eradicate unemployment. Unemployment is where someone who is actively searching and able to work is unable to find work. This will come about as firms aim to make a profit however may find this hard due to the increase in production costs.

There will also be less foreign direct investment as firms seek lower costs of production and move out of the UK to emerging economies who are willing to work longer hours for less money, for exempla Indonesia and new firms from abroad will choose not to locate in Britain. In addition, exports could be less competitive as prices rise for the British consumer resulting in balance of payment problems.

Effect on Consumers

The Living wage will mean workers have an increased disposable income as they are being given a higher wage this will therefore increase spending power and consumers increase in income will cause them to demand more, and as a result output of firms will increase therefore causing an increase in economic growth measured by the capacity of an economy to produce goods and services, compared from one period of time to another measured by GDP. It will also cause an increase in those searching for employment as there is more of an incentive to work which will cause less of a drain on public infrastructure which will have meant poorer quality facilities for consumers.

Effect on Business

The introduction of the national living wage will cause cost for businesses to go up as they have to pay extra money for the workers they already employ. This means they have to raise prices in order to make a profit, or try to reduce production costs by taking measures such as using cheaper lower quality resources. Alternatively they could make workers redundant leading to an increase in unemployment. However there may also be an increase in demand for the good/service as consumers have more income to spend, this will result in an increase in profit for the business.

## Candidate 7 evidence - Analysis and Evaluation

**Topic: What are the effects of an ageing population on the uk economy?**

Source 2

The combination of higher spending commitments and lower taxation revenue that come from an ageing population are an increasing source of concern for Western governments - especially those with existing debt issues, such as the uk, or unfunded pension schemes. Although people are living longer, health continues to deteriorate at a similar rate as before which means that we will become more and more reliant on the NHS. This means that spending will have to increase on health care and pensions. Furthermore those in retirement tend to pay less tax because they are not working. This means that there is a higher demand for public services, but the government does not have the funds to meet this demand. They will then have to decide whether to borrow more, in order to fund the health service and state pensions, raise taxes, or divert spending from other sectors. However, as highlighted by the source, borrowing could be a problem for the uk as the government is aiming to reduce its debt meaning they will be reluctant to borrow more.

Source 1

Since state pensions come from contributions from current taxpayers, an increased life expectancy along with falling birth rates will result in an increased burden since there are fewer taxpayers to pay more pensions. The fact that there are fewer people of working age will lead to a gap in the workforce. This will mean falling productivity in the uk, due to the lack of resources, which will then result in falling economic growth. This problem is exacerbated by the fact that the retirement age has only increased by 8 years in the period since 1950, however this increase is not in line with the increase in life expectancy so people will spend a lot longer in retirement receiving a state pension, relying on the falling number of contributors and not contributing to the country's economic growth. From 1999 to 2040, the dependency ratio (ratio of people over working age to people over 65) is predicted to fall from 3.7 to 2.1 (source: appendix 1.2). This means that we are more dependent on those who are paying taxes to contribute to the increasing demand for state pensions.

Source 3

With an increased dependency on taxation to help fund state pensions and the NHS, there could be an increase in taxes such as income or corporation tax. This could result in disincentives to work and disincentives for firms to invest, since they have to pay higher taxes on the money they earn, leading to fall in productivity and decreased economic growth. Rather than raising more taxes, the government might decide to divert spending from other sectors. This could potentially mean a fall in spending on education or infrastructure which, in the long term, will also lead to a fall in economic growth due to the lack of skilled workers. This is evidenced by Brigitte Miksa, who says 'The unprecedented rate at which the world is aging could lead to global annual economic growth decreasing from an average of 3.6% this decade to around 2.4% from 2050 to 2060'. This could mean falling GDP for the uk economy due to the fall in production around the world.

## Candidate 8 evidence - Analysis and Evaluation

**Topic: Should the UK government introduce a sugar tax?**

From source 2, which outlines the failure of the Danish fat tax, I found that taxation had no effect on reducing demand and obesity; 'any impact on decreasing obesity was too small to measure.' Furthermore, it follows that a sugar tax would probably not be effective in decreasing consumption of sugar. Therefore, it would be a waste of time and money introducing the tax. The source highlights that when the tax was introduced in Denmark 'aggregate demand did not fall'. This means that in reality consumers might just change their suppliers. Therefore, many consumers simply may resort to buying their sugary products in other countries where they were not taxed, switch to cheaper supermarkets or simply pay the increased prices. The source also states that '80% of Danes admitted that the tax did not change their shopping habits.' This means that in the UK a sugar tax would probably not cause demand to fall. This means that people in Britain are also going to find ways around the sugar tax and as a result their consumption of sugar would not decrease. Therefore a sugar tax would not be effective in reducing sugar consumption.

From the source I found that 'PED for sugary products is inelastic'. Sugar is also in many products so there are not many close 'sugar free' substitutes. As PED is inelastic, an increase in price due to a sugar tax would not have a big impact on demand for sugar, as consumers will still want sugar, regardless of price. Therefore, sugar can be taxed as demand will not drop significantly and more government revenue can be raised.

The source also states that ‘the only thing the fat tax did successfully was raise money for the government’ and that ‘this money came disproportionately from the pockets of those on low incomes’. This means that the sugar tax would be regressive and have a negative impact on poorer people as high taxes led to inflation, which caused the cost of living to rise. If people are paying a higher proportion of income on sugary products then they will have less money to spend on other healthier goods. Therefore, the health of the population would not improve in the way that is hoped as consumers will have less money to spend so will maximize their spending on cheaper, unhealthier foods. It also means that a sugar tax would be effective in raising government revenue. Therefore, government would have more money to increase public spending on health services other services, which are considered to be necessary. Alternatively, they may not increase public spending but use the increased revenue to try to reduce the budget deficit. A budget deficit is when the cost of imports into a country outweighs the revenue raised from exports. The main aim of the current UK government is reducing the current budget deficit.

A final point the source highlighted was that ‘taxation has never been an effective method of reducing obesity’, as the level of tax required is too high. This means that unless the percentage of tax placed on sugary products is very high then the tax will have no effect in reducing obesity. Therefore, implementing a sugar tax in the UK would not be effective in combating the over consumption of sugar.

Furthermore, in source 3, using the example of the sugar tax in Berkeley California, I found that a sugar tax is not the solution the UK requires. The source highlights that ‘PED is inelastic as the percentage increase in price is bigger than the percentage decrease in demand.’ This means that implementing a sugar tax in the UK is not likely to be effective either. It also highlights that the ‘percentage of the tax passed onto consumers is limited’. Therefore, the impact on consumer behaviour is also limited as demand will not fall if the tax is not passed on. The source also highlights that ‘consumption of sugary drinks has greatly reduced in the US where there is no sugar tax debate due to an increase in education and awareness of the health repercussions of sugary drinks’. Therefore, a sugar tax is not necessarily the most effective way of reducing sugar consumption and the UK should consider alternative, potentially more effective, policies.

In source 4 I found that it is necessary to use more than one method to reduce sugar consumption. The source highlights that ‘no single measure is likely to transform eating habits’. Therefore the government have multiple options in combating the overconsumption of sugar and should not just consider a sugar tax on its own.

## Candidate 9 evidence - Conclusions/Recommendations

**Topic: What are the effects of an increase in immigration on the UK?**

Overall I have come to the following conclusions from my research and economic theory.

An increase in immigration will have a positive effect on individuals in the UK as it increases employment and GDP per capita (an indicator of standards of living). There has also been little evidence that immigration could cause unemployment or that immigrants lower wages for UK natives and there is no correlation between increased immigration and inflation.

An increase in immigration has a mostly positive effect on firms in the UK as it increases the population and therefore supply of labour. This gives firms more choice for who to employ and encourages workers to work harder, which leads to a more productive workforce and reduces costs of production so profit margins rise, which allows them to further invest in capital to further improve productivity.

An increase in immigration has a mostly positive effect on the UK government as it immigrants would pay tax revenue to the government which can then be used to further increase the economy's GDP. The increase in the population also increases the productive capacity of the economy. The negatives they bring are also very slight, with the government only paying very little to support asylum seekers and the transfers to family abroad would be pretty rare for refugees and asylum seekers.

## Candidate 10 evidence - Conclusions/Recommendations

**Topic: What are the effects of an ageing population on the UK economy?**

In conclusion, an ageing population will have a negative effect on the uk economy. There will be an increased burden on taxpayers due to falling number of workers in comparison to retirees, meaning that taxes will have to be increased or spending reduced elsewhere in order to cope with the increased demand for healthcare and pensions. Changes to taxation as a result of the ageing population could lead to falling productivity due to disincentives to work or a reduction in the number of skilled workers available, as evidenced in source 3. In order to remedy this problem the government should increase the retirement age further in order to increase the workforce, increasing taxation revenue and leading to less of a burden on the falling number of taxpayers. Increasing the retirement age will also mean that people will stay in work for longer, contributing to production and helping the uk to maintain sustainable economic growth.