



A-Level Economics Case Studies:

Theme 1



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A-Level Economics Case Studies:

Free Market and Command Based Economies



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Summary

- Hong Kong is ranked the most economically free market in the world. The UK has the 7th most free economy in the world.
- North Korea and Cuba have the most command-based economies in the world.



Case Study 1 – Free Market Economy

1. According to the Index of Economic Freedom, Hong Kong is ranked as the most economically free market in the world. This is due to its low tax rates, relaxed regulations on businesses, and highly capitalist economic system.
2. The UK has the 7th most free economy in the world.
3. Despite having high levels of inequality, free economies benefit from wider variety and better quality of goods, higher incomes and lower unemployment.



Case study 2 – Command Economy

1. The five countries with the least economic freedom in the world are North Korea, Venezuela, Cuba, Congo and Eretria. North Korea and Cuba have the most command-based economy in the world.
2. These countries benefit from low levels of inequality as the government controls wages and employment. But suffers from food shortages, high inflation, corruption and high levels of unemployment.
3. In North Korea, for example, 20% of children are affected by malnutrition (lack of healthy food). As a result, on average a North Korean is shorter than a South Korean (mix economy) man.





A-Level Economics Case Studies: *Negative Externalities*



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Summary

- The BP oil spill in the Gulf of Mexico destroyed wildlife and damaged the tourism industry. It cost the local economy over \$4bn.
- In Bangladesh, waste disposed into rivers by the textile industry has intoxicated local farms and caused significant harmful health effects.
- Direct and passive smoking damages health and is a profound burden on governments' health budgets. The amount of healthcare expenditure due to smoking-attributable diseases totalled US\$422 billion in 2012, or 5.7% of global health expenditure.



Case Study 1 - Negative Production Externality: BP Gulf Oil Spill - Deepwater Horizon Rig Disaster

1. In 2010, an underwater BP well spilled over 35,000 barrels of oil in the Gulf of Mexico. It was the biggest ever accidental release of oil into the oceans. It cost BP \$4 billion to contain and clean up the mess and another \$5 billion in penalties.

2. The BP oil spill damaged the shorelines of four Gulf States: Louisiana, Alabama, Mississippi, and Florida. This contributed more than the \$700 million lost in fishing and tourism revenues and 3,000 jobs.

3. The oil spill disaster harmed the fisheries sector. It affected the cellular function of the killifish, a common bait fish at the base of the food chain. It harmed the development of larger fish such as mahi-mahi and reduced the number of juvenile bluefin tuna by 20%.

4. Between May 2010 and November 2012, more than 1,700 sea turtles were found stranded. This is compared to 240 normally found a year. In addition, 930 dolphins and whales were discovered stranded during the period from February 2010 to April 2013. Only 20 a year are usually found in this state.



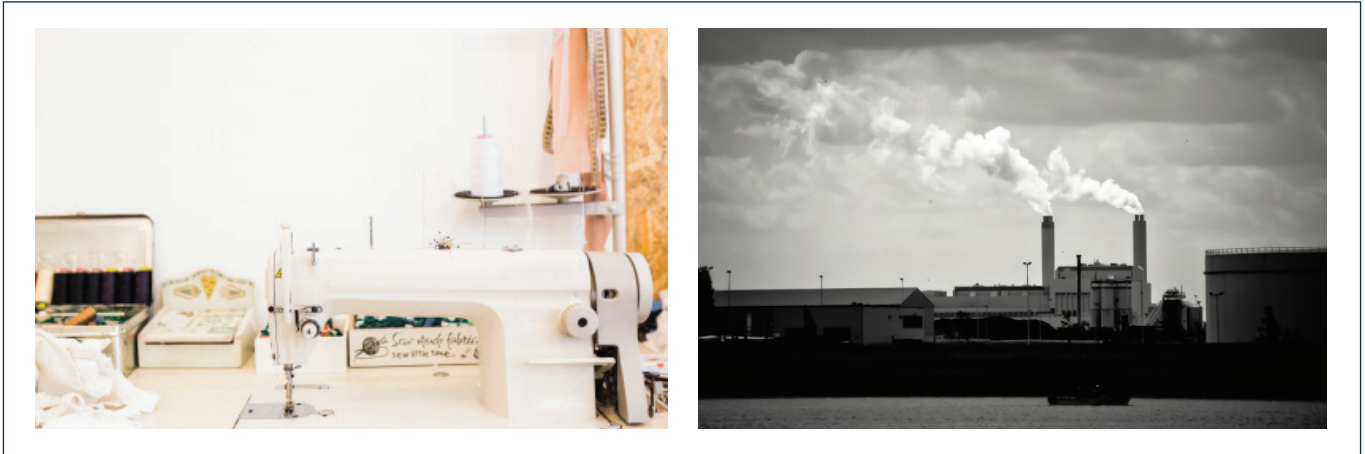
Case Study 2 - Negative Production Externality: Bangladesh Garment Factories Pollute Rivers

1. The textile industry in Bangladesh has been a great engine for boosting economic growth in the country. The textile sector has contributed 82% of the country's total export revenue—about 28 billion USD per year.

2. However, with great success came environmental deterioration. Untreated waste containing heavy

metals are being released into rivers from nearby factories, affecting the health of people who live along the polluted rivers.

3. The polluted river is also being used for irrigation purposes in farms near industrial areas. Vegetable and fruit samples showed the presence of textile dyes. This affects the health of people who eat them. Illnesses are reported to be 16% higher compared to areas further away from industrial areas.



Case Study 3 – Negative Consumption Externality: Passive Smoking

1. Substantial medical research has shown the harmful effects of inhaling second-hand tobacco smoke (passive smoking). Passive smoking has been linked to a number of serious illnesses, such as lung cancer and heart disease in adults.
2. Smoking imposes a heavy economic burden throughout the world, particularly in Europe and North America, where the tobacco epidemic is most advanced.
3. The amount of healthcare expenditure due to smoking-attributable diseases totalled US\$422 billion in 2012, or 5.7% of global health expenditure.
4. The total economic cost of smoking was equal to 1.8% of the world's annual gross domestic product (GDP). Almost 40% of this cost occurred in developing countries, highlighting the substantial burden these countries suffer.



A-Level Economics
Case Studies:
Positive Externalities



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Summary

- The government claims every £1 spent on public transport returns £4 to the wider economy.
- In 2017, the UK Government spent over £144bn on the NHS.
- In 2018, the UK Government spent about £90bn or about 4.3% of national income (GDP) on education.



Case Study 1 - Positive Production Externality – Spending Public Transport

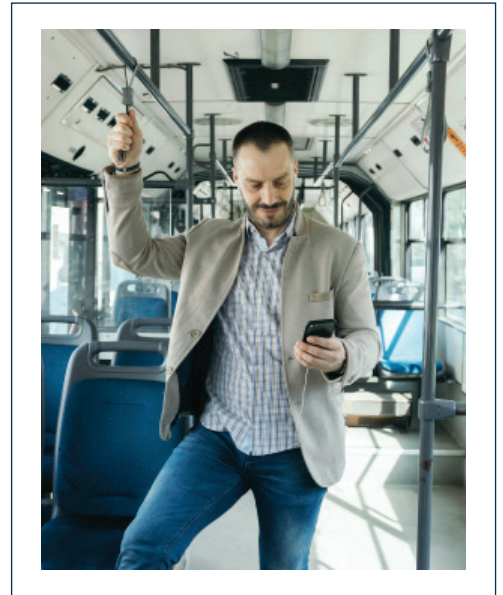
1. There is strong evidence that government investment on public transport benefits the wider economy. It reduces travel times and costs, boosting productivity. The government claims every £1 spent on public transport returns £4 to the wider economy.

Reduced transport costs mean that businesses can:

- Connect with potential suppliers, enabling them to access higher-quality and lower-cost inputs.
- Connect with potential customers, enabling them to sell more.
- Connect with a wider pool of talent in the labour market, allowing skills to be better matched to employment opportunities.

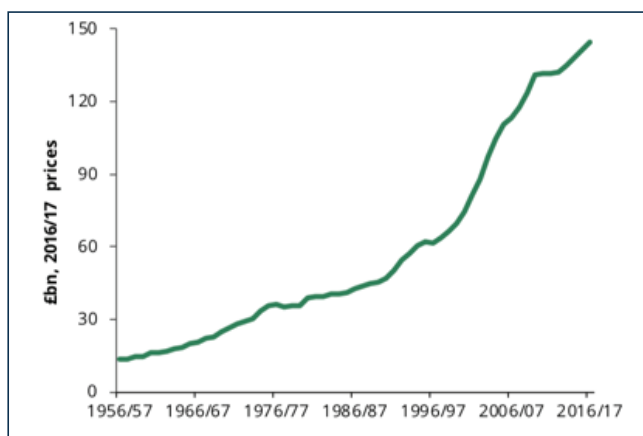
Reduced transport costs mean that individuals can:

- Participate in the labour market (address geographical immobility).
- Access a wider range of jobs, increasing the chances that they can find a position that provides a better match for their skills and qualifications



Case Study 2 – Positive Production Externalities – Spending on Healthcare

1. Expenditure on the NHS has risen substantially since it was established on 5 July 1948. In the first full year of its operation, the Government spent £11.4bn on health in the UK. In 2017, the figure was over ten times that amount: £144.3bn. The below graph depicts the growth in spending on healthcare:



2. Spending on the NHS in the UK helps boost productivity of the labour force (this shifts out the PPF). Workers take less days off work due to illness. Being healthier means they can work harder and longer. Firms have benefited from higher profits; creating more jobs and paying more tax.



Case Study 3: Positive Consumption Externality – Spending on Education

1. Education spending is the second-largest element of public service spending in the UK behind health. In 2018, the UK Government spent about £90bn or about 4.3% of national income (GDP) on education.
2. Human capital investments are associated with higher GDP and lower inequality. Recent estimates suggest that each additional year of education is associated with over 18% higher GDP per capita. Furthermore, a better educated population can act as a trigger for innovation, adoption of new technologies and enhanced growth.





A-Level Economics Case Studies:

Indirect Taxes on Demerit Goods



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Summary

- The UK government levies a specific tax on petrol, tobacco and alcohol as they have third party spill over effects (negative externalities).
- Fuel tax is 57p per litre, raising the government £30bn per year.
- Tobacco tax is £9.80, raising the government £8.8bn per year. But £2bn in tax revenue is lost due to smuggling.
- *Economists have found that, on average, a 1% increase in the price of tobacco and alcohol results in a 0.5% fall in demand (inelastic PED).*



Case Study 1 – Taxes on demerit goods (also known as Sin Taxes)

1. An example of a specific tax is excise duties on demerit goods such as tobacco, petrol and alcohol. These goods are taxed because they are deemed to have negative externalities and therefore their consumption and production should be reduced. Economists have found that, on average, a 1% increase in the price of tobacco and alcohol results in a 0.5% fall in demand (inelastic PED). However, the PED is more elastic for occasional smokers and drinkers (demand more responsive) compared to heavy smokers and drinkers (demand less responsive).

2. Fuel tax is 57p per litre, raising the government £30bn per year. Fuel is taxed because of its negative externality – third party individuals breathe in pollution emitted by cars driven on the roads. The fuel tax has reduced the demand for petrol and car use, helping reduce pollution levels (over 15% of carbon dioxide emissions come from cars). However, the rise in the fuel duty has led to an increase in firms' cost of production, resulting in higher prices and lower production.

3. Tobacco tax is around £9.80 and raised the Government £8.8bn in revenue. However, the Government loses £2.2bn tax revenue per year due to tobacco smuggling. 16% of total cigarettes in the UK were smuggled illegally in to the UK. Advocates of taxes on vices such as smoking and obesity argue that they also impose negative externalities on the public, since governments have to spend more to take care of sick people. On the other hand, lifelong smoking will bring forward a person's death by about ten years, which means that smokers tend to die just as they would start drawing from state pensions.



¹<https://www.economist.com/the-economist-explains/2018/08/10/do-sin-taxes-work>

4. Excessive drinking, however, does cause significant crime. Around 30% of fatal car crashes in America involve a driver who has been drinking. Alcohol is also heavily linked to domestic violence.

5. The government hypothecates these taxes by spending them on initiatives to reduce consumption of alcohol, tobacco and fuel. For example, money could be spent on improving public transport or educating people on the harms of drinking and smoking.



Case Study 2 - Ad Valorem

1. An example of an Ad Valorem tax is VAT, which is set at 20% in the UK. In 2017, the Government collected £125bn in VAT. This is also an example of a regressive tax, as the more you earn the lower the proportion of income paid in VAT. It hurts the poor more than the rich. This is why the government make certain necessary goods such as



Case Study 3 - Sugar Tax

2. The sugar tax was introduced in April 2018. It is a 20p tax applied to soft drinks with a certain amount of sugar per litre. It is expected to raise £240m for the government within one year. The money raised will be invested in school sports and breakfast clubs. Consumption of sugary drinks have fallen by 30% since the tax was introduced.





A-Level Economics Case Studies: *Subsidies*



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Summary

- Up until 2018, the government had a subsidy scheme in place for solar energy. This helped 800,000 households and 28,000 businesses to install solar energy panels.
- The EU spends £50bn per year subsidising European farmers to boost farmers' incomes and ensure a stable food supply.
- Farmers only generate roughly 6% of the EU's GDP. Yet they receive 30% of the EU's total budget.



Case Study 1

1. EU Renewable Energy Directive, the UK has a target to source 15% of final energy (petrol, electricity) consumption from renewable energy by 2020. In 2015, nearly 25% of electricity in the UK was generated from renewables.
2. Up until 2018, the government had a subsidy scheme in place for solar energy. This helped 800,000 households and 28,000 businesses to install solar energy panels. The percentage of electricity generated from Solar increased to 10%.



Case Study 2

1. The EU launched a Farming Subsidy scheme called the Common Agricultural Policy in 1962. It costs the EU £50bn per year. It aims to: support farmers and improve agricultural productivity, to ensure consumers have a stable and affordable supply of food; boost farmers' incomes; maintain rural areas and landscapes across the EU.
2. These subsidies involve direct payments to farmers to reduce their cost of production and encouraged more farming. There are around 11 million farms in the EU and 22 million people work in the EU agricultural sector.
3. *Some argue that the Common Agricultural Policy is hugely wasteful. It leads to overproduction, forming mountains of surplus produce which are either destroyed or dumped on developing nations, undermining the livelihoods of farmers there. A free market would ensure a more effective allocation of resources. Managing the CAP eats up vast amounts of money: from 6.7 % of CAP payments disbursed in France, to 9.3% in Germany.*



4. Farmers only generate roughly 6% of the EU's GDP. Yet they receive 30% of the EU's total budget.

5. Nonetheless, CAP gives Europe food security. The EU would be dangerously dependent on fluctuating imports. Farmers need the stability that CAP provides. CAP ensures Europeans have stable food supplies at reasonable prices.





A-Level Economics Case Studies: *Minimum Prices*



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Summary

- In 2018, to reduce excessive consumption of alcohol, the Scottish government introduced a minimum price of 50p per unit of alcohol. By the end of 2018, the volume of alcohol sold in Scotland fell 3 per cent from 2017.
- In 1962, the EU introduced a guaranteed minimum price scheme to boost agricultural production. The minimum price was so effective that it encouraged over-production and excess supply.
- In 2019, Thailand announced a minimum price scheme for rice farmers across the country to boost domestic rice production and increase farmers' incomes.



Case Study 1 - Minimum Price on Alcohol

1. In 2018, the Scottish Government introduced a minimum price of 50p per unit of alcohol. The authorities were keen to reduce excessive consumption of alcohol and the number alcohol related deaths per year. Minimum pricing was largely aimed at raising the cost of cheap lager, cider and spirits sold in super-markets and off-licences to reduce consumption.
2. By the end of 2018, the volume of alcohol sold in Scotland fell 3 per cent from 2017.
3. The Scottish government estimated that if the trends continue, the imposition of the minimum price will save 392 lives by 2023.



Case Study 2 - EU Common Agricultural Policy

1. In 1962, the EU introduced a guaranteed minimum price scheme to boost agricultural production. The minimum price was so effective that it encouraged over-production and therefore excess supply, resulting in the infamous wine lakes and butter mountains.
2. By the mid 1980s, over-production led to sweeping reforms, including the use of set-aside programmes. The programmes involved the voluntary setting aside of land in an attempt to reduce agricultural surpluses.
3. In the EU, the agricultural sector contributes about 1.8 per cent of GDP. In the UK the figure is below 1 per cent of GDP.





Case Study 3 – Thailand’s Price Guarantees

4. In 2019, Thailand announced a guaranteed minimum price scheme for rice farmers across the country. The government promised to spend \$600m to encourage increased production of rice and then buy up excess supply.





A-Level Economics Case Studies:

Maximum Prices & Salary Caps



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Summary

- The Labour Government is proposing a 20:1 limit on the gap between the lowest and highest paid workers in companies given government contracts.
- Rental controls are an example of a maximum price which has been introduced in Germany.



Case Study 1 - Wage Caps

1. The average pay for FTSE 100 CEOs is around 144 times of the country's average pay. On average a CEO earns £4m in the UK, which works out at £1,000 an hour. This is significantly more than the average salary in the UK which was around £29,500 in 2018.
2. The Labour Government is proposing a 20:1 limit on the gap between the lowest and highest paid workers in companies given government contracts. For example, a cleaner paid £50 a day, means the CEO's salary cannot exceed £1,000 a day. This may make it difficult for these firms to recruit highly qualified CEO's as they would prefer to work for other firms where such limits do not exist.



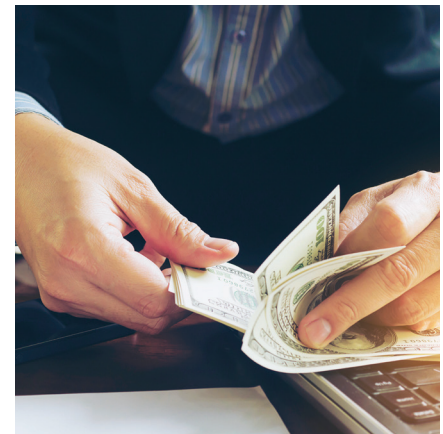
Case Study 2 - Rent Controls

1. Example of Max price is rent controls. In Germany, the amount landlords can charge in rent for their properties is regulated by the government. The Labour Government is also considering implementing a similar policy in the UK. This would ensure low income earners would be able to afford to rent a home as well as increasing the geographical mobility of labour. But the Landlords Associations has criticised such a policy, arguing that it would deter investment resulting in shortages and shabbier properties.



Case Study 3 - Maximum price on bread

1. Some developing countries have maximum prices on bread to make them more affordable and medicine. For example, Venezuela sets maximum prices for bread to make it more affordable. However, it largely led to significant shortages, meaning many were left without bread.





A-Level Economics Case Studies:

*Government
Regulation/Awareness
Campaigns*



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Summary

- To address the challenges of obesity, the Government has introduced regulation forcing restaurants to put meal calories on menus and encouraged people to eat more fruit and vegetables.
- In 2017, the Government announced it will spend £1.2bn to encourage more people to cycle to work.
- In 2000, the Government announced the THINK! Campaign to reduce road accidents and death. Since then, road deaths have fallen by 46%.



Case Study 1 - Reducing Obesity

1. In England, 61.9% of adults and 28% of children are overweight or obese. Excess weight can cause severe health problems, affect self-esteem and mental health. Health problems with being overweight or obese costs the NHS around £5bn per year.
2. Government has introduced policies to address obesity, including forcing restaurants to put calories on menus, encouraging people to eat more fruit and vegetable, helping people to eat fewer calories.
3. In 2014, the UK Government announced new school dinner standards, including: at least 3 different fruits and 3 different vegetables each week, no more than 2 portions a week of food that has been deep fried, emphasis on making water the drink of choice.



Case Study 2 - Encourage more to cycle

4. In 2017, the UK Government announced a £1.2bn strategy to increase cycling and walking. Over £100m will be spent on improving cycling infrastructure across the country. The government wants cycling and walking to become the norm by 2040 and will target funding at innovative ways to encourage people onto a bike or choose to walk for shorter journeys.
5. Plans include specific objectives to double cycling, reduce cycling accidents and increase the proportion of 5 to 10-year-olds walking to school to 55% by 2025.
6. Various evidence shows that investment in cycling and walking has many health, social and economic benefits, including reducing pollution (as less cars are on the road) and journey times.





Case Study 3 – Road safety – THINK! Campaign

7. The UK government has been running road safety campaigns for more than 75 years. In 2000, THINK! was officially established as the government's designated road safety campaign.

8. The THINK! campaign has evolved from encouraging the use of seat belts to tackling excessive speed, drink and drugs, and the use of mobiles at the wheel. In the decade that followed the start of THINK!, road deaths in the UK reduced by 46%.

9. Throughout March 2019, the government played adverts across cinemas and social media offering tips on driving safely, particularly for young drivers. The tips include driving on country roads, on motorways, at night, in light rain, on roundabouts, the importance of checking your tyres, and looking out for vulnerable road users.

