A-Level Economics Case Studies:

Theme 2

International House,
124 Cromwell Road,
Kensington, SW7 4ET

020 7060 4494

www.expert-tuition.co.uk

EXPERT TUITION

A-Level Economics Case Studies:

Supply Side Policies

International House,
124 Cromwell Road,
Kensington, SW7 4ET
020 7060 4494
www.expert-tuition.co.uk

Summary

- The UK Government privatised Royal Mail in 2013 to boost competition and investment. It raised £2bn from the sale.

- The government is investing £55bn in a high speed and efficient train service, called HS2. Once complete, estimates suggest HS2 could boost the economy by £15 billion every year.

- In 2018, the UK Government announced an additional £20bn for the National Health Service by 2023.

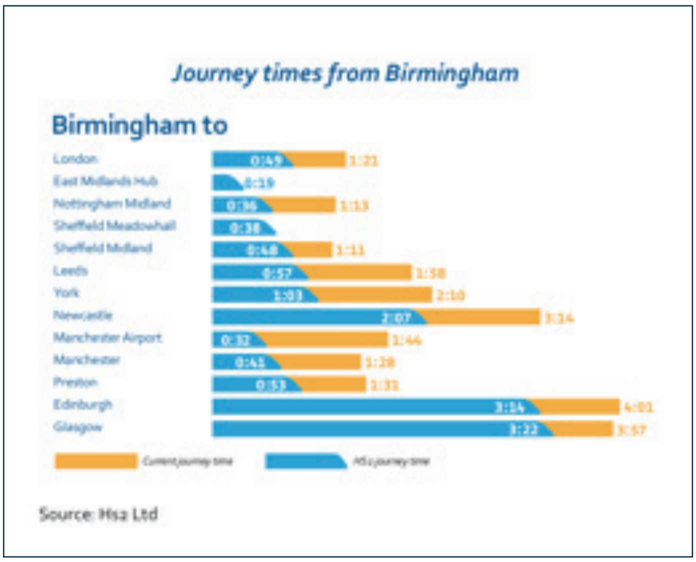
Case Study 1 - Privatisation of Royal Mail

1. In 2013, the UK Government privatised Royal Mail. The Government believed privatisation would enable Royal Mail to raise money to invest and therefore improve its competitiveness. The Government raised £2bn through the sale.

2. The UK government points to other countries' success when privatising their postal services. For example, Belgium's postal service returned to profitability soon after its part-privatisation in 2006 and it now enjoys profit margins of 17%. Austria Post and Deutsche Post also benefited from increased profits after being privatised. Both companies enjoy profit margins double that of Royal Mail.

Case Study 2 – S2 North South Railway Investment

1. The government is investing £55bn in a high speed and efficient train service, called HS2, connecting London, Leeds, Manchester, the East and West Midlands and South Yorkshire.



2. HS2 will significantly increase the number of seats between London and Birmingham. The full network would run up to 18 trains an hour. HS2 will increase labour productivity as less time is spent travelling to work. The following figure summarises the cut in journey from Birmingham to various destinations:

3. HS2 is expected to carry over 300,000 people every day, supporting a wider transformation in the way we travel. It will relieve congestion on vital roads. It will also help increase the geographical mobility of labour.

4. Once complete, estimates suggest HS2 could boost the economy by £15 billion every year. HS2 will provide new economic opportunities for the Midlands and the North of England. It will enhance the regions' reputation as attractive places to visit, work, study and live. Once completed, it is predicted that HS2 would indirectly lead to the creation of 400,000 jobs.

Case Study 3 – Extra Funding for the NHS

1. In 2018, the UK Government announced an additional £20bn for the National Health Service by 2023. The UK currently spends £114bn on the NHS. Funding will increase by around £4bn a year for the next 5 years. The money will be used to reduce waiting times for patients, helping boost labour productivity.

EXPERT TUITION

A-Level Economics Case Studies: *Hyperinflation and Disinflation*

International House,
124 Cromwell Road,
Kensington, SW7 4ET

020 7060 4494

www.expert-tuition.co.uk

Summary

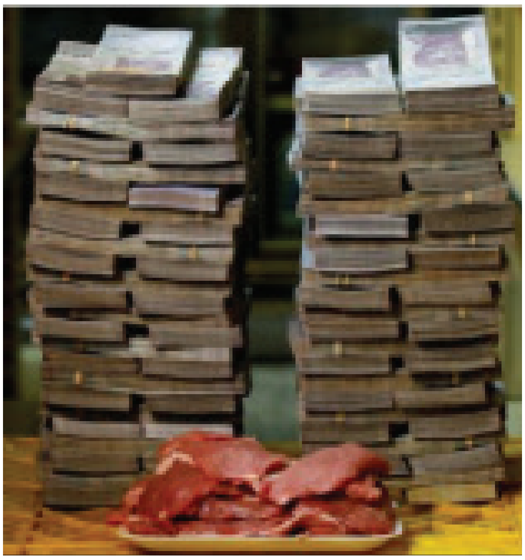
- Since 2014, Venezuela has been suffering from Hyperinflation. In 2018, the inflation rate was over 1 million%.
- In 2008, Zimbabwe's inflation rate was over 79 billion%. Prices were doubling every day.
- Since 1990s Japan has been wrestling with deflation. In 2016, prices fell by 0.5%.

Case Study 1 - Hyperinflation in Venezuela

1. In 2018, Venezuela's inflation rate reached 1,698,488%. The country began suffering from hyperinflation (a period of very high and accelerating inflation rates) in 2014 – when prices increased by 69%. In 2015, the inflation rate was 181%. It reached 800% in 2016 and over 4,000% in 2017.

2. The International Monetary Fund estimated that inflation would reach 10,000,000% by the end of 2019. Hyperinflation dampened business and consumer confidence in the economy, deterring investment.

The cost of buying meat in Venezuela, 2018.

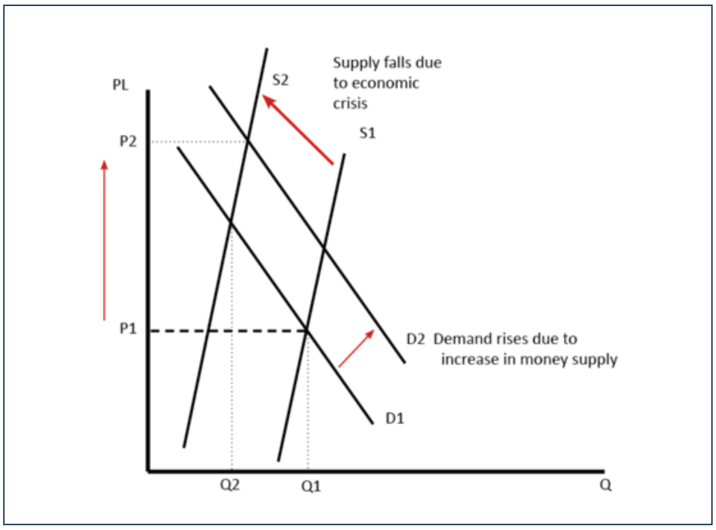


The cost of buying a chicken in Venezuela, 2018.

Case Study 2: Hyperinflation in Zimbabwe

1. In Nov 2008, Zimbabwe recorded an inflation rate of 79 billion%. In other words, prices of goods were doubling every day. This damaged the broader economy. Poverty increased significantly; whilst unemployment accelerated to 80%.

2. Hyperinflation was largely caused by printing of money (Quantitative Easing) for a prolonged period of time. This led to an increase in AD. Furthermore, poor policies led to a fall in supply of various goods, particularly agriculture. The following diagram depicts the impact on prices:



Case study 3: Deflation in Japan

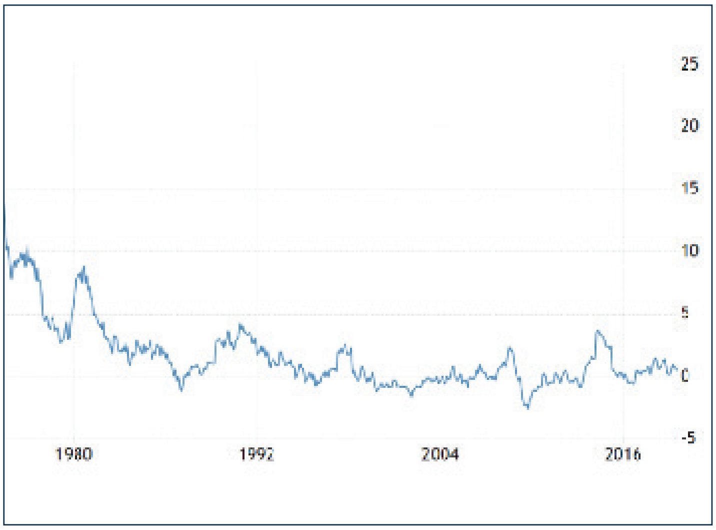
1. Japan began suffering from Deflation in the 1990s. Various reasons have been highlighted:

   a. Tight monetary policy: high interest rates set by the Japanese Central Bank dampened consumption and investment.

   b. Ageing and falling population, reducing consumption

   c. Falling asset/property prices, resulting in a negative wealth effect

6. In 2016, the average price level fell by 0.5%.



EXPERT TUITION

A-Level Economics Case Studies:

Demand-Side Policies

International House,
124 Cromwell Road,
Kensington, SW7 4ET

020 7060 4494

www.expert-tuition.co.uk

Summary

- Monetary Policy: The Bank of England gradually cut the interest rate from 5.75% in 2007 to 0.25% in 2016 to boost consumption and investment.

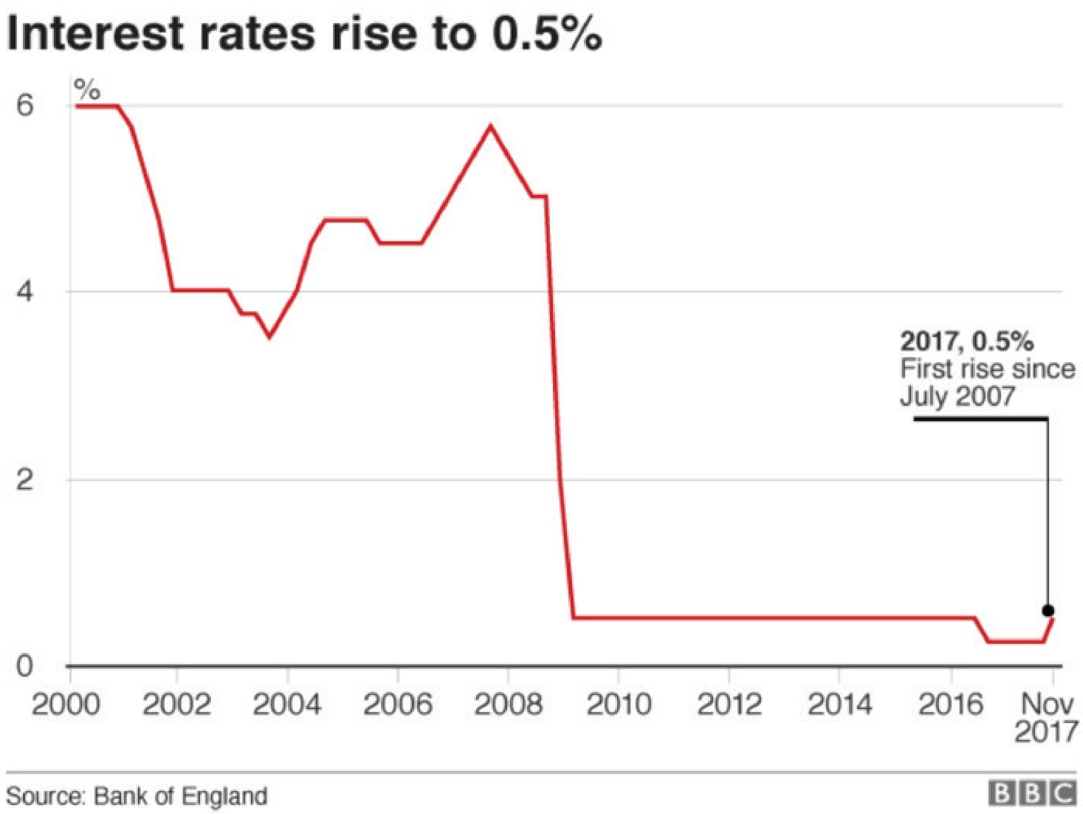
- Discretionary Fiscal Policy: After the financial crisis in 2007, the UK Government increased spending significantly to boost aggregate demand.

Case Study 1 – Monetary Policy: Interest Rate Rises

1. In December 2007, the Bank of England cut the interest rate from 5.75% to 5.5% to encourage consumers to spend and firms to invest (boosting AD).

2. The Bank of England continued cutting the interest rate until it reached 0.25% in August 2016.

3. As economic performance improved, unemployment fell and inflation pushed up, the Bank of England began raising the interest rate, to 0.5% in 2017 and to 0.75% in 2018.



Case Study 2 - Monetary Policy: Quantitative Easing

1. Quantitative easing is a tool that central banks, like the Bank of England, use to inject money directly into the economy. Money is either physical, like banknotes, or digital, like the money in your bank account.

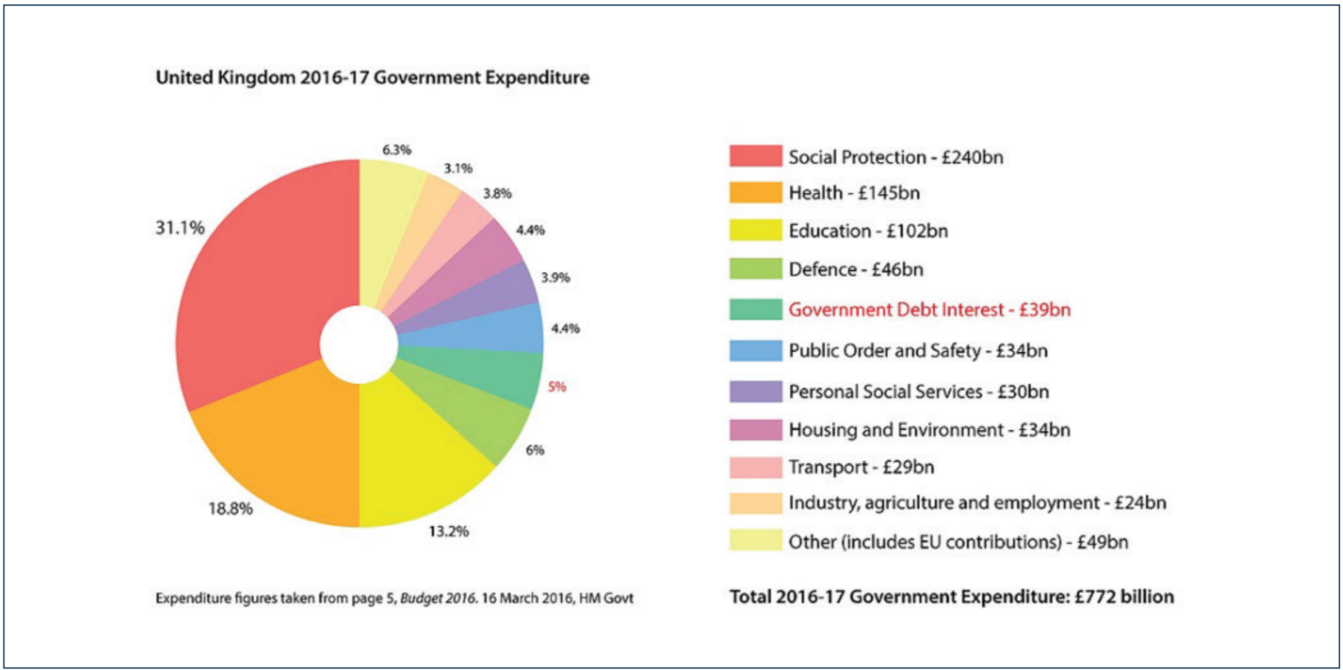
2. Quantitative easing involves the Bank of England creating digital money. They then use this money to buy things like government or commercial debt in the form of bonds. This process is also known as 'QE' or 'asset purchase' – they mean the same thing.

3. The aim of QE is simple: to boost spending and investment in the economy.

4. Recent rounds of QE:

Case Study 3 – Fiscal Policy

1. Breakdown of UK Government Spending:



2. In the aftermath of the financial crisis in 2008, the UK government implemented an expansionary fiscal policy. Spending on education, healthcare, infrastructure and welfare increased.

3. Simultaneously, taxes on expenditure (VAT) were cut from 17.5% to 15%.

4. As a result, Government debt increased from 40% of GDP in 2006 to over 75% of GDP in 2010. In 2018, UK debt reached 86% of GDP.