

**Higher Economics – Assignment**

**Candidate Evidence for Webinar**

## Exemplar – Introduction

### TOPIC: Would raising the minimum wage to a living wage cause unemployment?

#### Introduction

The main focus of this report is to evaluate the likely effects that a rise in the minimum wage to a living wage would have on the UK and whether it would lead to unemployment. I plan to explore the effects and consequences that a living wage would have on individuals, businesses and the government.

The definition of a living wage is the amount an individual needs to cover the basic cost of living. The wage required to cover the cost of living in the UK is around £7.85 with it being £9.15 in London. Paying a living wage has been optional for employers and over 1,600 employers already pay a living wage to their employees. Businesses such as Barclay, ITV, Lush and Burberry are just some of the employers paying a living wage. The minimum wage in the UK currently stands at £6.70 for all workers over the age of 21. This is set to change in April 2016 as the Chancellor announced his plans to raise the minimum wage to a living wage of £7.20 an hour for workers over 25 and this is expected to increase further to £9 by 2020. This means that all firms are now required to start paying their workers a living wage unlike previously when it was optional. With unemployment being at one of the lowest rates in nearly 10 years and GDP figures rising, the government have decided that now is an ideal time to move from being a low wage, high tax, high welfare society to a high wage, low tax, low welfare society by introducing a national living wage.

These changes are set to impact not just individuals but also the government and businesses.

## **Candidate A – Introduction**

**TOPIC: What is the economic impact of the falling oil price?**

### Introduction

Crude oil is a vital good in the modern world with all the economic agents utilising it on a day-to-day basis. However, since June 2014 the price of crude oil has dropped by a drastic 70% as the US increases fracking, whilst Middle Eastern countries and Russia increase their supply. With supply seriously outstripping the demand for oil its price has inevitably plummeted with drastic consequences around the world: around 250,000 workers have lost their jobs, companies such as BP have seen a sharp fall in profits and more widely the Russian Economy has been plunged into recession with the Rouble collapsing. With many economies across the world, including our own, relying on oil its falling price is undoubtedly a topical and important issue. This assignment's purpose is to answer the question; what is the economic impact of the falling oil price? It will outline the direct impact on individuals, firms and governments. This assignment will analyse each of these groups in the economy using relevant, detailed and reliable sources.

## **Candidate B – Introduction**

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

### Introduction

This report will outline whether or not the UK should cut corporation tax to businesses operating within the UK.

Corporation tax has been cut from 52% in 1981 to 20% in 2015 for all businesses in the UK. Further reductions are proposed to be made as the government plans to cut corporation tax to 18% by 2020. The Chancellor of Exchequer, George Osborne wants to try to encourage businesses to set up in the UK and cutting corporation tax is one of the ways he intends to try to do this.

### Candidate C – Research

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

#### Research

<http://www.bbc.co.uk/news/uk-34071492> is an article on the BBC website and is one of the sources used in my research. It is an appropriate source as it gives graphs and statistics related to migration into and out of the UK in 2015, which is during the time of the European Migrant Crisis. This is a reliable source as the BBC has a strong reputation so it can be expected to provide accurate data.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/287287/occ109.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/287287/occ109.pdf) is a government written article about the effects of immigration on employment on UK natives. It is an appropriate source because it gives a detailed analysis of the effects of immigration on employment in the UK and provides graphs and statistics about immigration into the UK. It is a reliable source because it is a government written article so the data and statistics are most likely accurate.

### Candidate D – Research

**TOPIC: The effectiveness of developmental aid**

#### Research

Source 1 – Poor Economics, published 2011

Poor Economics is a book written by Abhijit Banerjee and Esther Duflo. It is about fighting global poverty and its relevance is several chapters discussing the effectiveness of Aid. It helped me to understand not whether aid was a yes or no solution what it did allow for was evidence of when different cases when economic growth did or did not occur due to aid. Due to the report having points about both sides of the argument the bias is almost non-existent.

## **Candidate E – Application of knowledge and understanding**

### **TOPIC: The effectiveness of developmental aid**

#### Application of Knowledge and Understanding

##### *Individuals:*

The input of developmental aid on individuals markedly increases potential prospects on future earnings and overall quality of life. For individuals the investment into healthcare and food increases the standard of living within the county and allows the individual to live a better quality of life, if better health care exists and more basic needs are met then less absenteeism should occur leading to a family earning more. One theory that would allow aid to boost the quality of life and reduce poverty is Structural change theory. This theory supports the idea that the input of aid would allow for a change from predominantly subsistence farming and low skilled jobs to a more developed, modernised workforce. By targeting schools directly allowing all children to attend more qualifications can be attained which are attractive to employers and investors. Furthermore if there are qualifications already in place then more of the workforce have a base to which expand on and move to higher skilled and higher paid jobs and therefore a higher quality of life. With more qualifications occupational mobility of individuals greatly increases.

## **Candidate F – Application of knowledge and understanding**

### **TOPIC: What is the economic impact of the falling oil price?**

#### *Effects on Firms*

The drop in the oil price is beneficial for firms who use oil in their production process as the price of oil decreases so too does a firms cost of production. This means that the production process as a whole becomes cheaper, reducing the price of the good. Additionally firms can now produce more of these goods as well. This is of great benefit as lower costs means firms can derive a higher profit by keeping their prices constant. Increased profits are always advantageous for firms, especially as the world economy recovers from recession.

However, whilst some firms benefit from the falling oil prices many others don't. Oil producing firms are affected the most by the drop in price as it means their profits are depreciated. With the supply of oil increasing (4) from countries Saudi Arabia and Iran and demand decreasing from countries like the USA oil producing firms have been hit hardest. With oil prices plummeting their profits decrease as a good they were once charging nearly \$100 a barrel for is now only worth around \$30 a barrel. Clearly this is having detrimental effects as profits have been cut in half and as a result many of these firms have had to cut costs or face bankruptcy.

### **Exemplar – Analysis and evaluation**

**TOPIC: Is the NHS economically sustainable in the long run?**

#### **Analysis and Evaluation**

The NHS may experience a £22 billion shortfall by 2020 (appendix 1.1-7). This tells me that the NHS is underfunded by the Government as it doesn't have enough money to operate sufficiently. This means that they may have to lay off staff in order to cut costs which would increase unemployment and therefore the amount of money that the Government have to spend on social security benefits would increase, leaving them with less money to spend on other services such as education.

The NHS net deficit for the financial year 2014/15 was £471 million (appendix 1.1-8). This suggests to me that the Government are spending more money than they receive in tax revenues to support the NHS. This then means that the service will run at a loss if it was a private business so being cost efficient is very important as it's the only way that savings can be made.

### **Candidate G – Analysis and evaluation**

**TOPIC: What is the economic impact of the falling oil price?**

#### **Analysis and Evaluation**

From the bbc website shown in appendix 1 I have found that the increased profits made by oil purchasing firms will be good for the market as it will increase competition. A market that is seen to be lucrative and successful will attract new firms as they will want to set up there in order to gain profit. This means that this will increase competition as there will now be more firms in the market. This will be good for the market as increased competition means that consumers will receive the best quality good possible as firms have to compete for consumers to buy their product. Furthermore, increased competition allows for a fair price in the market as the consumer has a greater choice of firms to go to as they are more likely to choose the cheaper firm therefore a fair price will be set and it will be dictated by the market and not a single firm, like in a monopoly. More markets with perfect competition will be good for the economy as it means that there will be less market failure and the government will not have to intervene as much.

## **Candidate H – Analysis and evaluation**

**TOPIC: Would raising the minimum wage to a living wage cause unemployment?**

### **Analysis and Evaluation**

Evidence from the living wage foundation has found that more than 80% of employers paying a living wage to their employees believe that it has enhanced the quality of work done by their staff. 70% of employers are said to have felt that the living wage increased consumer awareness of their business due to their commitment in being an ethical employer. This tells me that there are proven benefits to businesses and to individuals in paying a living wage. Business can benefit from a better quality of work from their staff and could also see sales increase because of their fair treatment towards their staff. This would suggest that a living wage could boost productivity of workers leading to reduced costs for businesses which means they could reduce prices and hopefully increase their sales if PED is elastic or they could keep prices the same to increase their profit margins which would lead to more money to invest in the business.

### **Exemplar – Conclusions/Recommendations**

**TOPIC: Should the UK Government introduce a sugar tax?**

### **Conclusions/Recommendations**

I would recommend introducing a tax alongside a number of other policies. One recommendation I suggest is to improve packaging on products to highlight all the sugar in a product, in terms of teaspoons. This means that consumers will be more informed and better able to reduce their sugar consumption. I also recommend limiting product placement of sugary foods. Banning sugary products from the end of supermarket aisles or at checkouts will greatly reduce consumption. Another recommendation is a ban on advertising at certain times. Introducing a watershed of 9pm for adverts for sugary food and a ban on using cartoon characters for marketing sugary products would reduce demand for sugar. Therefore, in conclusion I recommend that the UK government should not implement a sugar tax alone, but alongside a number of other policies to ensure consumers understand all the negative externalities of consuming too much sugar, which would reduce demand for sugar.

### **Candidate I – Conclusions/Recommendations**

**TOPIC: Why has the price of oil fallen (and the effects on the economy)?**

#### **Conclusions/Recommendations**

The biggest factor in the drop in oil price is/has been the massive increase in supply, with oil producing countries such as Iraq, Russia and Iran exporting more, combined with the large amounts of cheap oil produced by the recent large scale fracking projects in the USA (lead by advances in fracking technology).

Over the long-term, these low oil prices will tend to encourage consumers to either spend more, or save more depending on the level of interest offered. In the oil industry, an increase in production or investment in developing new technologies such as fracking results in greater quantities of oil or synthetic crude coming on to the market. In other words, the increase in supply, which has out-run little changed demand, is the main driver of the falling price of oil.

### **Candidate J – Conclusions/Recommendations**

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

#### **Conclusions/Recommendations**

I conclude that the government should not introduce the National Living Wage because although there are some benefits to the introduction of the living wage for example workers who did not claim benefits will earn a higher income and there will be increased government revenue which can be spent on public services due to the increase in taxable income that is available. However there are also many negatives that outweigh these positives such as a large number of new immigrants putting strain on public services therefore this will cause a drain on public services, increase government spending and result in less employment for British citizens. In addition there will also be an increase in demand pull inflation causing interest rates to fall, prices to rise, an increase in instability of the British economy resulting in the government not completing their aim on low inflation levels.