

Impact of brexit on marmite



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Option 1: Microeconomics

Brexit is a short term for “ Britain Exit.” On Thursday 23rd June 2016 a referendum was conducted that saw a popular vote cast to have Britain leave the European Union. The European Union is a trade union of 28 European countries that was meant to ensure political and economic partnership within the region. The main objective for which the union had been established was to establish a single economic market that would see trade tariffs removed such that member states would trade freely in the European market. Notably, prior to Brexit much of what the union had intended to achieve had been achieved. As many had anticipated, a vote to have the UK leave the European Union would have adverse economic effects on the United Kingdom. Though the vote from the referendum had the popular vote being for the exit of the United Kingdom, the country has not yet left the union completely due to the legal formalities established in article 50 that guide the exit of a member state of the European Union. However, the effect of Brexit is already showing up even before the United Kingdom fully exits the European Union. The purpose of this essay is to review a commodity sold in the United Kingdom that had its price influenced by the referendum held to decide whether the United Kingdom was to stay or leave the European Union. Marmite is the product that is under review in this essay.

Marmite is a food product that is sold in the United Kingdom by Unilever. Unilever is a multinational company that sells its products in the international market with the United Kingdom’s market being one of the markets in which the Marmite maker sells it. Unilever had been selling

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marmite in the United Kingdom through Tesco, which is the biggest retailer in Britain. Following the Brexit speech by Theresa May who took over from David Cameron, the former prime minister of the United Kingdom who resigned following the Brexit vote, the value of sterling pound depreciated significantly against the dollar. According to Varian et al., (2010, p. 196), in economics depreciation of the currency used by a certain country against other currencies indicates that it becomes more costly for firms operating in the country whose currency depreciates. On the other hand, buying goods from such a country is deemed to be cheaper from other countries, and hence this triggers an increase in exports made by the country. Hence, the marmite maker (Unilever) perceived the depreciation of the pound would increase the cost incurred by the organization in selling the product in the United Kingdom. As a result, the company in fear of making losses had to establish a strategy that would help it adjust accordingly such that it would continue realizing profitability in the selling of Marmite in the Britain market.

In economics, drawing from cost volume analysis, it can be inferred that an increase in the total variable costs without an increase in the total revenues minimizes the total contribution margin and this lowers profitability which at worst can see an organization fail to break even (Weygandt et al., 2015 p. 124). Hence, following the perceived increase in the costs associated with the selling of marmite in the United Kingdom due to the depreciation of the pound, Unilever suggested a 10% increase in the price of marmite that would help it continue maintaining the initial margin of safety even with the sterling pound depreciating against the Dollar (Ruddick 2017). However, the suggestion by the marmite maker did not go well with Tesco (The retailer

who sold the product in the UK's market). In reaction to the proposal by Unilever, Tesco was quick to remove Marmite along with other Unilever products from its website in October 2016 an indication that the retailer was not concurring with the increase in price. Ruddick (2017) notes that the dispute between Tesco and Unilever has since been resolved, nevertheless, the price of marmite in supermarkets in the United Kingdom remains significantly higher as compared to the price of the Brexit vote.

The provision of the demand theory could be used to explain Tesco's reaction of removing from its website Marmite and other Unilever products following the 10% price hike by the marmite maker. According to Hildenbrand (2014 p. 96), the law of demand provides that in a price elastic market demand is inversely related to commodity prices. Thus, an increase in commodity prices triggers a general decrease in demand for the products. It must, however, be noted that the law of demand is only applicable if the commodity is not a basic good and if the market in which it is sold is price elastic. It would fully apply in the case of marmite considering that the market is price elastic and also taking into account the fact that marmite is not a basic good. Hence, Tesco would have anticipated that with the increased price of marmite its demand would fall significantly and hence this would result in losses a factor that would explain the reaction exhibited by the retailer. The retailer, however, claimed that besides the fall in the value of the pound it would be viable for the marmite maker to consider the value of money of the consumers.

In defense of its decision to increase the price of marmite, Unilever provided that other suppliers would fall suit in response to the drop in the value of the <https://assignbuster.com/impact-of-brexit-on-marmite/>

pound. It is an indication that as a result, Brexit that triggered a drop in the value of prices there would be a general increase in prices of commodities in the United Kingdom. According to Mankiw (2014 p. 146), a general increase in prices of commodities in a given jurisdiction results is defined as inflation, and it sees the value of consumers' money fall. Hence, Tesco was also considering the fact that the increase in prices of commodities in the market would have an inflationary effect that would, in turn, affect the UK's economy adversely. The fact that marmite is selling at relatively higher prices in UK supermarkets has an adverse effect on the economy of the country in various ways. However, the effect may not be felt yet because it is still in the short run.

Though this essay focuses on marmite, it would not be ignored that an increase in the price of some goods triggers an increase of other goods. For instance, it can be noted that for complementary goods the movement of prices is the same. Notably, the prices of most goods in the United Kingdom have been on the rise. According to Solomon et al., (2013 p. 212), consumers are rational, and their rationality can be justified by the fact that they prefer more to less. Hence, if it is only the price of marmite that had been hiked in the United Kingdom, it would be anticipated that its demand would fall significantly in future since consumers would shift to substitute goods. It is, however, worth noting that the prices of most commodities in the UK are on the rise. Drawing from the macroeconomic theory, it can be anticipated that the hiked prices will have adverse effects on the economy in the long run.

According to Wray (2015 p. 184), an increase in the prices of commodities results to increased cost of living an indication that the amount of disposable

income available to the consumers is limited. Hence, in the long run, the increase in commodity prices in the United Kingdom will see the amount of disposable income available to households constrained. The households will thus barely have money to invest an indication that in the long run, the rate of investments is likely to drop. Reduced investment has an adverse on the growth of the economy. Though according to research the Brexit vote has not had any inflationary effect if as suggested by the marmite maker other suppliers increase the commodity prices it will trigger an inflationary effect. According to Mankiw (2014 p. 102), the government uses monetary and fiscal policies to counteract the inflationary effect in an incidence where a country is experiencing inflation. Hence, if the case of hiked marmite price is the same for all products in the UK the government may be prompted to implement monetary and fiscal policies to counteract the inflationary effect.

Mankiw (2014 p. 103) provides that a government imposes restrictions on its capital expenditure as a way of curbing the amount of disposable income available to the households and hence reduce their purchasing power. The aforesaid means that government does not undertake projects. Though this is an effective way of counteracting the inflationary effect, it is worth noting that it has an adverse effect on the economy. Economic growth is affected adversely since the government does not undertake development projects.

The increased marmite prices are likely to cause a significant decline in demand for the product, *ceteris paribus*. Notably, if a firm does not break even, it is compelled to shut down or for a multinational firm like Unilever to exit a certain market. In an incidence where the demand for marmite falls to a point where the firm cannot break even exiting the UK market would be a

considerable option considering that marmite contributes significantly to the profit realized by Unilever in the UK market. Notably, the organization pays the UK government, corporate tax and hence exiting the market would mean that the public revenue of the country is affected adversely.

In addition, some employees would lose their jobs an indication that this would trigger an increase in unemployment rates. The aforesaid would consequently affect the UK's economy adversely, and hence it can be concluded that in the long run the long run the increased marmite price in the UK supermarkets may have an adverse effect on the economy. It is, however, essential to note that as suggested by Unilever while defending its decision to increase by 10% the price of marmite other suppliers may follow suit due to the drop in the value of sterling pound attributable to the Brexit vote. In an incidence where all the commodity prices increases, the demand for marmite will not fall, but rather consumers will be compelled to have a limited amount of disposable income. The consumption patterns of the marmite consumers will change such that consumers will consume less of the product an indication that its demand will still fall.

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