Implications of uk economy

Question 2

Low economic growth is usually accompanied by rising unemployment. Explain why, in a period of low economic growth, unemployment is likely to increase?

In the recent past, the society has witnessed a shift in government policy in favour of economic growth. Few decades ago, government policies were tailored toward ensuring their military and defence capacity. However, this approach been abandoned and currently, government policies are aimed at ensuring economic development. The change in policies has thus seen the economy experience rapid growth. However, the growth of the global players has not been experienced at the same rate. There are some regions that have been able to grow their economy faster than others. In regions where economic growth has taken a slow pace have been experiencing high levels of unemployment. The following part of the paper assess the relationship between high levels of unemployment and slow economic growth.

Unemployment rate defines the measure of the prevalence of individual without a solid source of income within a society. The rate is expressed as a percentage of all the members of the society that are not employed but who are willing and seeking employment opportunities over the total labour force in a community (Thurik, Carree, Van Stel & Audretsch 2008, p 22). Economic growth on the hand depicts the ability of a country to increase the amounts of goods and services produced from cone fiscal period to the next. The growth h rate can be measured using several parameters. The most prevalent measure is the inflationary rate in the country, the GNP per capita or GDP. An overall evaluation of the two economic condition would indicate no correlation between the two. However, a close evaluation of the condition shows a great level of the interrelation between the two conditions. There are four substantive shreds of evidence that show how slow economic growth leads to increased rate of unemployment.

Firstly, low economic growth result in limited amounts of disposable income among the members of the society. The limited disposable income limits the purchasing power of the members of the society. When the members of the society are not able to purchase the products, demand for commodities in the market. The limited demand forces the producing entity to lower their production rate. In order to reduce their cost, producing firms lay off some of the labour force and only retain the minimum number that can sustain the prevailing demand (Frey & Stutzer, 2010, p 61). Additionally, the limited production lowers the firms' capacity to hire more workers thus leaving more people unemployed. The restraint is also as a result of the uncertainty of the future in the economy as organisations are not aware of their future prospects.

Secondly, low economic growth leads to bankruptcy of some organisation that are unable to sustain their operation in the hostile environment. These organisations are wounded up and thus all the workers formally affiliated to the organisations are left unemployed as no organisations are willing to incorporate them into their workforce. Thirdly, low economic growth makes an economic environment unattractive to both the internal and external investors. The condition thus limits the amount of foreign and domestic investment in the economy. Thus, the economy is not able to nature new organisations that would absorb some of the labour in the society (Blanchard 2007, p 81).

Lastly, research has shown a great correlation between poverty and population growth. Low economic growth increases the poverty levels within a country. Increased poverty lead to increased population growth that works to increase the level of unemployment in the nation. The above factor is a clear indication of the correlation that exists between slow economic growth rate and increased level of unemployment in an economy (Squalli, 2007, p 31).

Competitive markets

Economist have fronted different arguments when analysing the types of market that would be favourable to an economy. The UK market has not been spared from the issue at it weighs it options of whether to allow monopolies to thrive or to de-monopolise the market t make it favourable for all players. In some instances, monopolistic markets have proven to be a formidable solution to some market problems (Adler 2001, p 4). However, a competitive market has been credited with favouring the consumer while leaving the producer completely exposed. The paper shows how a completive market favours a consumer while leaving the producer at a disadvantage. Benefits to the consumer

Firstly, competition leads to lower prices for the consumers. Increased competition forces the producing entity adopt pricing strategies that make the prices favourable to consumers. The strategy is repeated across the divide and the consumer ends up acquiring products at the most competitive price. Secondly, it leads to the production of high-quality goods. Competition forces the producers to produce a quality good that provide value for the customer. The efforts are transformed in the industry as organisations seek to reduce superior goods for the market. Additionally, the customers are availed conveniently after sales services as the organisation seeks to ensure brand loyalty.

Competition also leads to increased provision of goods. Organisation seeks to provide goods that offer convenience and satisfaction to the customers. In these efforts, the organisational ends up availing a variety of products each tailored to a specific market need. Another advantage received due to provision for communication is innovation. With increased competition, the organisation come up with innovative ways of reducing their cost while ensuring goods are delivered fun time. Innovation enables an industry to grow (Porter 2011, p 21). Lastly, completion enables a society to integrate its market with the global market. The improvement in the market allows foreign entities to venture in the market. This organisation offers the consumer global market commodities. Thus, a consumer can access a variety of foreign commodities.

Question 4

The deficit on the current account of the balance of payments was lower in 2011 than it was in 2010. Explain two factors, others than a fall in the value of pound, which might help to reduce the size of the deficit on the current account of the UK balance of payments?

The UK represent one of the most appreciated economies in the word. The economy's reputation among other nations is irrefutable. However, the nation has not had any surplus in its current account in recent years. Thus, the value of import in the nation overweighs that of its exports. The nation has been running deficits. The paper evaluates the reasons that are attributable to that and possible solutions to the matter.

The first reason for the deficit in the balance of trade is overvalued exchange rate. Many nations in the Eurozone have become less competitive and Britain has not been left behind. This low competitiveness is because the exchange rate has been overvalued thus making exports more expensive than imports. The trend makes the imported goods more attractive to consumers (Papadimitriou, Hannsgen & Zezza 2008, p 31). Additionally, those with farm products cannot export as their produce are uncompetitive in the market.

Secondly, there is high consumer spending. The rapid growth in the level of spending by consumers increases the level of imports and thus negatively affecting the current account of the country. The trend has been evidenced since the early 1990s and is prevalent to date (Seyfang, 2005, p 14). The third factor that is contributing to the deficit in the balance of trade is the unbalanced nature of the UK economy. Currently, the economy is more focus on dealing with consumer investment that it is focused on dealing with investments. The policy opens up the windows for increased levels of imports and thus adversely affecting the balances of the trade account.

Last, the balance of payment is also affected by the economy's level of competitiveness. The economy has been faced with a decrease in the general productivity of the organisations in the country (Escobar 2011, p 17). The condition is coupled with industrial unrest, increasing wage cost and poor quality of goods. These conditions make it practically impossible for the country to export anything to other countries. Having evaluated the causes of the deficit, the next issue is to analyse possible solution to the issue. There are two strategies that the UK government can adopt in order to change the above circumstances (Taylorâ€ Gooby & Stoker 2011 p 30).

Firstly, the country can introduce a deflationary policy. Here the authorities may seek to tighten its monetary and fiscal policies. The policy will reduce the aggregate demand. The tightening policy will include increasing the interest rates in the nation thus leaving borrowers with little amounts of money to be used for consumption of goods that are imported. Additionally, a consequent fall in aggregate demand coupled with economic growth will ensure the value of UK import improve over time. The deflationary policy will also amount pressure on manufacturers to come up with innovative ways of ensuring low cost of production as this will make the products more competitive and also lower the imports rates.

Secondly, the authorities can implement the supply side policies. This policy is important in making the imports from the country more attractive to the open market. The policy will significantly influence the effect the balances of the accounts. However, the policy will take time before full benefits are realised.

Question 5

Economic policymakers hope that UK trade with rest of the world will help to rebalance the economy and boost aggregate demand. Using your economic knowledge, assess the impact on the performance of the UK economy of a significant increase in exports and a reduction in imports of goods and services?

There have been different views as to the role of government in its economy. Prior to the great recession, most governments had allowed the market forces to have almost unlimited control over the market. However, the recession made the government rethink this strategy. The governments saw the needs to have a control over economic policies and more so play a role in fostering economic development. The UK government has applied various strategy aimed at fostering economic growth in the country (Adler 2001, p 13). However, these efforts are likely to be met by various challenges as illustrated in subsequent paragraphs.

Firstly, in order to achieve economic growth, there will be increases income and value added taxes. The increased taxes will cause great discomfort among the civilian that are already pressed by the prevailing tax rate. The increased taxes will be accompanied by lower employment benefit as the government will have to provide for other essential services that included transport, health and education among others. Additionally, the increased economic growth is likely to lead to increased level of unemployment. Economic growth is likely to be accompanied by increased technology adoption and mechanisation of services. The policy will limit the chances available for the working population (Erceg, Guerrier & Gust 2005, p 71).

Secondly, the authorities are also likely to face the risk of inflation. as the economic grows, the resources available will not be able to meet the demand that will be created in the process. Thus, the nation will have to implement policies that foster productivity in order to ensure the country does not plunge into inflation. Aggregate demand and aggregate supply will increase if the government increases spending von policies that enhance productivity. Failure to implement such policies will cause inflation. Another possible problem that may arise with increased economic growth is con environmental issues. The increased production activities are not been supports by supplementing policies that ensure pollution is mitigated. The pollution would be as a result of excessive pollution that will increase the rate of global warming in the region (Webster & Mitra 2007, p 21).

Another problem that the UK authorities are likely to face is that of public spending and borrowing. Up to date, the level of government spending on recurrent and non-development project tops the list in comparison to other economies of a similar level. These excess expenditures leave little funds for development forcing the government to result in public borrowing. The issue promises to be a problem since it continues to increase the national debt (Geithner 2006, p 34). Lastly, the government is likely to face the issue of fiscal policies. The authorities are charged with the mandate of ensuring the prevailing fiscal policies act to foster economic growth and development.

Having evaluated the possible problem, it is also important to consider the possible solution that the government may apply to avert the looming crisis. Firstly, the government need to implement policies referred to as fiscal stabilisers. The policies provide for fiscal booms in periods of low economic performance and fiscal drag when there is unusual growth in the economy. Secondly, the government may encourage sustainable economic growth. This will entail ensuring there is increase in the aggregate demand and aggregate supply. Thirdly, the authorities may institute tax reforms in order to ensure it collect the minimum tax and thus leaving out the need for more taxes. Lastly, the authorities need to increase in human development thus ensuring they properly equipped to implement the changes.

Question 6

Most people would say that the ending of the BT telephone monopoly, and competition in the telecommunications markets, have been beneficial. However, Britain’s railways show why some monopolies should not be replaced by a number of competing firms. Evaluate the view that consumers are always better off the producers are always worse off if monopolies are broken up to encourage as much competition as possible?

A monopolistic market structure allows an entity to have control of the production, supply prices and at times demand of a commodity. However, when competition is introduced, an organisation loses all these benefits. Firstly, the organisation is no longer able to influence the demand for the commodity as it is left to the rule of demand and supply. The limitation lowers the profits accrued by the organisation. Secondly, the costs incurred by the producer increase significantly. The producer has to incur heavy advertisement cost as he tries to popularise his product in the market (Wong, Ho & Autio 2005, p 71). Additionally, the cost of production increase in competition brings to completion for the limited law materials. These increased cost lowers the proceeds that are fetch by the product.

The producer is also affects by all the pieces of legislation that are passed when turning the nation to a competitive market. The legislations are aside at ensuring smooth running of the market. However. The legislations give little or no concern to the former monopoly turned producers. These examples is a clear example of benefits accrued by consumers in a free market economy and the effects it has on the producer.

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