

The history of varying consequential impact economics essay

[Economics](#)



**ASSIGN
BUSTER**

C: UsersHainboDesktopVerizon Voda. pngVodafone shares were driven higher by the fact that American giants, Verizon and AT and T are rumoured to be constructing a bid to buy the British Mobile company. Vodafone shares rose 6% as analysts viewed a possible bid at £2. 60P a share. . Vodafone shares closed up on the day 3% higher at 192p. Vodafone own 45% of Verizon Wireless; a company jointly owned by Verizon and set up in 2000. Verizon Wireless market share in the States is growing and the parent company would like to wrest control of the element it does not own. In 2012 Vodafone were not considering divesting themselves of the £88 million holding. However if growth in the US stalls -The FT believes that Vodafone reticence may well be being tested as Barclays are structuring a deal to enable Verizon to take full control of the Wireless arm, whilst AT and T would retain the bulk of Vodafone's worldwide interests. Telecommunications in Burma are to be amongst the first liberalised industries. Predicted growth in mobility will be exponential. Up to 80% of its 60 million citizens could have a mobile handset by 2016. This is up from the current penetration of 6%.. Ericsson estimate the market to be worth £6 billion per yearVodafone and China mobile, two of the world's largest mobile companies, have bid for this huge piece of businessMobile services will grow in a similar fashion to the mobile-led transformation that is gaining pace in Africa and many Asian countries. Q2Refer to the Office for National Statistics (ONS) website (<http://www.ons.gov.uk/ons/index.html>) or other appropriate site (e. g. Bloomberg) and collect data over a ten year period on TWO economic variables that you think might be related or inter-dependent in some way. Plot the data on a graph with TIME on the X axis. What explanation can you

offer for the type of relationship that your graph shows? (Use an Excel spread sheet to plot the data and import the data table and graph onto this page along with your analysis.) Think about how you use the data e. g. could you relate each variable to a base year? C: UsersHainboDesktopgrowth-v-inflation-79-10. png

The perception of the correlation between inflation and unemployment was believed to be represented by the Philips curve. When, inflation was low, unemployment was seen as high and when inflation was high, unemployment was low. This is seen on the graph, from 1981 to 1993, the graph seems in perfect symmetry with the idea. Economists and politicians who were anxious to limit both saw the concept as sacrosanct, In the short term this was seen as true but over the longer term it can be seen there is no correlation between inflation and unemployment as can be seen in 2008 during the delinquencies in subprime mortgages and the following recession. Inflation can only be caused by government printing money (A change in the money supply) Unemployment, therefore, will just be at a level driven by external events, no matter at what point inflation is at. Q3

Identify from the media a recent case where the management of a firm appears to have been acting in a way that is NOT in the best interests of the shareholders. Analyse the case highlighting any economic principle(s) involved, impacts and proposed remedies. The case can be from any sector and include UK, US and EU companies. You are encouraged to choose a case that directly or indirectly links to your degree specialism or area of particular interest. The American energy company ENRON, once a darling of the presidential Bush family, were one of the largest bankruptcies and the largest failure of auditing ever seen in American business. Shareholders lost

in excess of \$11 billion dollars when the price of shares collapsed from a high of \$90 in 2000, to less than a dollar at the end of 2001. Jeffrey Skilling the CEO and President was convicted of 35 charges relating to fraud, insider trading and false accounting. He is in jail for 24 years. Many other executives were imprisoned for their actions in the collapse. Arthur Andersen, one of the big five accounting firms, surrendered their licence to practice. Anderson has collapsed to a shadow of its former self. The Sarbanes Oxley Act was built to regulate auditing and penalised the provision of false information to shareholders. The act increased the requirement for auditors to remain unbiased and keep a distance from their clients, This is a prime example of the principle agent problem. Q4. Choose a market of your choice and show how the concept of cross elasticity of demand can used to demonstrate that while some products may functionally be similar they are perceived by some consumers as being different. Explain your reasoning. Inset your analysis here. Some of the factors effecting price elasticity of demand: Substitutes and there Availability – In terms of elasticity and the quality of service delivery of any service or product, this is a very significant factor. As a rule of thumb, the greater the number of substitutes, the more elastic demand can be considered to be. As a simplistic example, if the price of a Cappuccino rose, Costa Coffee, customers could replace the morning caffeine shot with a cup of Earl Grey tea. Coffee can therefore be considered an elastic product or good as when price rises significantly – demand will decrease noticeably as the consumer shifts to tea. Extrapolating the caffeine from the tea/coffee equation. If Caffeine was to rise in price on its own, As caffeine's early morning rejuvenating qualities cannot really be substitutedThe relative

consumption of tea or coffee is likely to be little impacted. Consumers feel the need for that legal pick me up in the morning irrespective of price.

Consequently caffeine can be viewed as inelastic product – it has few legal substitutes. The definition is proven as the multi-national corporations manufacture many tea and coffee products. The products can be deemed as elastic as there is much cross pollination and many possible substitutes, but caffeine itself is inelastic owing to the lack of substitutes. Goods like diamonds can be substituted in appearance to the untrained eye by Cubic Zirconium but cannot be substituted for hardness in an industrial process like drilling. They have a unique use - Consumers display less price sensitivity and are less aware of price inflation - if there are few or no substitute

products. They are purchasing products perceived as being particularly, high status, quality or prestige. Disposable income is high such that the price has little impact. Lifestyle products – embellish perception of social position. Life enhancing – urgent medical need or job prospect enhancing. The product sought is totally unique. Elastic demand can lead sellers to discount and lower price. Q5. Using the supply and demand model: Show how government

policies on minimum pricing on alcohol may not have the desired effect that policy makers had hoped for; C: UsersHainboDesktopJazz Hands. gif

An increase in minimum alcohol price would cause movement lengthwise along the 'demand curve' as expressed, This would lead to the consequential overabundance of supply, at that price! With new lower levels of demand -

The 'supply curve' would, as a result, move leftwards. Any surplus in the consumer market would reduce and market symmetry or equilibrium would migrate from: That of a free market, to a new equilibrium where supply and

demand align at the price dictated by the new market conditions. The end result would be that consumers would require less alcohol so demand would reduce. An argument can be made that this reduction is dependent on the levels of price imposition and the 'price elasticity of demand' for product which can be considered inelastic. What is it that determines how effective such a policy would be?" Research carried out by Sheffield University for the government shows a 45p minimum would reduce the consumption of alcohol by 4.3%, leading to 2,000 fewer deaths and 66,000 hospital admissions after 10 years. Researchers also claim the number of crimes would drop by 24,000 a year." – University of SheffieldBBC Political Editor Nick Robinson is quoted on March 13, 2013's Today Programme, "Some calculations put ... the saving ... (revenue to the Treasury) at almost £12 billion by the end of 2015." His report was based on calculations from the "Office for Budget Responsibility (OBR)" The OBR report was published in November 2011 and was named the 'Economic and Fiscal Outlook'Identify one potential unintended consequence of such a policy; Varying Consequential Impact: Illicit stills and dishonest trading may creep into society with the health dangers associated. Whilst alcohol misuse can sadly lead to domestic violence – the lack of availability of alcohol due to higher price, may also cause friction and demands on the domestic purse, Individuals and households that use alcohol responsibly may see the rise as punitive and withdraw political support from the party that brought the rise in tax in to law. Large breweries who offer party political support and sponsor sport, may well withdraw this funding if they do not see a 'political return' or the market demographic is not being fuelled. Many argue it would reduce the

living standards of those who are alcohol dependent or on low incomes. They may cut out essentials to pay for it. This could lead to equally high social costs – as any dependent children might suffer from lower food spend in an already pressured household. What policy alternative would you recommend, and why? Alcohol is a true demerit good. If left to a totally free market, over production and the consequential over consumption, would lead to a rise in negative externalities. Alcohol price and excessive consumption can be measured in a true human cost. Deaths and illness in Scotland from over indulgence cause 1 death every 3 hours with the supportive healthcare costs seen as in excess of £268 million. NEEDSAn optimal price for alcohol is needed in society, not one that punishes the many who act responsibly and use alcohol safely. Many at the heart of the debate continue to find it curious that Scotland has some of the most complex and onerous tax regimes on alcohol in the EU, yet with this system we are still failing miserably to target irresponsible, anti-social drinking and the associated healthcare issues of alcoholism – sclerosis etc. Tax reform is required and could be a more efficient way in tackling the issue than the ‘one club’ approach of a, ‘minimum unitary price.’ I believe the ‘minimum price’ tax cannot be well targeted, it will reduce HMRC revenues but hike the revenues raised by Supermarkets, retailers and the large manufacturers. Not the desired effect. As a society we need to lend support but seek to reduce the purchases of alcohol by the heaviest of abusers and drinkers. The heaviest of abusers tend to buy the products that are at the cheap end and give maximum impact - Like Buckfast. We need a tax reform that could be well-targeted, and it will aid those in need by reducing consumption of highly alcoholic

brands. It will lessen the burden on healthcare limit the impact on the responsible and those who use alcohol safely.. Q6. Referring to Box 5. 3 (page 92 of your text book) explain allowing speculators to operate in markets may be a worthwhile activity. Refer to a recent example of speculation in the real world. Referring to Box 5. 3 (page 92 of the text book) would leave you with Lenin's declaration ringing in your ears. However commodities brokers and futures traders would disavow the sentiment. Speculation is the short term buying and selling of assets that have a significant risk of loss but also a significant potential gain. However there is no guarantee that price rises in the oil market were driven by speculation. Future contracts or (paper barrels) bought for future use, have not driven price rises. They are merely bets on how oil prices will go. Speculators can provide an unwitting service in markets – they risk capital that is their own in a market, in the hopes of making profit. In so doing, the speculator can augment market liquidity by making it easier for other investors to offset some of the risk. These can include those who buy and sell assets or shares simultaneously hoping to gain from a rise in the assets price. (Arbitrage) Or those who make an investment based on reducing wild price fluctuations. (Hedging your bets or collectively - Hedgers) Speculators can perform a role of risk-bearing that can ultimately be beneficial. As an example a company might be considering using spare manufacturing capacity to launch a new range of copper heat exchanger for schools and colleges. The company may delay design, manufacture and launch, over concerns about copper pricing and falling demand owing to Government cuts, these could all impact when the company are ready to come to market. By By forward selling the product

to a speculator, the manufacturer can hedge the risk of price fluctuations and market uncertainty. It can be seen therefore that a speculator, through his appetite for risk, can bring forward production, increase job numbers and provide guaranteed fixed funding to the company. Q7. Using any proposed major UK infrastructure project to highlight the issues, show and explain how knowledge of externalities can help our understanding of some of the issues involved in such projects. Externalities in Transport

Dumfries and Galloway and the Scottish roads network were blighted by the poor connection on between the Scottish M74 and the English M6. The link, known locally as the ‘Cumberland Gap’ ran from junction 44, near Carlisle – famous for being the most northerly motorway junction in England - and Guards Mill near Gretna Green. The new route cost £174 million pounds and is part of the UK infrastructure drive that now connects motorway, all the way from Dover to Glasgow. The link came to fruition after many years of local and national debate and was available to the public from the beginning of 2009.

It is known that negative externalities occur when production, building or consumption, inadvertently impinges on third parties. Either in the form of costs or distress that may result in down line costs. The result of a major road can damage the environment, cause and increase pollution and can be the reason behind local road congestion. The M 25, a network that circles London, was opened with three lanes and was filled and congested overnight, it became a victim of its own success. It was to be a boon economically but as traffic sped up the number of accidents in and around, taxed the medical services. It then suffered the dual indignity that as extra

traffic joined the road, now operating at capacity, then average speeds fell and journey times increased to a point that existed prior to the roads construction! As traffic queued longer fuel costs rose and the economic margins were squeezed between positive and negative! In a similar vein the M74 through Dumfries and Galloway had a measured economic effect that aided central Scotland and perceived costs and benefits were certainly noted centrally, but there were also negative externalities and localised impact. Negative externalities can be expressed financially and the Adam Smith Institute has declared that the cost to the United Kingdom in external costs of the congestion of the network is in the region of £18Bn. External benefits are viewed as positive externalities. They are defined in monetary terms. Increased journeys and shortened travelling times can impose external costs on the localised population, As stated noise, increased CO₂ emissions, congestion, particulate air pollution are but a few that would be felt in and around Gretna Green and the Scottish Border. The scarring of the landscape is also an issue and can result in visual intrusion. The cost to local authorities in Dumfries and Galloway of continual planning referrals had also to be met locally. These externalities help show not only the economic but social cost of such a venture. Q8. Using a recent example of government intervention in the market, explain why such intervention may be seen as a possible response to a failure of the market to provide the best solution. It is assessed by the FT and others that 'Climate change' can be viewed as the greatest failure of markets that the world has ever seen, both in its own right as well as - aligning to and interacting with - many other imperfections in the marketplace. No agreement could be reached by companies to stop pouring

CO₂ and gaseous emissions into the atmosphere. It was not possible.

Government interceded There are three distinct elements to review to create a global response that is effective. The first relates to pricing the emissions of carbon: this will be structured through tax, intercompany or inter country trading, or regulation. Secondly we have the support- now by government - of new low emission technologies. The Scottish Government has set out the most ambitious reduction programme in the world to reduce greenhouse gases and CO₂ by a figure of 42% by the year 2020. Thirdly is the removal of barriers to energy efficiency, and to educate and inform the populous at large about what they as individuals need to do to help. The market could not deliver to individuals this message.. Free markets failed to support and drive for the welfare of society in general. They are deemed by reviewers to 'fail' badly in this area and governmental and ministerial intervention was required to correct the imbalance. Economists have identified a number of key failures of the market and it has been government whose interventionist policies to tax the activities with high greenhouse gas emissions that have provided a clear signal to all as to what is acceptable. They have also stimulated economic conditions to both stimulate and make worthwhile the innovation and design of low-carbon technologies. Q9. When intervening in the market, why might a government be concerned with the issue of moral hazard? Give an example to highlight your answer. Government are concerned with the general wellbeing of the citizen, their health, their education, their free will, their employment opportunities as well as the overarching need for safety and defence of the realm. Conceptually, aligned to wellbeing and security of tenure persists the idea in government of the

company or corporation that is too big or too important to fail. This represents a moral hazard. The banking sector with Northern Rock and then the Scottish jewels of HBOS and RBOS, were seen as too important to the economy to ever fail. These companies received financial support; in effect a bailout to keep them going. Their, management, now discredited, took more risks in pursuit of profits. Winston Churchill said that the safety net should be structured such that "none can fall – but all can rise" however government safety nets can create 'moral hazards' that can lead to unlicensed behaviour and even more unfettered risk taking with the consequential fall out and crashes. The fall out in markets where unreasonable risks are taken then becomes the subject of a reinforced belief in government that more intervention is needed. Though this is a double edged sword, the stringent regulations and controls wrapped into these nets can increase the risk of moral hazard in future times. The alternative to a moral hazard is to bite the bullet and let the banks fail when the risk is too great and the cost too high. The stronger banks like Lloyds and the entrepreneurial banks like Virgin Money can then step in and buy branches and business – in effect salvage the wreckage. This free-market approach should theoretically remove any moral hazard. One could surmise that in true free markets banks will fail, just as factories can be engulfed in flames whether they have but the impact would be minimized. Whilst melt downs would disappear most banks would be more cautious and risk taking behaviour minimised.. A true free market obviously does not exist and you and I – the taxpayer – are the unwilling insurers for banks and any other areas of government intervention. The Prudential or Standard Life can set their rates on policies by selling policies,

we, the owners of the banks are likely to gain nothing for footing the losses in the subprime market in the USA that create moral hazards, nor are we likely to see any return of the bonuses paid to bankers to manage our monies. Bibliographies & References

<http://www.economicshelp.org/blog/7130/economics/minimum-price-for-alcohol-pros-and-cons/><http://www.ifs.org.uk/publications/6084>http://www.sheffield.ac.uk/polopoly_fs/1.95621!/file/PartB.pdf<http://books.google.co.uk/books?id=MdPeo5uBo3oC&pg=PA132&lpg=PA132&dq=%C2%A312+billion+by+the+end+of+2015+alcohol+pricing&source=bl&ots=BA4hKMeDwB&sig=866krE-6kewbCWm44MUyBsFuG7o&hl=en&sa=X&ei=O3JAUFpfBYaROPj4gMgC&ved=0CDAQ6AEwAA#v=onepage&q=%C2%A312%20billion%20by%20the%20end%20of%202015%20alcohol%20pricing&f=false><http://www.bbc.co.uk/programmes/b006qj9zh><http://www.valuesandcapitalism.com/dialogue/economics/praise-speculator>