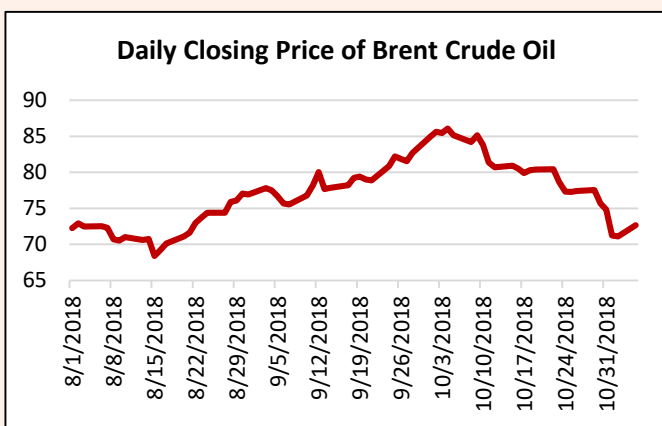


16/11/18

Here are the five economic stories which have caught our eye this week:

The Oil Price Roller-Coaster:



The oil market always attracts a lot of attention due to the versatility of its applications as a widely used commodity in the real economy.

The last two months have seen the price of a barrel of Brent Crude Oil (international benchmark for oil prices) rise to a four-year high of \$86 before falling by more than 20% (fulfilling the technical requirement of entering bear market territory) to just above \$65 a barrel.

What are the reasons for this price volatility? The collection of countries in the oil cartel OPEC announced that oil production cuts will go ahead as planned throughout the course of 2019 – reducing the prospect of excess supply and dragging down the future price.

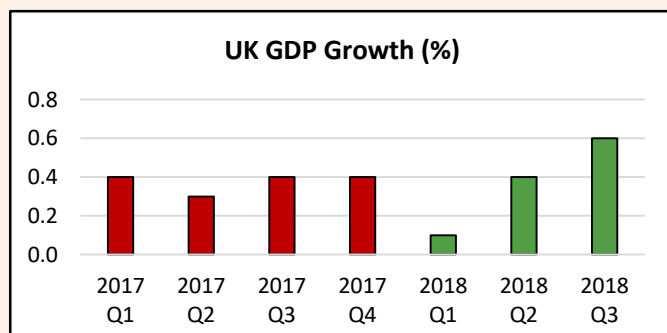
OPEC also produced its latest report on the outlook of the energy market. The projected demand for oil this month is expected to come in 70,000 barrels lower than last month's projections.

Alongside these market fundamentals, geopolitical tensions between the US and countries in the Middle East are raising fears of further disruption to come.

Using a demand and supply diagram, show the impact that these market changes are expected to have on the oil market.



Troubles Ahead for the UK:



Growth in UK Economic Sectors (Jul-Sep 2018)

Services	Production	Construction
▲ 0.4%	▲ 0.8%	▲ 2.1%

The ONS produced the latest set of growth figures for the UK economy this week. The headline figure was that the UK economy grew by 0.6% in the third quarter of 2018. This may seem like a modest growth figure but this is the fastest quarterly growth figure that the UK has recorded in two years.

What has it been caused by? It is a figure that has been helped by the prolonged hot and sticky weather throughout July, as well as the excitement of the World Cup boosting consumers' mood and spending patterns.

However, looking deeper into these figures, the monthly growth rates across August and September flatlined and business investment contracted by 1.2% - the third quarter in which investment has fallen into the red zone.

With reference to the marginal efficiency of capital (MEC), show the impact that economic uncertainty has had on business investment.

India's Banking Problems:



This week, India's financial sector has come under intense scrutiny as the financial system starts to creak under the strain of "bad debt". This has largely been attributed to the growing shadow banking sector which now makes up 25% of the country's financial sector and last year alone accounted for 40% of all the lending across the economy.

The focus has gained traction because in September IL&FS, one of the country's shadow banks, collapsed on its debt pile of \$13bn. Now this may not seem a huge amount of money to default on, given the economy of India is valued at \$2.9tn, but there are concerns that financial contagion may be about to spread to other firms in the shadow banking sector.

The Indian shadow banking sector relies on borrowed funds of up to \$300bn and has been used to propel India up the growth league tables by making lending more accessible to individuals. However, the trade-off of allowing this sector to grow more influential is the jitters that this can send through the financial system and the real economy.

Explain the differences between an official financial institution and a bank that operates in the shadow banking sector.

With your previous answer in mind, explain why the shadow banking sector often accounts for a significant percentage of total lending in developing and emerging economies.

Olympic Sized Pressures:



The Japanese economy shrank by an annualised rate of 1.2% in the third quarter. Of particular concern were the figures behind the country's export orders. Exports dropped by 1.8% from Q2 - the most significant drop since 2015.

Why such disappointing figures? The country has had to contend with extreme weather related incidents ranging from earthquakes to devastating heatwaves. Alongside rising trade tensions, this has created significant bottlenecks in the supply chains of car factories and manufacturing centres.

For a country that relies so heavily on export-led growth to power the ageing economy, the Japanese government has been considering the optimal policy approach to achieve stronger growth and rising budget revenues ahead of the 2020 Olympics.

One looming problem for Shinzo Abe (Japan PM) is that his government have already put the wheels in motion for an increase in the country's sales tax (similar to VAT) to help make the Japan's debt position more sustainable (national debt is currently double the size of the economy).

With the use of a Keynesian diagram, assess the impact that an increase in Japan's sales tax is expected to have on the economy.

Discuss some of the factors that will impact the effectiveness of this tax policy.

Move into the Digital Age:



Christine Lagarde, the head of the IMF, has said this week that governments and central banks need to start to consider creating their own cryptocurrencies. The move taken by the IMF is a warning to central banks around the world surrounding the dangers of an unregulated currency system becoming more influential, whilst creating a financial system that, in the future, will make it easier for developing countries to satisfy their financial needs.

In reference to the three traditional functions of money, assess the impact that an official cryptocurrency system set up by the Bank of England is expected to have on monetary systems of this nature.