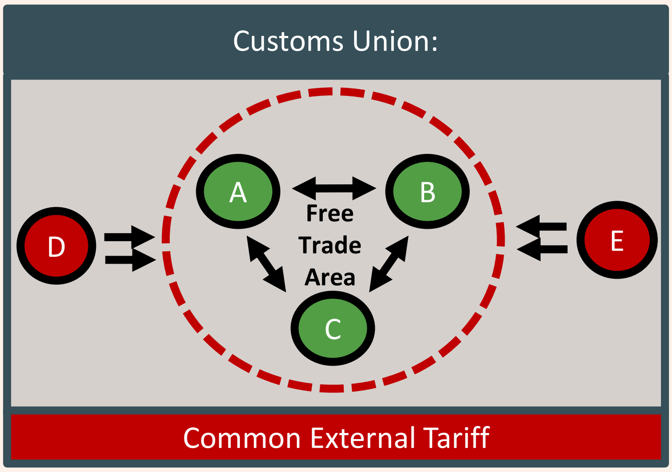
THE WEEKLY 5

02/03/18

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

UK-EU Customs Union:

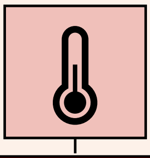


This week there has been a lot of discussion surrounding the pros and cons of the UK being part of a customs arrangement with the European Union after Brexit. The Labour party announced this week that it would pursue a deal to form “a” new customs union arrangement with the EU-27 to facilitate trade and minimise customs disruption between the two regions.

However, the government has said that being part of “a” customs union will inhibit the country from being able to make trade deals with the rest of the world and take advantage of the future opportunities that exist outside the EU.

Using the concepts of trade creation and diversion, explain how membership of a customs union affects the pattern and volume of trade between regions.

UK Energy Price Cap:



Energy Price Cap on Standard Variable Tariffs (SVT) up to 2020.

The UK government this week have reaffirmed their intentions to intervene in the UK energy market to place a cap on expensive household energy bills. The price cap will focus on SVTs – the type of energy bills which have no fixed end date for the consumer and the price paid can fluctuate from month to month. It is estimated that 60% of all UK households are on this form of tariff.

However, the energy providers have criticised this move from the government as they expect it to reduce profits and innovation in the industry, as well as unleashing the unintended consequence of reduced competition.

Explain why it is important for the government to set the cap at the right level if it is to intervene in a market such as this.

Evaluate the view that the introduction of price caps in a market is an effective way of controlling monopoly power.

EZY ECONOMICS

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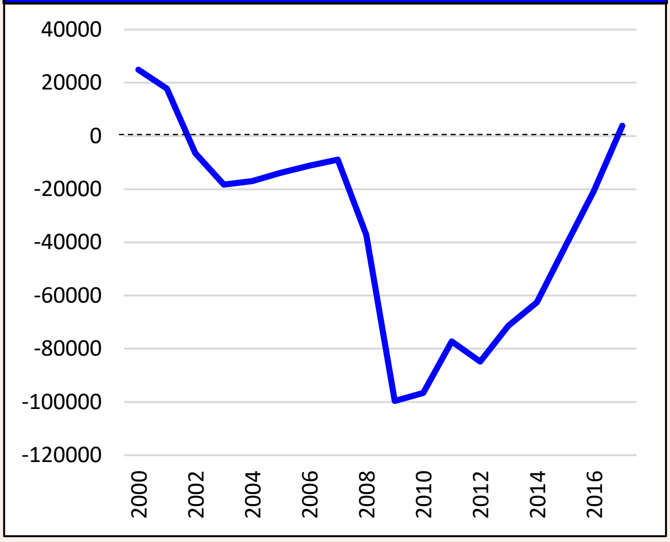
The Age of Austerity:

Annual UK Current Budget Deficit (£m)



The ONS released data this week to show that the UK government has eliminated a deficit on its day-to-day budget (current budget) for the first time since 2001 (£3bn – Jan 2018). The data visually represents the impact of austerity measures brought into action during 2010 to help fiscally re-balance the UK economy.

However, the target of achieving a surplus on the account, which excludes capital investment, has arrived two years later than planned by the government.

Using an AD/AS diagram, explain how austerity measures implemented in the UK have slowly helped the government manage its day-to-day fiscal finances.

Does this conform to the Keynesian or Classical economists view of the effectiveness of implementing austerity measures in an economy?

To what extent do you agree that it is important for the UK government to run a surplus on its current budget?

UK Net Migration:

Estimates for the year ending Sep. 2017		
	Net Migration 244,000	▼ 10%
	EU Net Migration 90,000	▼ 45%
	Non- EU Net Migration 205,000	△ 24%

The ONS released the latest UK migration figures this week and the figures showed that the number of EU citizens emigrating from the UK reached a decade high of 130,000. Non-EU migration into the UK also flourished at a six-year high of 205,000 people.

Economists have put these figures down to a host of different factors – Brexit uncertainty, weaker UK economy, the fall in the value of the pound and stronger eurozone growth.

Using an AD/AS diagram, explain the impact on the UK economy of a continued fall in net migration.

Discuss why it is difficult as an economist to quantify and forecast the impact of migration on an economy.

Spotify Files for IPO:

The popular Swedish music streaming service Spotify this week announced its plans to become a public company by listing its shares on the New York Stock Exchange. In 2017 the firm made €4.1bn in revenue with 71m customers subscribed to its premium service. Despite this, the firm made an operational loss of €378m amid growing competition from rival firms such as Apple and Amazon.

What type of bank traditionally underwrites and issues new shares for companies such as Spotify?

What form of financial market facilitates the trading of new and existing shares?