

What is Economics About? - Activity

This is a question that is more often asked at taster lessons for prospective A Level students than any other.

This Activity is designed to help you to understand at least something about what you will be studying if you choose A Level Economics.

- What happens when oil eventually runs out?
- Why can't we just pay doctors and nurses more money?
- Why can't I just get a grant to go to university?
- The unemployed should get off their backsides and get a job!
- Why do people always get so excited about interest rate changes?
- Inflation - no idea what it is; it doesn't affect me!
- It's obvious that fining polluters would stop them from doing it!
- We should just wipe out the debt that developing countries owe us.
- I never seem to have enough to get what I want, I wish I could win the lottery - not millions just enough to get by!
- That DVD I bought was a real bargain at £10 - I would have paid anything up to £30 to get it, it is sooo cool!
- It's crazy, fishermen are catching decent fish and have to throw half of them overboard - even though they are dead!
- It's not fair, they are the only firm I can buy from and they are so expensive; I don't have any choice!
- It's so annoying, the price of my train journey is twice as expensive before 9 o'clock! ▪
Not another threatened strike, why don't they just go back to work?

The above questions and comments are all issues that you might be faced with during the next two years while studying economics - many of them will be familiar and there are bound to be many, many more.

Task 1

- Write down five questions or statements that you think have something to do with economics.
- Now share your ideas with the rest of the class. Given the range of comments and issues collected by the group could you now write down a definition of what economics is?

Economics is essentially a subject that looks at **choices** - how individuals, governments and businesses make them and what the consequences of making those decisions are. There is a strong likelihood that every issue you raise today involves some form of decision or choice - for example, if fines were the answer to pollution - the choice being to pollute and get fined or not pollute and avoid the fine - the question may then be how much of a fine is necessary before those who choose to pollute feel the cost of doing so is too great?

The economy therefore is faced with **four** key questions that have to be answered - irrelevant of the complexity of the economic system involved.

1. **What goods and services should be produced?** Should the economy focus on being self sufficient or concentrate on what it is good at? Should it devote resources to health and education or defence and policing? Should we devote more resources to housing? Should an economy use resources producing goods that are essentially useless - like 'free' toys in cereal packets, football sticker cards and so on?
2. **How should goods and services be produced?** Should the economy use a system that is labour intensive, thereby ensuring everyone who wants a job has one, or should we use more efficient methods of production that involve the use of machines, even if this means more pollution and fewer jobs? Should we devote more land to production and thus solve some problems of feeding the population at the expense of encroaching into areas of natural beauty?
3. **Who should get the resources that the economy has produced?** Should an economy be geared to providing goods and services to every person as equally as possible or should those who work hard get more? How do we distribute our resources?
4. **Where to produce?** The decision here will include natural factors closeness to raw materials but also transport links and closeness to the market. What about where labour resides?

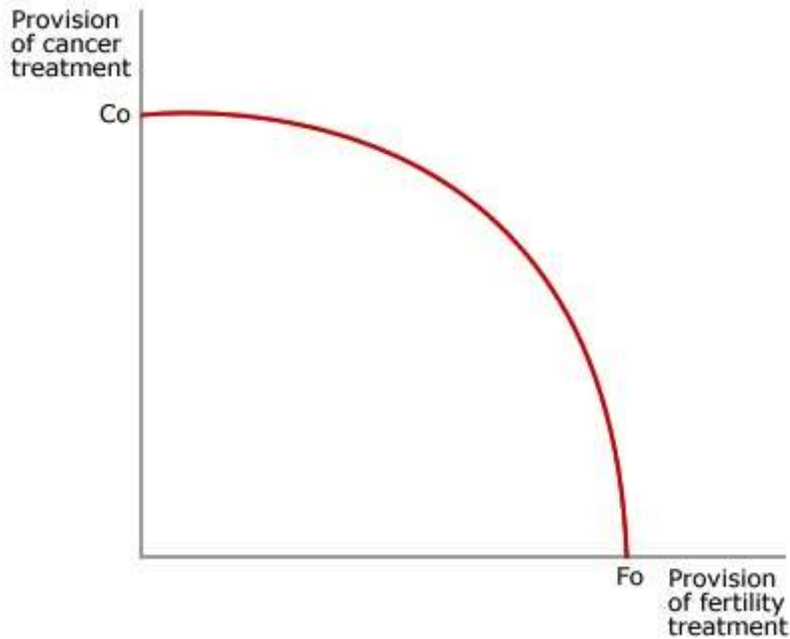
Task 2

- a. Make a list of answers to these questions - think of the answers in general terms rather than specifics, e.g. food, health, etc.
 - What should be produced?
 - How should these goods and services be produced?
 - Who should get what is produced?
- b. Having identified these key questions, now take them a stage further - take one item from the list you have in part (a) and break it down further - for example, in health, should the resources allocated to this area be spent on fertility treatment, heart disease, cancer treatment or research into AIDs, etc?
- c. Having considered these factors now start to think about which of these resources you feel should actually be provided and to whom!

You are now in a position where you have had to make decisions. **In doing so there will inevitably be some sacrifice to be made.** The sacrifice is, for example, in deciding that cancer treatment is more important than fertility treatment. You are making judgements; these judgements cannot always be quantified to any great degree.

Economists call these sacrifices Opportunity Cost. Opportunity Cost is central to any understanding of economics; if you understand and can apply this concept you are on the way to thinking like an economist - this will be very important as you go through the course!

Economists illustrate the concept through the use of Production Possibility Frontiers (PPFs) or Production Possibility Curves (PPCs). Look at the diagram below.



The diagram shows the possibilities for a hospital in the provision of two treatments - one for cancer treatment and one for fertility treatment. The maximum amount of respective treatment that can be given with existing resources is shown by the points where the PPF intersects with the horizontal and vertical axes. If all resources were devoted to fertility treatment then all patients could be treated but the consequences of this would be that there would be no funds available for cancer patients. Conversely, if all resources were devoted to cancer treatment, Co patients would get treated but, as in the first case, there would now be no funds available for patients seeking fertility treatment.

Task 3

Analyse the impact of the decision making process on patient care in these two areas of different resource allocations, for example:

- a. Think about the implications of being on different points on the PPF
- b. What are the implications of being at some point within the PPF
- c. What would be the implications of moving from one point to another, either within or on the PPF?
- d. How would hospital managers be able to extend the PPF outwards?
- e. What might be the cause of an inward shift of the PPF?

Applying your Knowledge and Understanding:

The NHS looks due to get more money. Where should it go?

(The Economist - Mar 28th 2018)

CHANGE is afoot in England's NHS. After years of demand growing faster than funding, the government looks poised to loosen the purse strings. On March 21st a cap on pay rises for NHS staff, which had been in place since 2010, was lifted. Four days later Jeremy Hunt, the health secretary, repeated his call for a ten-year spending plan and suggested that cash could be raised through "innovative models of taxation" like an earmarked NHS levy. Then, on March 27th, Theresa May told MPs that she wanted a long-term funding plan for the health service. "In this, the 70th anniversary year of the NHS's foundation, we need an answer on this," the prime minister declared.

If the taps are loosened, new funding might initially be used to balance the books. About half of hospital trusts are forecast to be in deficit at the end of this financial year, to the tune of a total of around £4bn (\$5.7bn), once one-off extra funding is accounted for. Sanctions for those in the red are not exacting, providing little incentive to be thrifty, notes Nick Bosanquet of Imperial College London.

But if there is any money left after making up these shortfalls, where should it go? Health services can aim at various targets, like patient satisfaction or life expectancy. A starting point might be to look at how Britain compares with other countries.

In an ideal world politicians would be able to direct money to target specific maladies. High on that list would be cancer. Britain ranks in the bottom quarter of the OECD, a club of mainly rich countries, when it comes to five-year mortality rates for cervical and colon cancer. One reason is late diagnosis. Compared with other countries, those with cancer symptoms in Britain are more reluctant to seek out medical help and less likely to be referred to a consultant by their family doctor. As a result, cancers are caught later, when mortality rates are higher.

Britain also performs badly when it comes to obesity, points out Anita Charlesworth of the Health Foundation, another think-tank. Some 27% of British adults are obese, the sixth-highest proportion in the OECD, up from 14% in 1990. And rates are expected to rise over the next ten years.

The NHS is also something of a laggard in child health. Britain has the ninth-highest rate of infant mortality out of 33 OECD countries, a deterioration of about ten places since 1990. Breastfeeding rates in England are among the lowest in rich countries, and the prevalence of neural-tube defects, which can be avoided by giving expectant mothers folic-acid supplements, are among the highest. This is partly because public-health measures in England do not put enough emphasis on the young, argues Ronny Cheung, a paediatrician at the Nuffield Trust, a think-tank.

Another area of concern, for which international data are patchy, is mental health. It takes up around 25% of the disease burden of the NHS, but roughly 12% of the budget. That is partly due to historical stigmas. Obtaining treatment can be slow, particularly for children. Patients often get a "second-class experience" compared with physical health treatment, says Paul Farmer, the boss of Mind, a charity.

But politicians cannot just throw money at particular diseases. Instead, they can only boost funding in different bits of the NHS and hope that helps. General practitioners (GPs), or family doctors, are one such part. Britain has fewer per person than other rich places. And they are

quitting faster than they can be replaced, partly because of harder working conditions. By contrast, since 2014 annual growth in the number of hospital consultants has averaged 4%.

Studies show that hiring more GPs boosts myriad health outcomes, such as survival rates for heart disease. Moreover, increasing their number reduces the strain on other, more expensive bits of the health service. The average trip to the GP costs the NHS about £38, compared with £140 for a visit to an accident and emergency ward. Hospital admission rates in Britain for asthma, a condition which can usually be treated in primary care, are 50% higher than the OECD average.

Capital investment—that is, spending on equipment and buildings—could do with more money, too. Stroll through most hospitals and it will not take long to find out-of-date equipment or a building that needs repairing, says Matthew Kershaw, a former boss of East Kent Hospitals University Foundation Trust. Britain spends 0.3% of GDP on investment in health, compared with an OECD average of 0.5%. The NHS has a building-maintenance backlog that would cost £6bn to clear. A surgeon reports that in one hospital, budget cuts were so severe that there were no surgical pens to mark which bit of a patient to cut up.

Though almost all health experts are keen to see the NHS get a cash injection, many, including Mr Hunt, worry about the long-run pattern of feast and famine. Between 2000 and 2009, NHS spending grew at 6% per year in real terms. Since then it has slowed to 1%. In the fat times, managers could be careless with money; staff complained about spending on fripperies, such as making surroundings more pleasant. But the lean times have also become inefficient. Some of the savings that hospitals have been forced to make have become counter-productive, such as laying off nurses who care for patients immediately after surgery, meaning fewer operations can take place.

That is why Mrs May's endorsement of a longer-term settlement is a relief to those who work in the NHS. Simon Stevens, its chief executive, called it "very welcome, timely and significant". The question now is how generous the long-term plan will be—and where the promised money will come from.

The text above is typical of the sort of article available in newspapers and magazines such as 'The Economist', 'Newsweek' and so on. You will gain a great deal from reading all manner of relevant articles in your studies - but the secret is to read it like an economist!!

Task 4

When reading the text, try to identify the following and where they occur:

- a. How does the text relate to the three key questions that are at the heart of the 'economic problem'?
- b. What are the opportunity costs involved in deciding on appropriate levels of health care?
- c. What parts of the text are positive statements and which are normative? Explain your answer.
- d. How does the text suggest that there may be alternative answers to the issue of the provision of health in the UK?

Summer Tasks

Dialysis machine dilemma

Scarcity, Choice, Opportunity Cost in the Health Sector



Dialysis machines (pictured) are used for patients who have kidneys that don't work properly—without dialysis the patients would quickly die. They are expensive machines, costing about £75,000.

Some patients can get a kidney transplant, which means they won't need dialysis any longer.

A hospital in a town has one dialysis machine that can run for 30 hours per week. As the boss of the hospital, you must decide who gets the treatment.

There are a number of patients who require treatment and their needs are given below:

Patient A: 6 year old child who needs 10 hours per week. She is awaiting a kidney transplant which is expected to occur in one year.	Patient E: A 65 year old wealthy man who requires 10 hours per week. He has promised to buy another machine for the hospital if he is still alive in one year's time.
Patient B: A 78 year old man who needs 5 hours per week. He is married with grown up children and teenage grandchildren.	Patient F: An 8 year old child, who has no brothers or sisters and needs 5 hours per week.
Patient C: A 3 year old child who will need dialysis indefinitely. Currently he needs 4 hours per week.	Patient G: A 45 year old man who needs 6 hours per week and has a brother who will donate a kidney in six months' time.
Patient D: A 30 year old female with two children who needs 6 hours per week.	Patient H: A 30 year old male who has no children and needs 4 hours per week.

Task 5

You have to decide how you will allocate the 30 hours, in order of preference. Give reasons for your decision.....convince me!

The 2008 Global Financial Crisis

The financial crisis of 2007–2008, also known as the global financial crisis and the 2008 financial crisis, is considered by many economists to have been the worst financial crisis since the Great Depression of the 1930s. This crisis was then followed by a global economic downturn, the Great Recession.

Task 6

Using form of presentation you want (a fact file, a timeline, a newspaper article...anything!) you are to answer the following the questions, ready to present them to an audience in September:

- a. The causes and consequence of the global financial crisis of 2007/08;

- b. The reasons behind the crisis;
- c. The impact of the crisis
- d. What have we learned from the crisis?

NOTE:

Please ensure you source the information you use. You are NOT to use Wikipedia!

An excellent article for fans of creative destruction - with the rise of Amazon and Netflix having adverse consequences for traditional cinema box office spending, and most obviously declining sales of DVDs and Blu-ray products.

Netflix and Amazon 'will overtake UK cinema box office spending by 2020'

Film industry will remain 'pretty healthy' but DVD and Blu-ray sales will go into 'terminal collapse', says PwC

The Guardian: Wednesday 14 June 2017

Netflix and Amazon are set to overtake the cinema multiplex after a report predicted that revenues from streaming film and TV shows in the UK will exceed box office takings by 2020.

Paying for TV content from on-demand digital video services will grow by more than 30% to £1.42bn at the turn of the decade, claims consultancy firm PwC. This rise in popularity will see revenue from video services edge ahead of an estimated £1.41bn from cinemagoers.

While Apple and Sky have also made inroads with their download services, the rise of streaming has been the biggest competitive challenge to cinemas in recent years. Netflix and Amazon have attracted millions of viewers in the UK thanks to original dramas such as *The Crown* and *The Man in the High Castle*, while Amazon has also hired the BBC's former *Top Gear* team to launch the *Grand Tour*.

"Demand for internet video shows no signs of slowing down," said Phil Stokes, UK head of entertainment and media at PwC. However, he warned against forecasting the death of blockbusters or the big screens where they are shown. "The figures do not signal the death of film. Look at the box office performance of films such as *Star Wars: Rogue One* or *Fantastic Beasts and Where to Find Them* to see the significant amount of enthusiasm for blockbuster movies out there."

Stokes said the UK film industry will remain in a "pretty healthy" position despite the boom in home entertainment.

The report predicts movie attendance will grow from 172m admissions last year to 179m in 2021, and the number of screens across the UK will rise from 4,143 to 4,542.

PwC predicts that by the next decade services such as Netflix and Amazon – which charge £7.99 a month and £79 a year respectively – will account for nearly two-thirds of the on-demand subscription market. The rest of the market will be accounted for by viewers paying for one-off programmes, sports events, films or sports events through services such as Sky's box office or store and Apple's iTunes store.

PwC predicts a “terminal decline” for DVD and Blu-ray sales from £1.22bn in 2016 to just £533m by 2021. The report predicts that internet video will overtake DVD sales this year, but some analysts claim this has already happened.

“The failure in this market is the high street retailers, supermarkets and specialist stores [that sell DVDs and Blu-ray],” said Stokes. “As well as the shift to digital a lot of physical buying is from services like Amazon. And online streaming is bypassing high street retailers.”

Here is a very interesting article which looks at 'flexible working'; how it has changed the nature of the modern labour market and how McDonald's has been a market leader in improving employment practices in the sector. It's worth a read, not only will it dispel some preconceptions about the labour market but it highlights areas where progress remains to be made.

Are 'McJobs' really history?

Kamal Ahmed: BBC Economics editor: 1 June 2017

It was the Washington Post that first coined the term in 1986. "The fast-food factories: McJobs are bad for kids" a headline announced over a report about thousands of teenagers employed in McDonald's US kitchens.

The term took hold, to such an extent the Oxford English Dictionary still defines McJobs - 30 years later - as a catch-all for "unstimulating, low-paid jobs with few prospects, especially ones created by the expansion of the service sector".

Job insecurity is a common feature.

Fretting about "McJobs" has returned as the world of work changes rapidly.

And whoever wins the next general election will need to deal with this most fundamental of changes, away from the world of the nine-to-five, permanent job with a single employer, and towards a world of flexibility where people and technology become more entwined. The very wealth of our economy depends on riding this wave - a global trend - successfully. One of the first challenges the new prime minister will face is how to react to the most significant inquiry into the new world of work at present being finalised by Matthew Taylor, the head of the Royal Society of Arts.

He was commissioned to undertake the review by Theresa May last autumn, and has said he will deliver the report to Number 10 shortly after 8 June. Much of this new world of work is said to be negative.

The number of zero-hours contracts - which offer no guaranteed work - has grown from 143,000 in 2008 to over 900,000 now.

Alongside that development comes the expansion of "self-employment" which has accounted for 45% of all employment growth over the same period (although it is worth remembering that more than 80% of working adults are still in more traditional, permanent employment). Are zero hours contracts simply the return of "casualisation", where employees are at the beck and call of profit-hungry and often unscrupulous employers?

Or a nod to new, modern needs for flexibility, so that work can be balanced with the rest of life? Is hiring from the new army of the "self-employed" simply a way of businesses avoiding tax and pension responsibilities and bypassing the rights - such as holiday and maternity leave - guaranteed to full time workers?

Or a nod to individual autonomy, where people work to their own rhythm and receive just reward for their entrepreneurial flair?

Of course, it depends which businesses you speak to.

Especially if it's the business that was the original butt of the McJobs attack - McDonald's.

"We have restaurant managers that look after 100 people, they are running businesses over £2m [in revenues] and they are responsible at a young age for their fortunes and their future," Paul Pomroy, the chief executive of McDonald's UK, told me.

Many of those managers started in the kitchens - not actually flipping burgers, it turns out, as machines fry the beef patties on both sides and there is no need to turn them over. Indeed, when I put it to one manager, Liz Stephenson, that working in McDonald's is not all "flipping burgers", she replies archly: "I've never flipped a burger."

Robotic systems work on the chassis of a car during an automated stage of production at the Jaguar

Snobbery is one word that comes to the mind of people like Liz when they consider how some view a career like hers, which started behind the counter on casual hours when she was at school and now involves being the company point person for restaurant managers who are running businesses with revenues counted in the tens of millions of pounds a year.

We have long had a rather romanticised vision of manufacturing jobs - even low-skilled ones - and have yet to fall in love with the service economy - such as retail - despite the fact it makes up the vast proportion of our economy.

"McDonald's offer training and a real career," Ms Stephenson (who is off to Chicago to receive a global company award for her achievements) tells me. "I've heard all the jokes."

Whatever the protestations of businesses which say they have worked hard improving their employment practices (McDonald's offers zero-hours workers rights to sick and holiday pay and has never demanded employees abide by "exclusivity clauses"), chief executives know controversies over companies such as Sports Direct and Uber can muddy all their reputations.

"Businesses take decisions that do damage," Mr Pomroy said, making clear he is not referring to any specific examples.

"Businesses in the modern world need to open up more, be transparent and be honest about how they treat their people and how they treat their customers.

"The internet has such a vast array of information, you can't sit back and hide anymore and not be front foot."

He added: "People up and down our workforce want to be treated with respect, they want a fair chance, they want progression, they want to have fun when they are working, they want to feel part of a team.

"I want to be able to walk into our staff rooms and look people in the eye and know we are treating them fairly - whether it is the 16-year-old school leaver or the 35-year-old mum who is using our flexible contracts to interweave with childcare."

Mr Pomroy dismisses claims that zero-hours contracts, for example, are simply a method for firms to keep people in insecure, low-paid work.

As I wrote last month, when offered the chance to move on to fixed-hours contracts, 80% of McDonald's staff affected said they preferred zero-hours.

Automation ahead?

The other big, robotic, beast in the room when it comes to the new world of work is technology. The fear is that while we worry about zero-hours and self-employment, artificial intelligence and computers that can crunch "big data" in the blink of an eye are going to replace millions of us in the workplace.

For services industries like his, Mr Pomroy is not so sure.

"Since we have introduced technology - you can place your order on giant screens - it hasn't actually saved us labour in terms of reducing the number of people we need," he said. "We've actually used that as a springboard to put more people out in the dining area, so giving hospitality."

"We've introduced table service. Using technology to enhance the customer experience is what is critical - not cutting the number of jobs we offer."

"So since we have been introducing technology, we've recruited a further 5,000 people - taking our total workforce to 115,000."

That jobs growth will continue, he insists, revealing plans to recruit 2,000 to 3,000 jobs a year.

"We have over half our restaurants open 24 hours a day, five days a week, and there is still opportunity to extend the number of restaurants that operate 24 hours a day, seven days a week."

"We are also a growing business. We have had 11 years of consecutive sales growth. I've got no plans to slow that down."

In 2007 McDonald's launched a campaign to have "McJobs" removed from the dictionary. They are still trying.

"I would love it to go," Mr Pomroy said.

"Not for me, I'm the CEO. It's more for the 115,000 people that work in our restaurants; they would love it to be removed."

McDonald's spawned the "McJobs" tag in the 1980s and insists it has moved on.

Mr Pomroy's problem is that other businesses could now be taking on the mantle as the new world of work throws up a very 21st century challenge.