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TOPICS IN
ECONOMICS
2

THE ROLE OF GOVERNMENTS

1

All governments play a part in the economic life of a nation. In some cases the government plays a larger part whilst in some countries it tries to involve itself as little as possible. It is necessary for governments to influence economics because there are some services which are essential for the people and must be maintained. The **'market'** will pursue only profit making activities whilst many of the essential requirements that make up the infrastructure of a country need to be developed with more sympathetic view to the long term good and benefit of the people.

The government involves it self in several ways. The main of these are;

To Ensure That Essential Services Are Maintained, (these include Water, Electricity, Gas, Housing, Education, Health Services Etc.).

To Encourage Economic Activity In Areas Of High Unemployment

To Collect Taxes To Pay For Essential Services

To Guide The Public Through The Use Of Health Warnings And Recommended Practices

EXERCISES

How much influence should governments have on the economic activity of a nation?

Do the circumstances of some nations warrant a greater level of involvement? Why?

How do you think the involvement of governments in European nations will develop in the next ten years? Consider the European Union nations in particular.

PRIVATISATION AND NATIONALISATION

2

Nationalisation is when an industry which is considered too important to the national wellbeing to be held in private hands is bought by the government and run as a public concern. Historically, the UK has tended to nationalise industries and support a policy of nationalisation until about 1980. After this time the government felt that the industries which it controlled were too expensive and inefficient and needed private ownership and exposure to competition in order to be better.

Politics plays a part in the nationalisation debate with Conservative and right wing politicians supporting the privatisation of industries whilst centre and left wing politicians tend to support the idea that some crucial industries require close supervision in order to guarantee their operation for the benefit of the public.

Many UK industries have been privatised. Can you list the main privatisation in the UK since 1980?

YEAR	INDUSTRY

The advantages of nationalisation is that the government can ensure that essential services will be properly available at an affordable cost to those who need them. By avoiding market forces services can be provided at a fair cost to the consumer with the government subsidising the service if necessary.

The disadvantages are that because the services are not subject to market forces often the services are provided inefficiently and sometimes the level of subsidy means that the government has to spend large amounts of money supporting the services.

EXERCISE

What are the main advantages and disadvantages of nationalisation?

Which industries or services presently are held centrally?

Which industries or services do you think should be nationalised?

Should all industries and services be privatised?

POCKET MONEY TO GOVERNMENT

3

How do you decide what amount of your pocket money to spend and on what? In other words how do you make decisions and prioritise your needs? We all have limited funds and so have to make decisions all the time about how and where we will spend our income. Governments also make similar decisions, only their decisions are about much larger amounts of money than our decisions. In the exercise below fill in how much you spend each week and the things you buy.

ITEM	HOW MUCH I SPEND
1	
2	
3	
4	
5	
	I SAVE £______

On the next page you will find two similar exercises. In the first one imagine that you get TEN times the amount of pocket money you actually receive. How would you spend the money? What affect would this have on the amount you decide to save?

In the second exercise imagine you get only half the amount you actually receive. How would this affect your spending habits and how would your priorities change?

POCKET MONEY GONE MAD

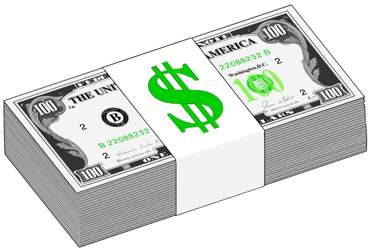
YOUR POCKET MONEY HAS INCREASED BY TEN TIMES

ITEM	HOW MUCH I WOULD SPEND
1	
2	
3	
4	
5	
	I WOULD SAVE £_____

YOUR POCKET MONEY HAS HALVED

ITEM	HOW MUCH I WOULD SPEND
1	
2	
3	
4	
5	
	I WOULD SAVE £____

WEALTH 5



Often people confuse income with wealth. Income is the flow of money which a person may earn as a wage and pay out as bills. Wealth is measured in assets. The money which you might save is part of your wealth, the ownership of a house, car and household furnishings are all assets. People often do not see the ownership of a car as wealth but do see money in the bank as wealth.

In the UK the top 1% of people own 18% of the wealth of the country, and the top 10% own 50%. That leaves the other 90% of us to share the remaining 50%! Even in this, the bottom 25% own hardly anything at all.

The main areas of wealth in the UK are;

Homes And Property 33%

Life Assurance And Pensions 31%

Money In Banks And Building Societies, And Cash 18%

EXERCISES

How does wealth come about? What are the main factors which allow someone to accumulate large amounts of assets?

Why do so many people have so few assets?

How does the government tax wealth?

INEQUALITY

6

If there was equality in a country this could be measured by dividing the amount of wealth by the number of people in the country and everyone would have the same amount. It is impossible for this type of equality to happen. Even communist countries do not want this type of equality when they talk of the redistribution of wealth. Redistribution of wealth is more to do with fixing a range within which all people are guaranteed a certain minimum standard of life and in the former USSR, for instance, doctors earned more than labourers.

Inequality happens because some people have more assets and earn more money than others. In the UK 25% of people earn less than half the average wage. This makes them very poor. The income of the richest people in Britain has increased by 60% in the last 15 years, but for the poorest 15% their real incomes have fallen.

There are many implications for a society in which there is a big difference between rich and poor. Poorer people rely much more on state support, are usually ill more frequently, have a poor diet, and die younger.

EXERCISES

Why is there inequality in all countries?

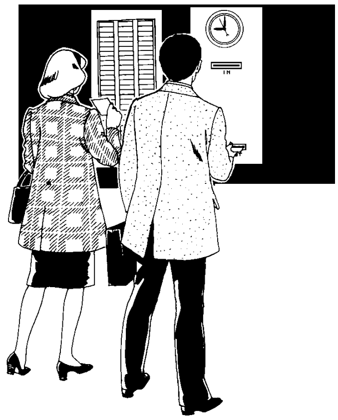
How can the difference between the very poor and the very rich be closed? Should we try to close this gap?

What implications are there for countries where there are a lot of poor citizens?

TYPES OF EMPLOYMENT

7

People often talk of employment in general terms, but it is worth making distinctions in some cases. Many of the economic calculations about how people spend their money and which products should be made is calculated according to the employment trends and the number of people in particular employment sectors.



Often employment is divided into the types of work and levels of skill as follows;

Manual

Semi-skilled

Skilled

Managerial

Professional

It is also worth distinguishing between people who work in the private sector and those in the public sector. Among other reasons is that level of public sector employment can be very expensive and governments have to justify these numbers to taxpayers.

There is a growing industry in companies selling information about employment habits to other companies who supply goods to the public. With better computer technology it is possible to be very accurate about the number of people in certain industries and their geographic location.

EXERCISES

Why in economics terms is it important to know how many people work in particular industries?

Why do some companies pay particular attention to employment patterns in deciding what to produce?

Can you think of examples of products which are targeted at specific employment groups?

UNEMPLOYMENT

8

One of the biggest problems of our time is unemployment. In every major European nation one of the main economic priorities is to reduce the number of people who are out of work.

It is important to distinguish between those people who do not work with those who are unemployed. The official definition of unemployment used by most nations is; people who are out of work and are actively seeking employment. Another way of defined the unemployed is to consider the benefits which they receive. Only people who receive Unemployment Benefit or Income Support in the UK are counted as unemployed. In this case people who do not work because of illness or disability are not classed as unemployed although some of these may be looking for jobs.

In the UK there is expected to be a minimum of about 2 million people who are unemployed at any given time. Most nations have accepted the view that there is never going to be **'Full Employment'** and that there will always be a number of people who will be out of work.

Another factor to consider is the number of people who are unemployed but do not appear in official figures. An example of this is that in the case of a couple who are unemployed, only the person receiving the benefit, in most cases the man, is registered as unemployed although his partner may also in fact be seeking employment. Figures are often 'massaged' for political reasons. The real number of people who are looking for work in the UK is nearer 4 million.

With many people reliant on benefits and a growing retired population the state has to pay an ever increasing amount of money as a percentage of overall income. European nations are facing the reality that soon they might not be able to maintain a welfare state because there will not be enough money.

EXERCISES

What factors lead to unemployment in European nations?

Why do governments calculate unemployment figures by the number of people who are receiving benefits rather than all people who want work?

What will happen if the government can no longer afford to support people in need?

WORLD MAP

EXERCISES

On the map above mark the nations which you consider to be rich.

Using a different coloured pen mark those nations which you consider to be poor.

Which nations have become economically powerful since 1945? Why has this happened?

What effect does the wealth of the new economic powers have on the other rich nations?

RICH AND POOR

What does **Rich** or **Poor** mean? To someone with nothing £200 is a large amount of money but to a rich person it might be the price of lunch in a restaurant.

Rich and Poor are subjective terms. This means that they mean different things to different people. What do you think Rich and Poor mean?

Rich means:

Poor means:

In terms of economics rich and poor refer to the ability of people to afford to do certain things, whether it is measured in buying power or standard of living. Depending on what their interest is, businesses pay close attention to the relative wealth of people and use this information to plan product development and business expansion.

In world terms rich usually refers to the West whilst poor refers to the 'third world'. However, it is no longer so simplistic because some so called third world countries are now richer than many of the Western nations. In the last twenty years the distinction between rich and poor has become much more complicated.

EXERCISES

What do you think about classifications like 'The West' or the 'Third World'?

How would you define rich and poor in world terms? Is there a difference between poor and poverty?

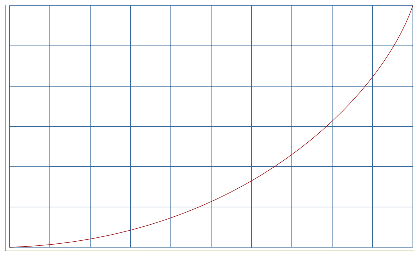
GROWTH AND MONOPOLIES

There are several factors which allow growth to happen in companies. Some of these are:

Internal Growth; companies putting more money back into their businesses

Takeover; one company taking over another

Merger; two or more companies joining together to make one bigger one



When two or more companies merge horizontally, (both companies are in similar production), there are many features of production done by both companies which can now be done by one. An example of this is the Administration office. Previously both companies will have had their own offices. The new company would not need two offices. By making savings the new company can divert more resources to growth. This is known as **Economies Of Scale.** There are other parts of two businesses which can be merged into one. Can you think of which these are?

AREAS OF PRODUCTION	HOW THEY CAN BE MERGED

By merging or by takeover, there is also a better chance of a company dominating the market and increasing its **Market Share.** When a company has control of a market it can increase the price of its goods and make more profit. Can you think of examples of this? In the UK there is a body set up to ensure that there is fair competition and that unfair monopolies are not set up. It is called the **Monopolies And Mergers Commission.**

Can you make a list of British companies which have a monopoly on services. To start you off, think about Gas and Electricity supply. What is the government doing to open up these markets?

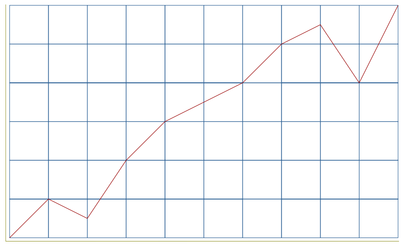
INFLATION

12

There are two types of inflation:

Cost Inflation, caused by rising costs;

Demand Inflation, caused by rising demand.



Cost inflation happens when the cost of producing goods goes up and therefore the cost of sale has to be higher to ensure profits. There are two main areas where costs can rise;

raw materials,

labour costs.

The UK imports great amounts of the raw materials it needs in production and if the value of Sterling decreases on the international money markets then the price of the raw materials goes up. The rise in wages is inflation causing when the rise in wages outstrips the rise in production. If someone earned £1 to produce ten items, then that person would have to produce 11 items to justify an increase in wages to £1.10. If the person still only produced 10 items and received £1.10 then that would put an additional cost of 1p on each item. The business would have to charge the extra amount to the customer to maintain the same profits and thereby cause inflation.

Demand Inflation is caused by the rise in demand for particular products. If a particular product is in limited supply and everyone wants it, the producer can increase the price and still be guaranteed sales. This sort of inflation is likely in strong economies where the people have lots of money and there is no spare production capacity which might otherwise be used to produce more of the scarce product.

There are many consequences of inflation including:

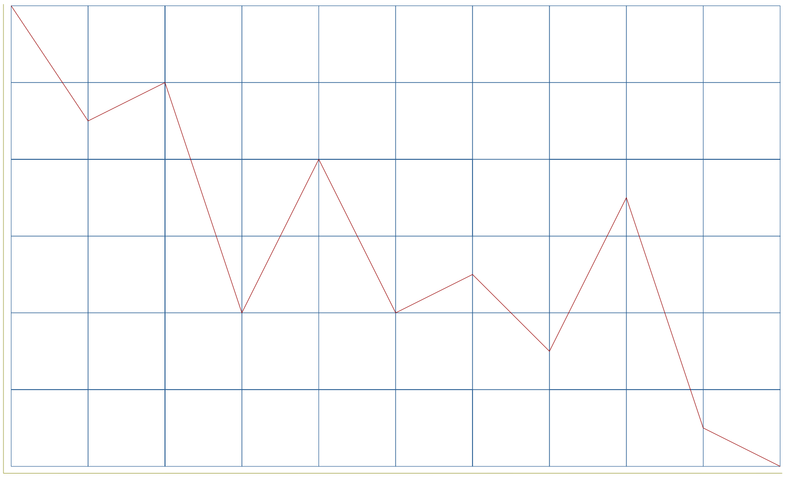
Fixed Income Earners Suffer, because their money is worth less;

People Do Not Save As Much, because interest rates may be lower than inflation and the money loses value in the bank;

People Who Owe Money Gain, because the amount they owe is worth less;

Industry Declines, because the domestic market prices increase and people buy foreign imports.

13 DEPRESSION



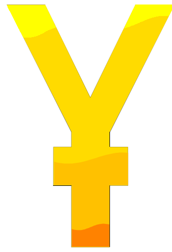
Depression happens when people lose confidence in the effectiveness of a nations capacity to produce. In the great depression of 1929 in the USA people lost confidence and started withdrawing their money from banks. The loss of confidence translated into a reduction of purchases which in turn led to factory closures. This in turn led to more loss of confidence.

LOSS OF CONFIDENCE → BUY LESS → PRODUCE LESS

DEPRESSION IS A LOSS OF CONFIDENCE WHICH DEVELOPS INTO A VICIOUS CIRCLE

INTERNATIONAL TRADE

14



International trade happens because all countries do not have everything they need to survive independently. This trade also happens because of the efficiency of production of certain goods in particular countries. An example of this is textiles. In the last 75 years of this century most weaving and other textile related operations were done in the UK. Today most of the mills in the north of England are empty, not because the need for textiles has diminished, but because many Asian countries can produce those goods much more cheaply.

Countries often produce goods according to the environment. It would be impossible for British farmers to compete in the mango fruit market because the weather is not favourable. But in growing sugar beet, Britain has an almost ideal climate. Economists talk of **absolute advantage** when a country is better placed to produce particular goods over and above the ability of other countries to do so.

The world is also becoming more specialised. All the computer chips in personal computers sold in the UK have probably be manufactured in the Far East. Besides natural deposits which necessarily either give a country an advantage or not, artificial specialisation of industries depends on factors like the cost of labour, and level of skill. The cost of labour in Asia is very cheap and, therefore, labour intensive production is more cost effective in these countries. The level of literacy in the West is about 99%, compared with Asia 50%, and Africa, 35%, and so many high technology and other industries which rely on literacy and numeracy are more effectively undertaken in Western countries.

EXERCISES

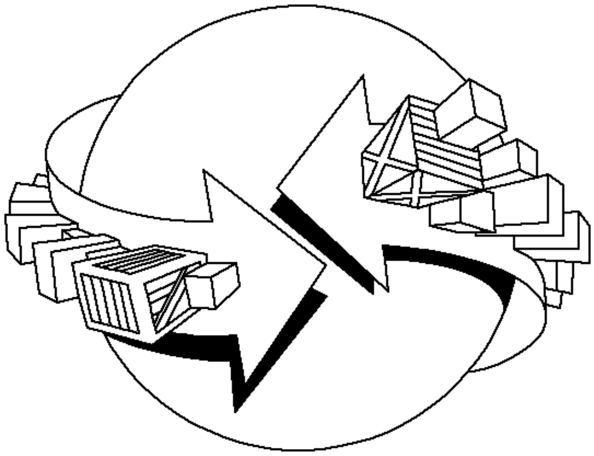
Make a comprehensive list of factors which lead to international trade.

Why is Britain reliant on international trade? Make a list of the products which the UK imports and those which it exports.

POPULATION

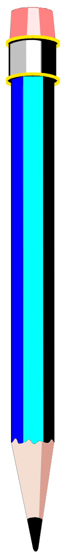
ASIA 1975 POPULATION 2 600 000 000

ASIA 1995 POPULATION 3 210 000 000



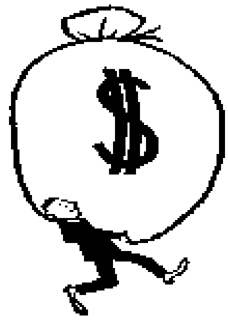
The greatest single threat to the wellbeing of the planet is the incredible growth of the world's population. The pattern of increase in population shown above is similar to the growth in other parts of the world. The only continent on which there is no substantial increase in population is Europe. The increase in population has a direct effect on resources and the quality of life. As an example; one third of people in India are on the poverty line.

China's policy of only one child per couple should be enforced throughout the 'Third World' to ensure the well being of the world population as a whole. Discuss.

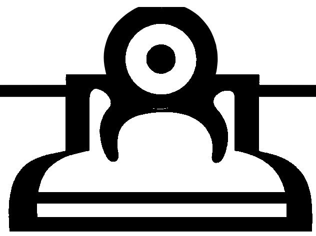


FINITE RESOURCES

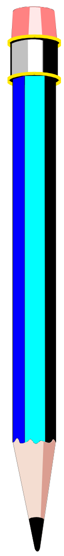
Finite means that there is a limited amount of something. The world has finite resources in most of the things that we need to keep us alive and comfortable. In particular we can look at energy to keep us warm and to enable production, and food supplies. One of the important questions which governments all over the world are asking is; how much can the world population and their needs keep increasing before we reach a point where we can no longer sustain our quality of life?



There are a number of ways in which the resources of the world can be maximised. One is to control the world population, and another is to make use of technology and science to find new ways of producing goods which will be more efficient.

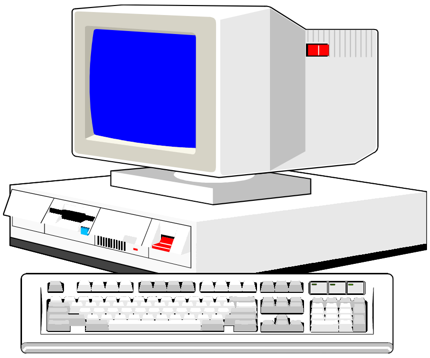


Write a report on what steps can be taken to make sure that the resources of the world are sufficient to meet the needs of the people for the next 20 years.



NEW TECHNOLOGY

Modern technology plays a significant part in the success of industries. Indeed high technology is an industry in itself, providing computers and other hardware to help people run their businesses. The last ten years in particular has seen technology change the way in which business takes place. As technology links the world together ever more closely, international markets and trends govern much of the production in domestic markets. Technology also allows for a better management of resources and better targeting of energies in production.



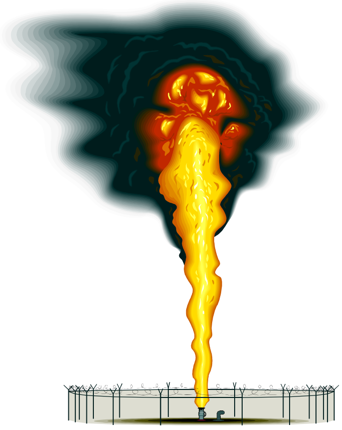
Fill in the exercise below naming those industries in which technology is most important factor in their development and explaining why. Which industries are likely to grow fastest with the rise of technology?

INDUSTRY	WHY TECHNOLOGY IS IMPORTANT

ECONOMICS AND THE ENVIRONMENT

Increasingly the environment is having an impact on activities in economics. For many years industry happily traded without any regard for the environment or what effect it was having on the global wellbeing of the planet.

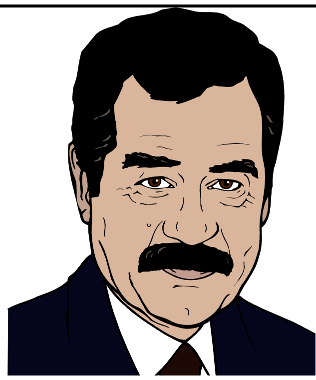
Today the environment is particularly important for industry to consider because those with particularly bad records can be exposed and this can have an impact on sales and profit. Make a list of industries which have to pay particular attention to environmental issues and say what they have done and what they could do to improve their position in this area.



INDUSTRY	ACTION TAKEN	ACTION REQUIRED

ECONOMICS AND POLITICS

Economics and politics are inextricably linked. We see reports on television almost everyday about the economic decisions being made by politicians and the possible political rather than economic reason for doing so. An example of this is that there are usually tax cuts before General Elections. It is because the politicians want to appear more attractive to the voters that they sometimes cut taxes rather than for reasons of economics.



SADDAM HUSSAIN

The other main types of links between politics and economics can particularly be seen in international relations between nations. Often '**economic sanctions**' are placed on nations considered to be too oppressive or threatening. An example of this are the sanctions placed on Iraq after the war by the West, to liberate Kuwait. In history we can see the use of economic sanctions since the end of world war one.

The international bodies of the United Nations, NATO, International Monetary Fund (IMF), and the European Community often meet together to decide what action to take to encourage nations to behave in a particular way. An example of this is the aid programme given to the former USSR. The new nations of the Russian Federation were 'encouraged' to open up their internal trading markets in exchange for international loans. In this way, the funding nations got a 'return' for their generosity.

There is always great debate, especially amongst the nations on the receiving end, about how and under what circumstances politics should interfere with economics. The economics of many countries are bonded to political activity and there is little independence of the two.

EXERCISES

Can you think of examples of how the UK economy is linked into politics? As a starting point compare the role of the Bank of England to the Treasury of the Government.

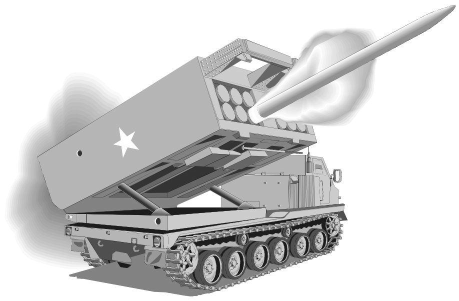
Why do some nations have economic sanctions placed on them?

What are the effects of economic sanctions on the country concerned? Make a list of the areas affected.

Should politics and economics be so closely linked? Some countries have safeguards against too much political involvement. An example of this is the Independence of the German Central Bank from political interference.

ECONOMICS AND WAR

20



Hardly a decade has passed in the twentieth century without a large war erupting. These conflicts play a major part in determining how nations change or alter their economic thinking. Besides having to divert resources away from non essential production to make more weapons and war related goods, economies suffer considerably from the after effects of war. An example of this is the Lebanon in the Middle East where war since the 1960s between Christian and Muslim supporters led to the destruction of the country. Beirut, its capital, once was the centre of commercial activity in that area. Fifteen years after the main hostilities ended the capital city has still not been re-built. Another example is the destruction of most economic activity in the Former Yugoslavia which will take at least a decade to re build.

Often wars result in other wars. The peace treaty of the first world war indirectly led to the second world war because the settlement was too hard on Germany which led to discontent and a desire for revenge in the German nation.

EXERCISES

Select a war from the list below and write about what effect the war had on the countries involved and what the economic state of the countries was before and after war;

Civil War In Yugoslavia 1990 Onwards

Afghanistan Civil War 1981 Onwards

Arab-Israeli Conflict 1948 Onwards

Civil War In Rwanda

ECONOMICS AND HISTORY

Karl Marx was one of the first political philosophers who directly linked economics to politics and propounded that a change in the way people relate to capital was required to create a fair world. The philosophy of Marx led to the Russian Revolution of 1917 and to unrest thereafter.

Hitler and Mussolini also believed in a different relationship between people and capital and in some ways was similar to the system which communists preferred. Essentially both believe in a greater centralisation of control in order to maximise output for the benefit of the state. By controlling the resources of the state more can be achieved which is in the national good or for the good of the people.

Both Fascists and Communists disliked the Liberal Democracies of the other European nations because they felt that they were controlled by a few, and for the benefit of a few. Communists believed that if the wealth created from industry was more fairly distributed then the relative wealth of all would increase leading to a better standard of living. Fascists believed that their nations would be better off if production was planned and would stop money being syphoned off by foreign business people.

EXERCISES

Select a period of history from the list below and write a report on how economics was influenced and how economic thinking changed with the historical circumstances:

Russia 1917-1930

The Rise Of Hitler 1929-39

The Disintegration Of The British Empire After 1945

The Effect Of War On Japan's Economic Development After 1945