TCS Economics

Entrance to 6th form

Summer Homework

2020

- This work is to be completed before you start in September - **you must complete both task 1 and task 2**
- You will not be allowed to start studying Economics if this is not completed and submitted during your first week
- This will be the first piece of work that we mark of yours, make a good first impression!
- Good luck – we hope you enjoy thinking about Economics and look forward to seeing you in September

Summer homework for Economics A-Level students

Economics in sixth form will be split into microeconomics and macroeconomics – you will have different teachers for each. Microeconomics is the study of particular markets, and segments of the economy. It looks at issues such as consumer behaviour, individual labour markets, and the theory of firms, whereas macroeconomics is the study of the whole economy. It looks at issues such as GDP growth, inflation and the trade balance.

Task 1 - Microeconomics

Write a report examining the reasons for, and implications of, the change in prices of a commodity of your choice **over the past 10 years.** *N.B. A commodity is a raw material or primary agricultural product that can be bought and sold e.g. gold, oil, sugar, etc…(be as original as you can)*

YOU MUST CHOOSE A COMMODITY OTHER THAN OIL

You need to:

1. Find a recent article from a broadsheet newspaper (e.g. The Times, The Guardian, The Telegraph, The Financial Times, Economist) relating to the price of the commodity you have chosen.
2. Copy and paste this article into your report.
3. Give a brief introduction to your commodity – what is it predominantly used for? Which countries have the highest demand for it? Which countries supply most of it?
4. Find and copy a graph that shows the change in the price of the commodity you have chosen over the last 10 (or so) years
5. **Describe the trends** demonstrated in the graph. When was the price at its highest/lowest? Did it fluctuate a lot? What was the range? **Use data from the graph to back up your points**.
6. Explain **potential causes for the change** in the price of the commodity. The article you have found should help you, but you may wish to do some further research. *If you have studied economics before, you should use a supply and demand diagram to help to illustrate your points.*
7. **Comment on the potential effects of these price change**s for producers (of the commodity, but also other firms who may rely on it in their production process), consumers and governments.

Additional information

- Your report should be written using a computer and be around 750 words long (NOT INCLUDING THE ARTICLE ITSELF)
- It should be PRINTED OUT **and ready to hand in to your teacher** on the 1st day of sixth form
- You need to include links to sources that you use at the end in a bibliography
- Try to use a range of sources: newspapers, magazines, websites and journal articles
- We have included a good example from a previous year in this document below – READ THIS

Useful websites

- www.bbc.co.uk
- www.economist.com - The school has an online account with the Economist magazine – username is jwatkins@charternrothdulwich.org.uk and the password is charter19 (lower case C)

- http://www.indexmundi.com/commodities/
- www.ft.com
- www.theguardian.co.uk
- www.telegraph.co.uk
- www.tutor2u.net

Task 2 – Macroeconomics

Macroeconomics is the branch of **economics** that looks at the performance and behaviour of an economy as a whole, rather than as individual people, markets or businesses.

The impact of Covid 19 on the UK economy, and the government response to this makes this is a very interesting time to be studying macroeconomics. The Chancellor has just announced a package of measures to attempt to prevent the UK economy from falling into a deep recession.

Economists use lots of technical terms that you will need to master in order to write well-constructed essays in your A level – by the end of two years you will 'sound like an economist'.

The best way of developing you skills as a writer *and* economist is to read economics-related articles. We hope that you have chosen to study economics at A level because you are interested in making sense of the world around you, so we hope that this will not feel like a chore. If it does, then perhaps you should think whether economics is the right subject for you!

Your macroeconomic homework, due for your first lesson in September is to:

1. Read the article below
2. Having read it, be ready to contribute to a discussion in which you will share your views on the Chancellor's recovery package.
    a. Do you think that it will work?
    b. Why, why not?
    c. Which bits did you like?
    d. Which bits do you think are a waste of time?
    e. Look on www.bbc.co.uk/news under 'economy' and you will be able to read what others think of the Chancellor's plans. It is likely that more will be announced over the summer. Please note that lots of economists and politicians disagree with the proposals, so don't worry about 'getting it right' – the Chancellor probably hasn't! **Write your views down so that you are not left with nothing to say – I would like to see these notes in the first lesson.**
3. Definitions matter in economics**. Learn BY HEART the list of definitions written out below the article (those highlighted in yellow) – <u>there will be a test in your first week in school.</u>** Words highlighted in blue are important, but you do not need to memorise these – definitions are below the article to aid your understanding.

The article is taken from the website www.theconversation.com (This is a fantastic website with lots of articles relevant to economics – see if you can find other articles that could help with your

discussion/thinking). Other good websites include www.bbc.co.uk/news/business, www.guardian.co.uk/business

Article: Summer statement: Rishi Sunak goes all out for jobs, leaving public finances for another day

Alan Shipman Lecturer in Economics, The Open University - July 8 2020

Chancellor[1] Rishi Sunak's summer statement on July 8 was intended to show how the government can quickly end its emergency bankrolling of the economy, and let a re-energised private sector[2] take the strain again. Since the lockdown was imposed in March, a furlough scheme[3] has allowed shuttered firms to retain up to 9 million idled employees – over one-third of the workforce – at an Exchequer cost so far of £60 billion.

When the furlough scheme ends in October, Sunak has announced that it will be replaced by a £1,000 bonus for each employee retained until January 2021, at a maximum cost of £9 billion. There is also the addition of a £2 billion work-placement scheme, to open up jobs for the 700,000 school and university leavers unable to find one.

Amid a crisis that has highlighted the importance of public-sector workers[4], and could well trigger a deep recession, the government's overwhelming concern is to prevent a jump in unemployment as the furlough scheme is wound down between August and October. The OECD[5] is forecasting that the UK is heading for one of the highest rates in Europe – potentially rising fivefold to almost 15% if there is a second wave of coronavirus.

The OECD also forecasts in June that the UK could see a GDP decline of more than 11% for 2020, made worse by other industrial economies experiencing a similar slump. There had been hopes of a V-shaped UK recovery, spurred by an upbeat comment on May's consumer-spending data by the Bank of England[6] chief economist, Andy Haldane.

But the initial bounce-back in sales may have been boosted by a one-off spree with the savings that people accumulated during lockdown. And if the V's upward slope stops even slightly short of its downward slope, there will still be a painful shortfall in output and employment.

Big spender

The fact that the UK budget deficit is soaring, lifting total public debt above 100% of GDP for the first time since the early 1960s (when wartime debts were still being paid down). Yet the government's

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[1] The government's chief financial minister with responsibility for raising revenue through taxation or borrowing and for controlling public spending.
[2] The part of the national economy that is not under direct government control.
[3] A scheme designed to prevent widespread unemployment. Businesses can request 80% of a member of staff's regular monthly salary, up to a maximum of £2,500
[4] Workers that are responsible for providing all public services in the UK, from the emergency services and healthcare, education and social care, to housing and refuse collection
[5] The Organisation for Economic Co-operation and Development - an intergovernmental economic organisation with 37 member countries, founded in 1961 to stimulate economic progress and world trade.
[6] The UK's central bank with a mission to deliver monetary and financial stability to the UK population.

judgement is that has to keep up the emergency spending, even as revenues fall sharply, until a firm recovery in production and employment is underway.

Indeed, the summer statement was notable for its continued focus on extra outlays – other new measures to boost the economy include a temporary VAT[7] cut for the hospitality industry from 20% to 5% (costed at £4 billion), and a nine-month suspension of stamp duty[8] on house purchases below £500,000 (removing at least another £1 billion in tax).

There is to be an 'Eat Out to Help Out' scheme offering government-subsidised 50% discounts in restaurants in August, plus vouchers to help people pay to make their homes more energy efficient. The new measures add another £30 billion to the £175 billion of extra spending (and £130 billion of extra borrowing) announced in March.

As when Sunak announced the first round of government supports in March, the difficult task of raising taxes or cutting other expenditures to lessen the increase in the deficit has been left to the more detailed budget announcements due in the autumn – or even later.

The task of keeping people in work has been made more difficult by evidence that many firms were already "hoarding" labour before the pandemic, with some only staying in business because of record low interest rates. This was a reflection of over ten years of minimal growth in workforce productivity, which ground to a halt after the global financial crisis of 2007-09.

The new work placement scheme – paying employers for up to six months to take on young workers – has been likened to The Future Jobs Fund launched by Gordon Brown's government after the financial crisis. A closer parallel may be the Youth Training Scheme with which the Thatcher government kept school leavers in jobs while all around them were losing theirs in the 1980-81 recession.

While Thatcher won re-election two years later with unemployment still around 3 million (over 10% of the workforce at that time) and rising, today's Conservative government is keen to win over the largely anti-Brexit youth vote, and does not want to run the same risk.

Buy now, talk deficits later

Sunak's "whatever it takes" growth-boosting contrasts sharply with the immediate spending restraint and tax increases that the Conservative-Liberal Democrat coalition deemed essential in 2010 after the financial crisis. Boris Johnson has already signalled there will be no return to "austerity", even though the public debt to GDP ratio is now substantially higher than ten years ago.

This is partly a recognition of voters' unwillingness to see the public sector cut again. It also reflects lingering doubt about whether austerity really worked, since it did not close the budget deficit by the 2015 target date (or even 2020), and may have left the health and social care services underprepared for COVID-19.

It also reflects an unprecedented confidence that the government can continue to run up new debt for some time, without the usual penalties of rising interest rates, higher inflation and a depreciating

[7] Value Added Tax – an indirect tax on non-essential purchases – the standard rate is 20%.
[8] A tax paid when you buy a house, flat or other land and buildings.

pound[9]. Sunak isn't necessarily a convert to the idea of modern monetary theorists that economists in the past exaggerated the constraints on public spending, underplaying governments' capacity to borrow without squeezing resources from the private sector. But he's realised it may be possible to keep spending and borrowing at near-zero cost for several more months (even years) to stimulate recovery, not least because so many other countries are having to do the same thing.

Key terms definitions to learn by heart – the italics are only to help you with your understanding – you DO NOT need to include them in the definitions

Key term	**Definition**
Recession	A fall in real (*adjusted for inflation*) GDP for at least two consecutive quarters i.e. six months (*a quarter of a year is 3 months*)
Unemployment	When people are able, available and willing to work at the going wage but cannot find a job despite an active search for work
GDP	Gross domestic product (GDP) is the total value of output in the UK and is used to measure changes in economic activity
Recovery	When real (*adjusted for inflation*) national output picks up from the trough (*lowest point*) reached at the low point of the recession
Savings	Disposable income that is not spent
Output	The quantity of goods or services produced in a given time period, by a firm, industry, or country
Budget deficit	When government spending is greater than tax revenues. The government needs to borrow money to make up the difference and therefore takes on debt *(owes money to people & organisations)*
Public (i.e. government) debt	A government's total unpaid debt - effectively what the government still owes from the budget deficits accumulated over time
Interest rate	The reward for saving and the cost of borrowing expressed as a **percentage** of the money saved or borrowed
Productivity	A measure of efficiency e.g. output per person employed or output per person per hour
Inflation	A sustained increase in the general price level of goods and services

[9] When the value of the pound falls against other currencies – e.g. you need more pounds to buy the same amount of dollars, or Euros.

Example Summer Homework for Task 1: Commodity Research - Copper
A. Student

Article below taken from the Guardian – written in January 2015

Is a global economic recession coming? Copper prices say 'yes'

The market for copper, a metal that two years ago was being stolen by thieves looking for big profits, is crashing – the latest in a string of commodities nosedives that have experts worried about the broader implications for the global economy. The copper market crashed overnight to its lowest level since the middle of the financial crisis in 2008, fueling fears that the global economy is slowing more sharply than many experts had anticipated.

Wednesday's drop is the sixth consecutive decline in copper prices. Currently trading at around $5,560 a ton, the prices are causing significant pain to mining companies like Glencore, whose stock responded to the copper crash by hitting a record low. Like oil, copper has a deep effect on the world economy because it is key for phone lines, cables and other infrastructure. It is also important to several world economies; the world's largest copper producers, in order, are Chile, China, Peru, the US and Australia.

The copper market is just the latest commodities market to suffer from a kind of panic, as oil prices have halved in just a few months. Copper is also at the center of a black market trade that has been shrinking from a level of $1bn just two years ago, as an epidemic of copper thefts swept the country with thieves robbing warehouses and stripping telephone wires to resell the metal for a profit. The National Insurance Crime Bureau, which tracks metal theft, called the crime wave a threat to US infrastructure. Claims for metal theft have since declined, the NICB said.

The worry about the fall in copper is that the rout in crude-oil prices could be spreading to other commodities, sparking concerns that the slowdown in the global economy might be much deeper than thought and not limited to the energy market. China, with an economy that has grown relentlessly in recent years, is the world's largest user of copper, eating up 40% of supply. China's imports of copper hit an all-time high in December.

But China is slowing. Just Tuesday, the World Bank suggested that a "disorderly slowdown" in China would force it to reduce its forecast for global growth outside the US. It said the slowdown in Chinese property and land sales will prevent the national and local governments from boosting growth by investing in infrastructure. The World Bank said the world economy would grow by only 3% for 2015, down from an earlier estimate of 3.4%.

"I'm getting worried that this [drop in copper prices] is telling us not all is right with the global economy and that it is slowing faster than anticipated," said Robin Bhar, head of metals research at Societe Generale. "If you asked me three to six months ago, I would have been less worried; I would have said it's oversupply of oil, iron ore, coal. But the combination of greater supply with weaker demand is suggesting it's indicative that the global slowdown is taking place."

Why does copper matter? Because it's used in all sorts of building materials and historically its price movements were tracked for insights into the robustness of industrial activity. "Copper is a good barometer of economic health and always has been," Bhar said. While there are concerns about the slowing global economy and whether the strength of the US economy can withstand sluggishness elsewhere, Bart Melek, head of commodity strategy, rates and foreign exchange research at TD Securities, said the copper market itself has had its own problems for a while now.

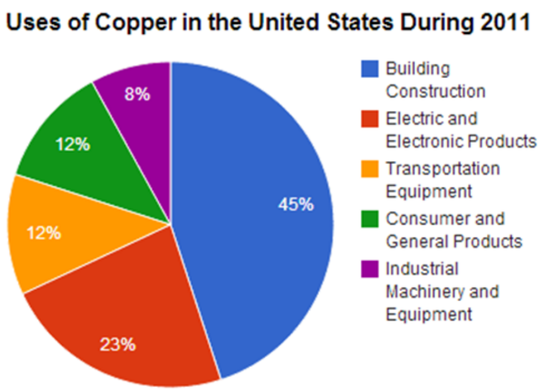
Chiefly, its problem is overproduction. Copper mining supplies are growing at a faster pace than demand, and have been since 2013, Melek said. Melek said copper demand from China, the world's No 1 user of the red-colored metal, is still expected to grow by 4% to 4.5%, but the issue is that previous expectations were for greater growth. "I think there is certainly concern on the part of Chinese traders," he said, noting most of Wednesday's price break occurred during Asian trading hours. During the US trading day, prices started to rise off those lows. Bhar said what may have triggered Wednesday's plunge is that in the past few days there were fewer purchases by metal buyers, sending signals that perhaps copper users wouldn't need as much supply as originally thought.

Combine that with the weakness in oil, a trend of weakening copper prices anyway (prices fell for much of 2014) and general malaise about the global economy and there were reasons to sell, he said. And of course, trimming copper production in the face of lower values isn't as easy as pressing the "off" button for miners. It takes a long time to stop and restart production.

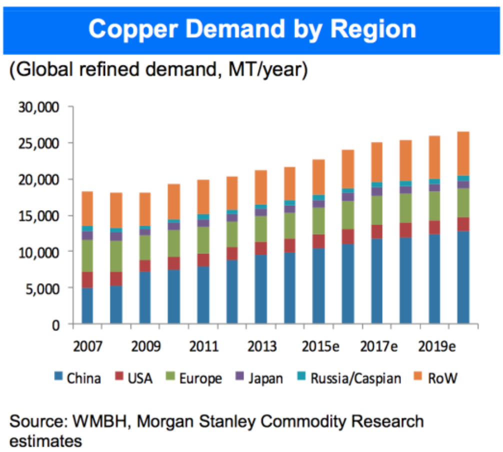
My Commodity report

A brief introduction to copper

Copper is primarily used in construction, for example in roofing and plumbing and to make industrial machinery. Another important use of copper is to make electrical equipment. Copper is also used in coin making, e.g. all US coins are now made of copper alloys, as well as serving a few uses in the agricultural industry as it can be used as an algaecide in water purification.

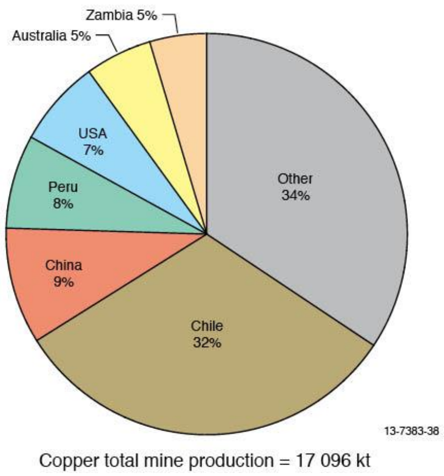


As of 2016 China is the largest user of copper, in fact the demand for copper is greater in China than the rest of the world. This is due to the fact that recently China has started to greatly expand its current infrastructure; this is a result of both a huge growth in the Chinese middle class as well as a need to expand infrastructure to cope with a massive population.



Consumption of copper rose greatly in China during 2009, primarily due to the increase in demand for copper from China. Predictions are that demand for copper will continue to rise in the future, but perhaps at a slower rate , with demand rising from the 'rest of the world'.

Copper production, by region



Chile is the main producer of copper globally, producing 32% of all copper sold worldwide. The main producers are a combination of developed (e.g. USA) and developing (e.g. Zambia) countries

Price of Copper – key trends

The graph below displays how the price of copper has fluctuated over the previous ten years.

Over the ten year period, the price of copper has fluctuated widely, with a range of approximately £4,200 per metric tonne. The lowest price of copper over the last ten years was during 2008-2009, where prices reached £2000 per metric tonne of copper. The price of copper rose sharply during 2009-2010 and, despite a dip in mid-2010, it reached a peak of over £6000 per metric tonne in

January 2011. Since the summer of 2011, the copper price dropped by approximately 40%, falling from almost £6000 per metric tonne to approximately £3700 per metric tonne.

Potential causes of these price changes

The largest fall in price over this period coincided with the 2008-2009 financial crash. I believe that during the financial crash there was low demand for copper, this is because as previously mentioned copper is mainly used in construction; since people had little money during the financial crash demand for new buildings would be very low, as people wouldn't have enough money to be able to move in. Furthermore copper is also used in electronic products as well as consumer/ general products, since these goods are non-discretionary goods people would have had to stop buying them into order to purchase essentials during the recession.

The decline in the price of copper since 2011 is most likely due to less spending on infrastructure by China; this is because currently China has far exceeded its infrastructure requirements, this has led to the creation of many "ghost cities" in China as too much urban housing has been built for the current amount of civilians living in urban areas. These cities were built to accommodate the anticipated population growth as well as higher paid workers looking for accommodation in urban areas instead of agricultural heavy countryside. As China makes up 40% of world demand (according to the newspaper article), any reduction in demand from China would lead to a fall in the price.

As the article say, the over-supply of copper on the markets recently has led to the reduction in price – suppliers of copper were expecting a higher demand for copper and so produced more than ended up being needed, leading to a reduction in price.

In September 2015 the price of copper rose slightly due to the large trading firm Glencore PC suspending production in two of its copper mines for 18 months in order to lower operating costs. The suspension of the two mines, located in the Democratic Republic of the Congo and Zambia removed 400,000 tonnes of copper from the market, this significant decrease in supply boosted the market price of copper.

Potential effects of the current price changes

This current low price of copper could help the governments of poorer countries invest in infrastructure (given that copper is heavily used in this) as it will be cheaper, thus boosting their development. However, governments might expect prices to fall even lower, and thus wait before investing in improved infrastructure and this could cause copper prices to fall even further as demand falls. Since copper is used to produce electronics and consumer goods the prices of such goods will mostly fall as the cost of production will fall for manufactures. This again could lead consumers to be cautious and wait for products to decrease more in price. Furthermore the decrease in the price of copper could lead to producers of copper having to lay off workers in order to profit, this would increase unemployment in countries that produce a lot of copper, such as Chile, and could lead to lower growth rates in these economies.

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