EZY ECONOMICS

THE WEEKLY 5

07/12/18

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

Deliveroo Ruling:

The gig economy represents the section of the economy where workers get paid per job (gigs) that they carry out. In recent years, the gig economy has expanded at a rapid rate because of the added flexibility that it provides workers.

However, despite the flexibility it offers, there are concerns that some workers are being exploited in this section of the economy with the lack of job security and restricted employment benefits cited as downsides of this section of the labour market.

One of the biggest driving forces behind the rise of the gig economy are firms that seek to provide extra convenience to satisfy consumer tastes and preferences, such as firms like Deliveroo and Uber.

This week, the ride hailing app Deliveroo won a ruling that stipulated that workers (who are defined as self-employed for companies such as this) are not entitled to collective bargaining. This ruling was made on the basis that riders for the firm do not hold a traditional “employment relationship” with the app and therefore the art of collective bargaining does not hold up for these types of workers.

Many see this as a negative step in the natural progression of workers' rights in the gig economy.

Define the term collective bargaining in the context of the gig economy.

Use a labour market diagram to show the impact that collective bargaining can have on the wages and employment levels of a specific market for labour.

HS2 Construction Project:

For years, many frustrated commuters have had to put up with delays, cancellations and severe disruption across the UK’s creaking rail network. Therefore, when the government announced in the mid-2000s the plans to construct a new high speed rail line called HS2, it was seen as a proactive measure to improve the quality of the UK’s public infrastructure.

However, despite the flagship nature of this project, the government have had to contend with an alarming number of delays and operational problems. This has resulted in the £55bn budget for the project spiralling out of control and this week saw yet more problems mount up as the chief executive of the project resigned due to missed deadlines and ineffective management.

Why is this project so important? As well as relieving commuter pressure off existing lines it was a proactive measure to increase capacity on the lines for freight travel. An increase in mobility of commuters is also extremely important to ensure that labour markets function efficiently and economic productivity holds up.

In groups, carry out a cost-benefit analysis of the construction of the HS2 railway line.

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Poultry Matters:

As the 29th of March 2019 approaches (the current deadline for Brexit negotiations to be concluded) there is no sign that the fog of uncertainty surrounding the UK's future relationship with the EU is lifting. As a result of this, many firms that operate in industries which rely upon frictionless trade with the EU, are having to invest heavily in preparing for the perceived worst-case scenario – a no-deal Brexit.

The reason why this is often touted as the most disruptive Brexit route is because of the immediate disintegration of previously drawn-up contracts between suppliers and firms within Europe. These contracts would have been drawn up on the basis of UK and EU laws remaining aligned with each other. A no-deal Brexit however would require intense re-negotiations, whilst in the meantime businesses would still need to serve their customers. This is why we hear stories of firms stockpiling inventories ahead of the expected departure date.

One industry this week that has begun to release details of its preparations is the poultry industry. Despite the UK consuming 60% of the chicken it produces, trade links between the EU are crucial for this industry to function. This is because fresh produce is perishable and therefore any delays at border checks can be extremely damaging.

What is so interesting about this market though are the interrelationships between the different varieties of poultry markets and the irrevocable damage that delays and shortages could have across the European continent.

UK consumers' tastes and preferences are aligned to consuming white breast chicken, ahead of darker meat on the legs and wings. This means the trade balance of poultry is delicately balanced so that the UK mainly exports the surplus of UK dark meat to the EU and imports much-needed white breast chicken from the EU to satisfy consumer demand. This means a no-deal Brexit could affect poultry markets in both the EU and the UK.

With the aid of a diagram, assess the impact that trade frictions at the border between the UK and the EU will have on the white breast chicken market.

In reference to your diagram, discuss how shortages of white breast chicken could cause UK consumers' tastes and preferences to change towards darker meat.

UK Housing Market:

The Nationwide Building Society released their latest report on the state of the UK housing market this week. The report detailed some of the fundamental changes in the market which are influencing the affordability of UK homes.

To put this into perspective, house prices across the UK have risen by 161% in real terms since 1996, with only 37% of 25 to 34 year-olds owning their properties compared to 67% twenty years ago.

The conventional wisdom is that the UK government has not been building enough homes to keep up with an ever-growing population. To a large extent that is true – the government has continually fallen well below construction targets and recent housing supply measures have been ineffective.

However, there are many supply frictions in the housing market that have contributed to this price bubble such as planning restrictions on green belt land and funding difficulties for affordable social housing.

With the aid of a demand and supply diagram, discuss the relationship between interest rates and house prices.

With your previous answer in mind, discuss the impact that rising interest rates is likely to have on the UK housing market.

Spooked Markets:

This week stock markets around the world appeared to suffer from a classic case of the jitters, when a global sell-off in stocks produced some unwanted records. The FTSE 100 closed at its lowest level in two years, with trends across European and US stock markets witnessing the same.

There are lots of potential reasons for the spooked markets: US-China trade tensions, uncertainty over oil prices and intensifying Brexit negotiations.

One interesting aspect of this is the impact that this nervous sentiment is having on asset prices and returns. The yield curve is a concept used by economists, investors and market commentators to get a strong gauge of where the markets and the economy is heading. The curve is traced by plotting the yields being offered on a selection of different government bonds. Yield curves typically have an upwards slope. This is because as the maturity of the bond increases, the yield should be higher, whereas short-dated bonds have lower yields due to the short time between the purchase and maturity of the bond (less time for things to go wrong).

However, yield curves can be used as a market prediction of an oncoming recession. This is because if there is a big difference between short and long-term bond yields it is a sign that the market expects higher inflation and interest rates – signs of a strong economy. If this curve starts to flatten and even inverses to a negative slope, the reverse is likely to happen – signs of a weaker economy.

Why does this matter? Well an inverted yield curve has predicted every single major recession across the US since the Second World War, so it has a pretty good track record of predicting these things.

Well guess what folks, the US yield curve is beginning to show signs of an inverted nature, which has raised fears of a global slowdown.

Assess the view that high inflation is only an economic characteristic seen in strong economies.