

03/05/19

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

The Secrets of the UK Labour Market

Percentage of those in employment defined as "Overeducated" by UK region, 16 to 64 years, 2017



In the past two years, the UK labour market and its accompanying employment trends represent one of the few traditional areas of the UK economy that has consistently performed above average. Many economists continue to praise and question, in equal measure, the driving force behind these resilient numbers, given the uncertainty surrounding Brexit and the synchronised weak patterns of growth witnessed across the global economy.

Unemployment is at its lowest level since 1975 (3.9%), employment is at a record high, labour inactivity levels are dropping and real wages are increasing at their fastest rate since the financial crisis. These labour market indicators have gathered increased momentum since 2016, with some signalling that this is a sign of a resilient economy, whilst others suggest that firms are cancelling investment and substituting these plans with labour instead. Nobody has the exact answers, but as you can imagine, a lot of research attention has been diverted towards explaining this booming sector of the UK economy.

This week the ONS released a detailed report that aimed to analyse the UK labour market and the levels of 'overeducation' that exists within the UK economy. The study was based upon labour market statistics over a 10-year period between 2006 and 2017. The remit of the study was to assess the relationship that the labour market trend of overeducation has on UK wages.

Overeducation is the official term given to workers who possess qualities, skills and a level of education, far and beyond the requirements of the job that they are currently positioned in. You could almost describe it as a mis-match of job and worker qualities. The report indicated that 16% of all 16-64 year olds were overeducated in 2017. The report also indicated that the individuals that were most likely to find themselves in mismatched jobs were recent undergraduates (31%).

Why does this matter? Overeducation is a labour market trend that contributes to a wider phenomenon of underemployment – those in a job whose skills are not being fully utilised. The wage penalties associated with these workers is an obvious consequence, but hidden labour market trends such as this one could be a possible cause of the UK's sluggish productivity growth.

To what extent do you agree with the view that the existence of overeducation in the labour market reflects the presence of information asymmetries within the job search process?

Big Brother is Watching You



This week British shoppers were shocked by a report that revealed the lengths to which some of the UK's leading supermarkets will go to, to mine into the behavioural patterns of their customers.

The report captured in-store images and videos of customers trawling through supermarket aisles hunting for their next bargain buy. The footage was captured by the strategic placement of in-store cameras to focus on the habits and behaviours of shoppers for certain product types. It might seem trivial, but supermarkets place an awful lot of business importance on the layout and format of their stores, as well as the particular placement of products. The invention of self-service checkouts and the launch of hyper markets in the 1950s was an example of that.

However, boosting flagging sales figures of certain products can only be achieved with the right insights of customer behavioural patterns. This is why some of the leading retailers in the country have taken on the services of behavioural analysis agencies. The supermarkets supply the footage and the data, whilst the agencies are responsible for breaking that data down into key customer insights for the stores to use to boost profits.

This arms-length technique towards improving sales performance is an extension of some of the wider behavioural strategies that firms up and down the country implement to boost sales. Grocery stores place chewing gum at the checkouts to encourage impulse purchases, deli counters overwhelm customers with a huge choice to incentivise purchase and pricing tricks are used to draw in additional purchases.

Therefore to become a leading player in the supermarket industry, the art of behavioural science must be mastered!

Discuss and explain how the behavioural terms of framing and choice architecture, can be applied within the store layout and product placement within supermarkets.

## EU Carbon Credits Scheme

This week, British Steel managed to secure the approval of an £100m loan from the UK government to help plug a financial blackhole created from the company's participation in the European Union's carbon permits scheme.

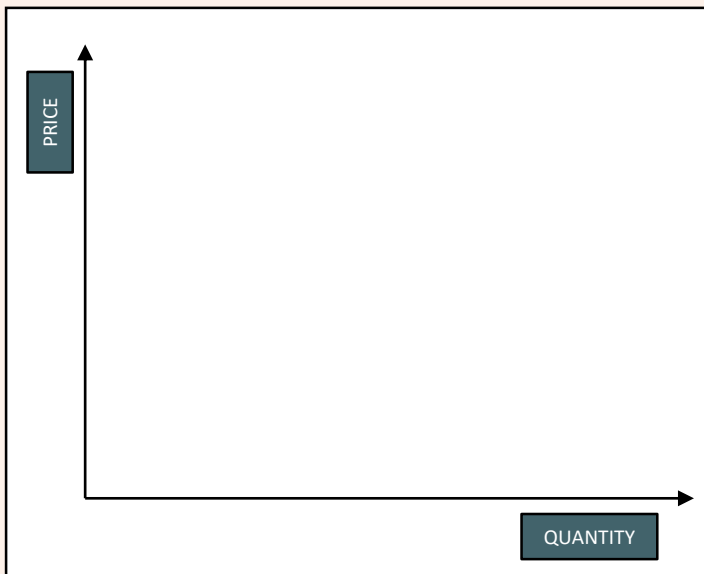
As a member of the European Union, firms such as British Steel have had to abide by the rules of the EU's emissions trading system. The system works by releasing a fixed quantity of carbon credits into the market for firms to use to justify their emissions activity. Each carbon credit owned, permits the firm to pollute and release up to a ton of carbon dioxide (CO<sub>2</sub>) into the atmosphere. Therefore, the more the firm pollutes, the more credits the firm needs to acquire.

Firms are incentivised to reduce their carbon footprint, as any unused carbon credits can be sold to those firms that need more credits to justify their activities. Any firm that is left in a position where they do not have enough credits to cover their emissions levels must pay a carbon bill at the end of the period.

By creating a market within for carbon allowances, the scheme hopes to bring down the level of carbon emissions slowly in an efficient manner and gives firms a financial incentive to invest in new technologies that lower carbon emissions.

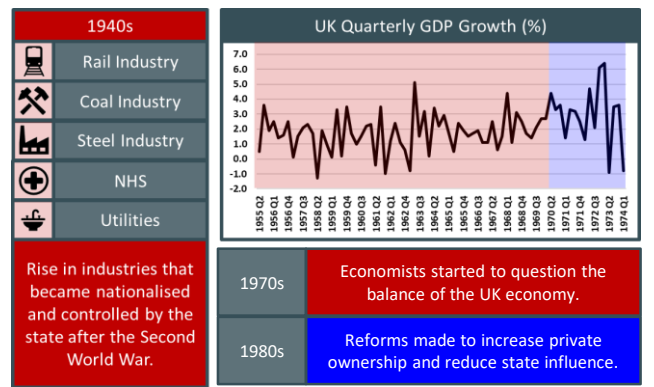
The reason why British Steel were required to pay a £100m bill was not down to the fact that the firm didn't have enough permits in the first place. The firm sold all of its excess credits off at the start of 2018 and has now been hit by the EU's ruling that UK firms can no longer acquire new carbon credits, whilst the UK is in negotiating terms with the EU regarding Brexit. This has left firms like British Steel without the ability to take part in this market and therefore the government has intervened to prevent further misery to this crumbling sunset industry.

Using the information above, complete the diagram below to show the mechanism of a carbons trading scheme and how it can reduce carbon emissions over time.



To what extent do you agree with the view that tradable permits are less effective than levying taxes on businesses that produce high levels of CO<sub>2</sub> emissions?

## The Dawn of a New Economic Revolution



This week the UK's shadow chancellor, John McDonnell, made the passionate case for a transformative revolution in the UK's economic system. The basis of his viewpoint stemmed from the growing strength of public opinion for change. Drawing parallels with the momentum that gathered forty years ago at the time of Margaret Thatcher's first electoral victory in 1979 (see figure above). He suggested that the public have become frustrated and detached from the capitalist values of the current UK government and crave something radically different.

This argument stems back to the fundamental question of who are better placed to maximise social welfare and satisfy the needs and wants of economic agents. Are markets better off left alone or do governments need to intervene to nudge private incentives towards the social optimum. This economic and political divide is fierce. The socialist viewpoint (Labour) is that higher taxes need to be imposed on those that have the greatest levels of wealth, to raise funds to invest in re-distributive strategies to help the poorest in society. The capitalist view (Conservatives) is that economic systems are driven by incentives and profits motivate incentives. Therefore, lower taxes, deregulated markets and privatised industries work best.

To what extent do you agree with the view that governments should intervene in markets to improve the allocation of an economy's resources?

## No Spoilers...Promise



The highly anticipated movie blockbuster of the year, Avengers: Endgame, was released in cinemas last week. The fourth and final instalment of the Avengers series wraps up 11 years and 22 films worth of dramatic storytelling and action-packed sequences. The movie brought in a record breaking \$1.2bn at the box-office on the opening weekend worldwide, and is on course to be one of the highest grossing films of all time.

The general storyline centres around a coming-together of the universe's mightiest superheroes, who are faced with the unenviable challenge of defeating the supervillain Thanos. This is the mad titan that wishes to restore balance to the universe by wiping out half of all living creatures with just a single click of his fingers. His reasons for this are simple – the universe's resources are finite and if left unchecked, life will cease to exist.

Does this sound familiar? It should do, as this describes the central economic problem at the heart of any economic system. How do we allocate scarce resources in the most efficient way possible to maximise economic welfare? Fortunately for us, the solutions put forward by economists are significantly less extreme compared to Thanos' warped economic logic!

Define and explain the term allocative efficiency.

Using a PPF diagram, explain the trade-offs that arise from a scarcity of economic resources in a system.