

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



**Collusion in the Pharmaceutical Industry**



Every year the UK Government allocates a percentage of its budget (the money it receives through tax revenue) to the NHS. In the financial year of 2017/18, NHS England received £110bn from the government coffers and the NHS channels this funding into the core pillars that help run the service – health care infrastructure, staffing costs, training costs and medicines spending. From 2023/24, NHS England funding is projected to rise in real terms by £20bn.

The rise in funding reflects the general financial pressures that the service has come under. Some of these pressures reflect demographic changes and some reflect market changes. If we take a look at the amount that the NHS has spent on health care essentials such as vital medicines, it has grown by 34% to £17.4bn since 2010. The NHS must stump up the extra cash for medicines in order to provide patients with the access to life-saving medical treatments, but rising costs continue to outstrip the natural growth in funding that the NHS has received over that same period of time. This is why policy makers and competition authorities are continually investigating the market actions of the private drug companies that produce and sell these vital drugs and medicines. Private companies need to have the right incentives to continue to develop and innovate new medical products which ensures that medicines spending is affordable for the NHS.

This week, a collection of four private pharmaceutical companies have been accused of colluding with each other to artificially force the price of vital medicines up. An official investigation has been launched by the CMA (Competition and Markets Authority) to look into a series of dramatic price increases for cancer drugs over a 5-year period between 2013 and 2018. The allegation of collusion specifically refers to the joint attempts of four firms to restrict supply to force the price of the drugs up.

Pharmaceutical companies have an ethical responsibility when it comes to supplying drugs, alongside their motivation to turnover a profit for shareholders. If drug prices rise considerably, health standards will begin to fall and this will inhibit the productivity and living standards of the country.

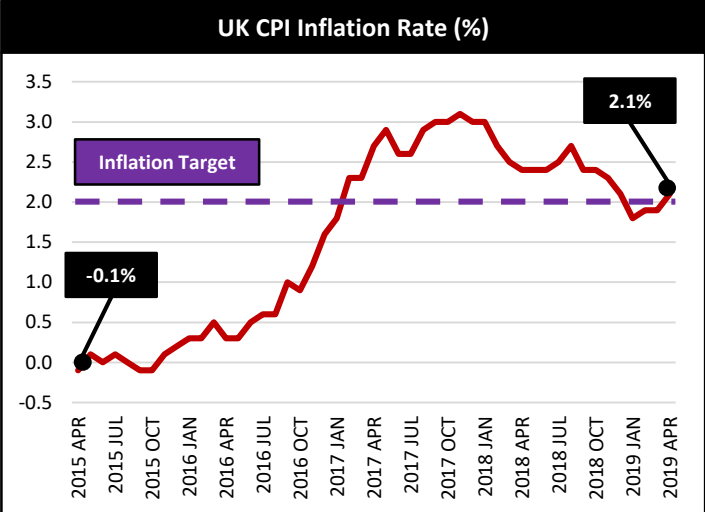
The CMA argues that the lack of competition between drug providers, has inhibited the financial position of the NHS, crowding out investment into additional areas. If the firm's involved are found guilty on the grounds of collusion, a financial penalty of up to 10% of the firm's global turnover will be applied.

Using a diagram, show how collusion of this nature can force the price of vital medicines up in the pharmaceutical industry.

Identify and explain three factors which affect the ability of a firm to collude with other firms in the industry.

Explain why firms in the pharmaceutical industry can charge different prices for the same drug in different countries.

**UK Inflation Heats Up**



Latest figures from the ONS revealed that UK inflation reached its highest monthly level of 2019 in April. The monthly CPI inflation rate for this month was 2.1% and this represents a 0.2 percentage points increase on the monthly inflation measure for March.

The methodology behind the reported inflation measure is the percentage change in the Consumer Prices Index (CPI). The CPI is a weighted value of the average shopping basket for UK shoppers. This is then converted into index form to reflect proportionate changes in the data.

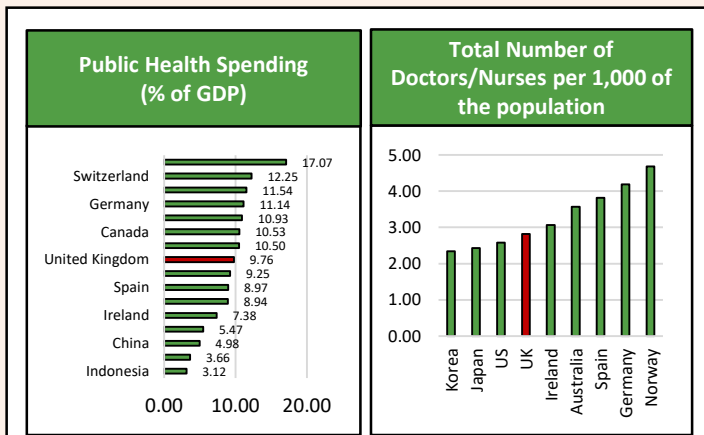
Why was last month's figure significant? Well the Bank of England conform to an inflation target of 2%. If the CPI inflation rate continually shows signs of shooting ahead of target, the Bank may be forced into action to stop the potential of runaway inflation. Markets are forever observing the intentions of the Bank of England, in case of any clues that they might reveal about future interest rate changes.

This month's inflation figure has been driven by rising air fares (a classic around this time of year), but also a sharp rise in energy prices. In fact, gas prices rose by 9% and electricity prices rose by 10%. This is likely to be in response to the energy price-cap which was imposed on the market by the government to protect consumers. An enforced maximum price at which energy providers charge for standard gas and electricity bills seems to have caused firms to bunch their prices close to the threshold (similar to what happened with University tuition fees). This is a perfect example of how the implementation of a microeconomic policy has resulted in unintended macroeconomic consequences.

Explain the economic consequences of an increasing price level for the UK economy

Evaluate the view that interest rates should be increased during periods of high inflation..

## Health Matters



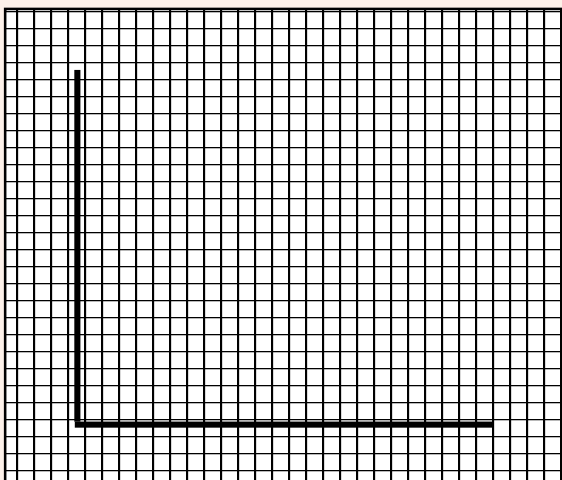
The National Health Service (NHS) was founded in 1948 and the objectives were simple; create a publicly funded health system that would enable free health care at the point of delivery for UK citizens. The development of the NHS has pooled together a collection of separate health services (doctors, GPs, dentists and opticians) into a streamlined service. This has helped facilitate the improvement in public health standards and facilitated the development of new drugs and medical advancements.

However, as the UK population edges closer to 70 million people, the NHS faces significant capacity constraints and funding pressures. This is reflected by disappointing performance statistics relating to A&E waiting times and GP appointments. One of the biggest problems the NHS faces is crippling staff shortages; as demand pressures on the service intensify, staff and recruitment levels need to respond.

Currently NHS England employs 1.5m people (of which 1.1 million are full-time workers). There are various reports which cite the staff shortages which currently persist across the entire NHS body, but most recently experts from the Nuffield Trust suggest that there is a shortage of 30,000 nurses and 3,000 GPs. The nurses shortage is particularly concerning and is expected to rise to 100,000 by the end of the next decade.

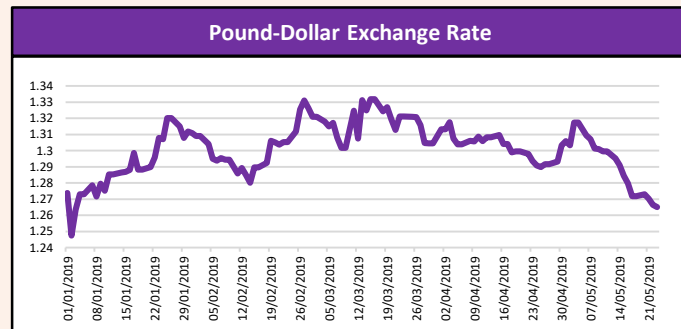
Many experts are concerned about the future access to NHS services due to the added disruption from Brexit. More than 6% of the NHS workforce relates to EU citizens living in the UK. The most recent numbers point to a drop-off in enrolment numbers for nurse vacancies by 12 percentage points.

Using a diagram, assess the impact that a fall in the number of EU citizens taking up job vacancies in the NHS is likely to have on the performance of the UK economy.



Assess the impact that the emigration of skilled workers from developing countries has had on the levels of economic growth and development in those countries.

## Wild Currency Swings



This week the value of the pound against the dollar fell to its lowest level in six months after further political developments in the ongoing Brexit saga. The pound fell below \$1.27 after the parliamentary backlash against the government's "new" Brexit deal.

The pound floats against the value of currencies such as the dollar, so that the prevailing exchange rate reflects market forces for the pound and the dollar. Higher levels of uncertainty, prompt individual investors to lose confidence in the UK economy and the pound. This has wider ramifications as the exchange rate affects the competitiveness of UK goods, as well as the overall inflation rate in the economy.

Some see the fall in the pound as an automatic stabiliser for any oncoming growth problems the economy may suffer from by boosting export growth. Others suggest that a weaker pound inhibits the growth potential and living standards of citizens. Exchange rate movements always provide you with good evaluation points to use in your essays.

To what extent do you agree with the view that a depreciation in the exchange rate can help a country achieve its macroeconomic objectives?

## Light Tariff Relief



This week, the US administration lifted tariffs imposed on Canadian and Mexican steel and aluminium imports.

In 2018, the US imposed tariffs of 25% on steel and tariffs of 10% on aluminium from those selected countries. The move was made initially to protect the US steel industry, which has been declining rapidly, and provide the US with more negotiating leverage to broker an improved trade arrangement between the three countries.

At the time, this was a controversial protectionist move used by the United States against two of their closest trading allies. The economic rationale for these tariffs conforms to the traditional arguments for protecting sunset industries. Oversupply in the global market for steel has dramatically reduced prices for US producers; damaging profits and jobs in the process.

However, the US will not be lifting the same tariffs that were imposed on other close allies such as producers across the EU and in Brazil. The US President confirmed this week, that he is considering levying further tariffs on car imports. His reasons for doing so were slightly more nuanced this time around. He suggested that foreign imports of cars and car parts into the US have systematically damaged investment levels, R&D potential and revenues generated within the industry. A fallback in R&D is likely to harm the sector and the country's innovation potential.

Discuss why research and development (R&D) expenditure is important for improving the competitiveness of firms in an industry.

Using an AD/AS diagram, show how a continued fall in R&D can contribute to a reduction in long-run growth.