SIMON LANGTON GRAMMAR SCHOOL FOR BOYS

SIXTH FORM

This summer project creates the opportunity to develop transferable skills for progression to the A level course and ultimately to higher education, through the exploration of an area within the Economics qualification content. Through this project, students will develop knowledge and understanding of economic concepts and issues. Students apply these concepts and issues to a real world context and then analyse and evaluate these concepts and issues. **Students can choose to research and complete option 1 or option 2.**

Option 1

Title of summer assignment: "Discuss the economic implications of the UK's decision to leave the EU."

Methodology
Use secondary research sources to provide a reasoned defence or a point of view, with consideration of counter arguments.

Resources

1. A level textbook- www.pearsonactivelearn.com username- wiggy; password- audere01! Chapter 65.
2. Economics Help- https://www.economicshelp.org/blog/16766/euro/economics-effects-of-the-uk-leaving-the-european-union/
3. Impact on businesses- https://www.market-inspector.co.uk/blog/2016/10/impact-of-brexit-on-businesses-in-the-uk
4. Impact on global trade- https://www.pwc.nl/nl/brexit/documents/pwc-brexit-monitor-trade.pdf
5. Pros and cons of Brexit- http://www.theweek.co.uk/brexit-0
6. Brexit consequences- http://www.bbc.co.uk/news/uk-politics-32810887

Option 2

Case Study Notes
The Great Depression

In 1929, after a decade of rapid growth and a huge rise in share prices, the US stock exchange crashed. The extent to which the stock market crash caused the Great Depression is debated among economic historians. Widespread share ownership among many middle-income consumers meant consumption plummeted and there was a large-scale loss of confidence, leading to a fall in investment and closure of businesses. Banks had to reduce lending as debts were not being repaid and as individuals withdrew their savings. The falling demand in the US set off a downward spiral in international demand. The common view among economists is that the simultaneous tightening of monetary and fiscal policy in the late1920s and early 1930s, combined with the increase in protectionism, turned a tough financial crisis into a deep depression.

US policy responses

Protectionism

In 1930, US president Herbert Hoover attempted to protect US industries by increasing tariffs. This led to a trade war and world trade contracted setting off a cycle of ever-falling production. This made the depression more severe but is not considered to be one of the main factors.

Fiscal policy and monetary policy

At this time, the US, in accordance with the thinking of the day, believed in balanced budgets. They thought an unbalanced budget would slow business recovery: a fiscal deficit would lead either to rising taxes (in which case consumers would have less to spend), government borrowing (which would lead to the public sector crowding out private investment) or an increase in the money supply (this was not possible since the US dollar was backed by gold, meaning the US had adopted the Gold Standard, which limited the ability of central banks to expand the money supply for fear of devaluing their currencies).

In 1930, Hoover ran a budget surplus. By 1931–32 fiscal policy was weakly expansionary, but negligible given the scale in collapse of gross domestic product (GDP). The stance taken prolonged the depression. There is some debate as to the extent to which monetary policy was tight in the US during the early 1930s. However, raising interest rates in September 1931 to preserve the value of the dollar (linked to the Gold Standard) further restricted credit for businesses and reduced aggregate demand. Money supply also fell because the banking panics caused people to hold more cash in relation to their bank deposits. Some studies suggest that money supply fell by 31 per cent between 1929–33, due to a combination of these factors. The combination of protectionism, a lack of fiscal stimulus and restricted money supply all reduced aggregate demand, making the depression particularly severe in the early 1930s.

The New Deal

In 1933,under the new president Franklin D. Roosevelt, the New Deal programme was launched which represented a fairly significant fiscal stimulus to the economy.
(Roosevelt

raised spending to 10.7per cent of output in 1934.) However, there is some debate as to what extent this was effective in bringing the US into recovery or whether it was the huge spending associated with the Second World War which provided the real boost.

Leaving the Gold Standard

Once Roosevelt came to power, the Gold Standard constraint was removed and the money supply increased. Many economists believe the growth in the money supply was a significant factor in aiding recovery until 1937–38. The extent to which the recovery between 1933–37 can be credited to the New Deal programme or the expansion in the money supply is still debated. However, the combination of the two clearly explains the positive economic growth in this period, when annual real GDP growth averaged at over 9 per cent. However, because of concern that the national debt was too high,by 1937 government spending was cut and taxes were raised. The Federal Reserve also increased the
Reserve requirement, causing money supply to fall. This contributed to a recession in the
US in 1937–38.

UK policy measures

Fiscal policy

Classical doctrine said that the budget should be balanced at all costs. The UK Treasury followed this doctrine until the 1940s. As unemployment was rising during the Great Depression, spending on unemployment was rising while tax revenue was falling. The 1931 budget cut public sector wages and unemployment benefit by 10 per cent and raised income tax from 22½ to 25 per cent. This had highly deflationary consequences.

Monetary policy

In 1931 the UK left the Gold Standard. This meant that the value of the pound immediately fell by 25 per cent and money supply was relaxed, with interest rates reduced from 6 to 2
per cent. This all helped to spark economic recovery.

The Global Financial Crisis of 2008

Fiscal policy

The response to the Global Financial Crisis of 2008 was different. The Classical view that unemployment would be cured by the labour market self-adjusting to a balanced real wage
had been challenged by John Maynard Keynes. Keynesians argue that governments need to spend more in the economy to stimulate recovery, and most countries had stimulus packages in place within five months of the collapse of Lehman Brothers in September 2008.

- In the US, President Barack Obama in 2009 signed the American Recovery and Reinvestment Act, a stimulus plan worth almost 6 per cent of that year's GDP. Although elements of the stimulus will stretch to 2019, more than 90 per cent of the budgetary impact was realised by the end of 2011. The stimulus was mixed between tax cuts for businesses and spending on health, education, social security and infrastructure.

• In the UK, a number of fiscal measures were introduced which amounted to 2.2 per cent of 2009 GDP. These included a reduction in VAT, support for the construction sector,
spending on infrastructure for schools, hospitals and green energy, and training help for the unemployed. However, by 2010 the UK had moved towards measures aimed at reducing the budget deficit, in contrast to the US where this was considered less a priority.

Monetary policy In the UK and the US
The Bank of England's Monetary Policy Committee (MPC) cut the base interest rate in stages from 5.75 per cent in 2007 to eventually 0.5 per cent in March 2009.

In the US, the Federal Reserve cut the interest rate in stages from 5.25 per cent in 2007 to 0–0.25 per cent in 2008. Both countries cut interest rates to stimulate aggregate demand. Once the interest rates set by the MPC and the Federal Reserve had reached record lows, there was no scope for further reductions. To further stimulate the economy, a different monetary tool was needed. Since the Global Financial Crisis, both the Bank of England and the Federal Reserve have used the policy of quantitative easing (QE) to try to revive consumer spending and economic growth.

In the UK, by 2014 the Bank of England had spent £375billion on its QE programme.
In the US, at the end of October 2014 the Federal Reserve announced the end of its QE programme, which had spent $4.5 trillion US dollars.

The objective of QE was to help businesses have access to finance at a time when the supply
of credit in markets had been scarce. The effect of QE was to lower long-term borrowing costs for firms and individuals, which should then have stimulated spending.

Has it worked?
In the UK, the Bank of England has suggested that the first round of QE
of £200 billion between March–November 2009 helped increase the UK's annual economic output by between 1½–2per cent. However, critics argue that lending to businesses and households remained sluggish since institutions just hoarded the extra 'cash'.

In the US, Ben Bernanke said the first two rounds of QE had raised economic activity by almost 3 per cent and increased private sector jobs by 2million (compared with projected
figures without QE). However, it is difficult to judge the effectiveness since no one knows how bad the economy would have been without QE. It is also difficult to know to what extent their polices might have been more effective at stimulating growth. There

are many critics of QE, as well as proponents of it, and different groups have benefitted at the cost of others. For example, those with 'tracker' mortgages have benefitted from very low interest payments while savers –and in particular pensioners with savings – have suffered.

Overall
It is difficult to compare the effectiveness of the different policy responses. Both the UK and
US economies improved. The UK experienced a much harsher recession than the US, with the peak to trough representing 6 per cent of GDP, whereas for the US it was 4.2 per cent. Recovery growth rates were similar up to 2011 but then diverged. The US continued to have modest growth but the UK stalled. The UK's GDP in the third quarter of
2014 was 3.4 per cent above its pre-recession level, whereas the US GDP in the same quarter was 7.7 per cent larger (source: House of Commons library 2014: 'US Economy: Developments since 2008/2009').

Research ideas

1. The debate about the effectiveness of quantitative easing during the Global Financial Crisis is ongoing.

Research the arguments for and against quantitative easing, in the context of the evidence researched in the UK and US.

The BBC News article from 30 October 2014 'Has quantitative easing worked in the US?' by Andrew Walker (www.bbc.co.uk/news/business-29778331) highlights some key arguments for and against.

The Guardian Economics blog entry from 29October 2014 'Quantitative easing: Giving cash to the public would have been more effective' is also a good article to use to research the arguments for and against.

Prepare a handout summarising the key points for and against quantitative easing.

2. 'Lessons of the 1930s:There could be trouble ahead' (The Economist, www.economist.com/node/21541388) looks at the economic policies used in the 1930s' Great Depression years and compare those with the approach used during the Global Financial Crisis and immediately afterwards.
Read this article and identify the similarities and differences in policy approach.
Find other articles on this theme and produce a poster to display for the classroom. Use plenty of Great Depression photos to cheer everyone up!
3. It is worth looking at a few video clips (e.g. history BBC clips, GCSE

Bitesize) on the 1930s Great Depression, since it helps to get a feel for the scale of the crisis at the time and can highlight some of the key points.
https://www.youtube.com/watch?v=FXNziew6C9A