

LCBB5008
Management Economics

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Question 1

Part A: Fundamental Economic Challenges

1. Disruptions in the supply chain

According to the Institute for Government (2021), the reasons for disruptions in the supply chain are COVID pandemic, Brexit and volatility in fuel prices. This led to higher prices, delays in deliveries, and empty shelves in the supermarkets. The data of the Office for National Statistics informs that on average every sixth person in the country has experienced a shortage of essential food items once. Businesses also faced shortages of inventories and goods. Many firms and industries particularly hospitality, food and drink and construction industry faced the issues of labor shortages. The ONS survey suggested that about 37% of businesses are unable to get the staff.

2. Increased demand and volatility in prices

As suggested by the Institute for Government (2021), the prices of essential goods and services are increased due to increased demand and supply disruption. It is more triggered by the panic buying of essential goods and services, especially fuel. The increase in energy prices also triggered the prices of essential goods. Brexit also posed some challenges due to this many laborers moved to their hometowns and started working over there. Due to the increase in the prices of the fuel, the raw material or input cost of all the things are increased. It has majorly affected the manufacturing industry. The global shipping cost has also induced an increase in the price.

3. Labor Shortages

Devine and Buchanan (2023), enquired about the labor shortages in the United Kingdom after the pandemic. They suggested that approximately 13.3% of businesses have reported a shortage of labor in their business. The food and accommodation industry experienced the most labor shortages about 35.5% and that is followed by the construction industry which is 21%. The report suggested that there are 1.19 million jobs available in the country same as the number of unemployed people. Medical services and social work have the maximum number of vacancies. The food and accommodation industry has the most vacancies per 100 workers which is 6.7 jobs per 100 jobs. Brexit is also contributing to the labor supply as many skilled people have left the country and returned to their native places.

4. Dependencies of business on other countries.

As informed by the Institute for Government (2021), many of the businesses in the United Kingdom solely depend on imports. They import intermediate and raw materials from other countries and make finished products in their country. The global supply chain is heavily disturbed by the pandemic and it is more affected by the fuel shortages and surge in fuel prices. Most of the manufacturing firms in the United Kingdom import intermediate goods as the raw material is not readily available in the market of the country. As per some estimates manufacturing industry is most dependent on the imports of goods it contributes nearly 16% of the total imports which is followed by the healthcare sector by nearly 13%.

5. Consumer behavior and market volatility.

Aigner-Walder, B. (2015), the life expectancy rate improved significantly in the past years in Europe and the United Kingdom. Due to this birth rate and death rates are also improved year by year. The consumption pattern also changed over the years. Nowadays, people demand services more than goods. Market fluctuations are also responsible for this they opt for services rather than goods. During the pandemic, most people did panic buying which led to shortages of essential goods and services in the market. It is also responsible for surges in market prices and disruptions in the supply chain. Inflation and the economic condition of the country are also responsible for changes in consumer patterns and behavior of buying.

Part B: Ways to resolve the economic problems

1. Established communication with stakeholders

According to the Institute for Government (2021), the government of the United Kingdom should try to establish proper communication with the stakeholders involved, not only with the stakeholders but also with the people and the businesses that are affected by the supply chain disruptions. The government tries to communicate its policies and measures taken to overcome the problem. Make the policies to overcome the effects of Brexit and the pandemic. The government set up a new internal mechanism to monitor the crises. The National Economic Recovery Taskforce (Logistics) was introduced in September 2021 to coordinate among the government departments that are responsible for food and supply chain partners which are HGV Drivers.

2. Policies and measures taken by the government

The government of the country has introduced a range of policies to overcome the problem of supply chain. Some of them are relaxing regulatory requirements to help businesses mitigate the effect of labor shortages and providing additional visas to the laborers or relaxing the regulations of obtaining a visa. Provides financial assistance and takes some measures to improve the capacity of government regulating authorities. The government also put a cap on the prices of fuel for domestic consumers. They also issue temporary visas to truck drivers to overcome the shortages of essential food items. From this government tries to control the panic buying of consumers.

3. Take steps to reduce the fuel shortages

As stated by the Institute for Government (2021), the government takes several steps to overcome and mitigate the shortages of fuel in the domestic market for local customers. The government for a short period temporarily suspended the law of competition for the fuel entities. They also instructed military personnel to deliver the fuel when needed. The ‘Downstream Oil Protocol’ was introduced for a shorter period which exempts the guidelines of the competition law and enables information sharing mechanism among the fuel firms. The government also deployed about 200 military tanker personnel of which 100 were drivers to deliver the fuel faster in the outskirts of the country.

4. Stockpiling of essential goods

According to Fisher and Onita (2024), the government of the United Kingdom decided to do hoarding of essential goods such as tinned foods, batteries, and bottled water. The government launched the campaign to motivate the people and prepare them for future contingencies, in addition to that the government said to people that keep some extra food items and essential goods at home and be ready for future emergencies. They also found that only 15% of the people had emergency kits at their homes while 40% of people did not have stock of non-perishable food and water for more than three days.

5. Provide relaxation in covid regulations

As per Gov. UK (2021), the government of the United Kingdom has provided the relaxation in the covid regulations to do business smoothly. Gives an extra moratorium period to creditors to pay off their loans. Raising the threshold for winding up the petition to £ 10,000 or more which expires on March 31, 2022. Provide relaxations to the drivers for extra carriage of essential goods and services. Protects the bar owners from the losses due to the

imposed lockdown. Ensure the proper supply of hand sanitizer in the market by bringing new suppliers and traders into the market.

6. Work closely with the suppliers

The government of the United Kingdom works closely with the suppliers of essential goods and who supplies the fuel. The government ensures the effective supply of essential goods to sustain the demand for the goods. Another motive of the government is to stop the panic buying of the consumers.

Question 2

Part A: Relevance of demand and supply

1. Pricing strategy

The government should try to control the prices of the essential goods. The government should ensure the proper supply of the goods and services of essential goods. Referring to the case study the prices of the fuel have increased due to disruptions in the supply chain. The cost of transportation also increased due to an increase in the price of fuel. The government should try to maintain the balance between the supply and demand of essential goods and services and control their prices.

2. Provides a platform to explore the business.

The government should promote online and electronic platforms to explore business opportunities. Referring to the case study the supermarkets opt for online business to stop the panic buying of the goods. Online platforms also help in controlling the hoarding and stockpiling of essential goods due to which the prices of these goods are increased. Traditional businesses can take themselves on various electronic platforms like Amazon. It helps them to operate their business in the lockdown restrictions or any contingency.

3. Adopting an advanced marketing strategy

Businesses in the United Kingdom can use new-age marketing strategies and tactics to promote their products. They can use various tactics like content marketing, and influencer marketing. They can use artificial intelligence to promote their products and stimulate the demand for the product in the market. Referring to the case study the businesses in the United Kingdom heavily depend on the traditional methods of marketing and due to this, their

demand is not increasing that much. There is a mismatch between demand and supply of essential goods and services which is further induced by the disruption in the supply chain.

4. Retain the employees

The business should try to retain the employees by providing them with better salaries and better working conditions. In the given case study, the businesses in the United Kingdom experienced shortages of labor and skilled workers. It has many reasons but the most prominent reasons are the pandemic lockdown and Brexit. Due to this many employees and laborers go to their native places and settle down there. After relaxation and post-pandemic, many of them do not come to their workplaces and it causes shortages of labor.

5. Maintains equilibrium in the market

The government and the businesses in the country try to achieve an equilibrium in the demand and supply of essential goods and services. In the given case study, there is a huge gap between the demand and supply of the goods. The demand is on the higher side and the supply of goods and services is not that much in the market. The major reason for this is major disruptions in the global supply chain which hampers the supply of essential goods. The demand for the goods is high and subsequently, the supply of the goods is low leading to an increase in the price of the essential goods.

6. Study consumer behaviour

The case study suggested that consumers are shifting towards services rather than goods. So, companies and businesses should study and identify the behavior of the consumers. It will help them formulate the right strategy to mitigate the effects of the pandemic and the disruptions in the global supply chain. By ensuring the proper supply and fulfilling the demand of the consumers the businesses in the United Kingdom achieve the equilibrium in the economy. It also helps them to overcome the panic buying of the consumers and reduces their insecurity regarding the availability of the goods shortly.

Part B: Difference between Elasticity and Inelasticity of demand

Elasticity of Demand

According to Russo (2023), price elasticity of demand refers to the process or scenario in which demand is changed when change occurs in one of the variables of the product which is

considered important by the consumer in the purchase decision. Some of the factors are price, availability of substitute products, income level of consumers, and advertising of the product.

It is of four types:

- Price elasticity of demand.
- Advertising elasticity of demand.
- Income elasticity of demand.
- Cross elasticity of demand.

The formula for calculating the elasticity of demand has been stated below:

$$\text{Price elasticity of demand} = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

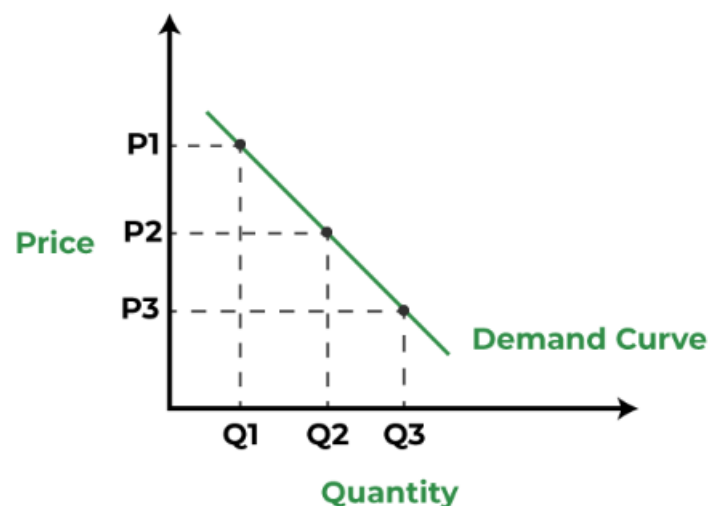


Figure 1 - Elasticity of Demand. Source: (Geeks for Geeks, 2022)

Figure 1 shows the elasticity of demand where the quantity demanded changes as per the changes in the price.

Inelasticity of demand

Vipond (2024), states that inelastic demand is a scenario when demand for a particular product does not change significantly as compared to the change in price of that product such as the quantity of the product is changed by 30% and its price is changed only by 10% then the demand is tended to be inelastic.

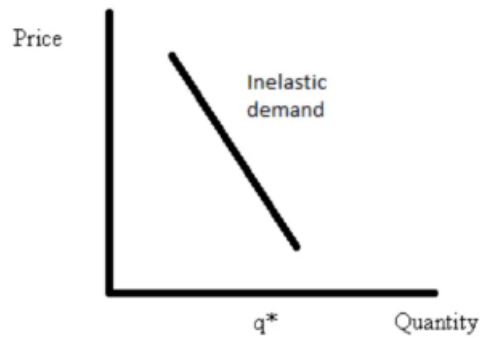


Figure 2 - Inelastic Demand. Source: (Vipond 2024).

The above chart shows the inelastic demand curve in which the quantity demanded does not change much as compared to the level of price.

In the given case study, prices of fuel are increased by the supply chain disruptions and the panic buying of the consumers. This is the main reason for an increase in the price of fuel. However, the demand for fuel has not changed that much as fuel is an important commodity. It is used in the transportation of goods and services, for personal consumption, and in manufacturing industries. So, the demand for the fuel is inelastic. As it states the change in price does not impact the demand for the fuel heavily.

The fuel companies make regular or consistent profits in the business as the demand for the fuel is inelastic and does not change as much due to increases in the price. But, increased price of fuel can increase the cost of transportation which ultimately leads to an increase in the prices of all the goods and services. It decreases the revenue of those firms which are heavily dependent on fuel.

Part C: Laws of Demand and Supply

Demand

According to Hayes (2018), the demand law informs that there is an inverse relationship between demand commodity and its price. When the price of a particular product is increased its demand decreases, subsequently when prices decrease the demand for the commodity increases. In this law, it is assumed that all other factors remain constant.

Increase in Demand	Decrease in Demand
It is a situation when the demand for the product is high and its supply remains unchanged. It depicts that the consumers are accepting that product at the market prices. It is the opportunity for businesses to increase their profits and improve the financial condition of the business.	It is the market condition where supply remains unchanged and the demand for the product decreases or is stagnant so it leads to lower prices in the market. It encourages the buying among the consumers and it is not the ideal condition for the business so they decrease their production and hold the supply for some time.

Supply

Luther (2022), states that there is a proportional relationship between the supply of the commodity and its market price when all other factors remain unchanged. It demonstrates that when prices increase supply of goods increases on the other hand when the price decreases resultant supply also falls.

Increase in Supply	Decrease in Supply
It is the situation when the demand for the product remains constant and the supply of the product increases leading to lower prices in the market. The seller does not motivate and holds the supply and waits for the situation of higher demand for the product.	It is the market condition where the demand for the product is not changed and the supply of that product falls which raises the price of the product. It leads to shortages of goods in the market and consumers are willing to pay any price to get the product. It is a win-win situation for the manufacturers to earn higher profits.

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