ASSIGNMENT 1

Economic Case Study

Course: BA (Hons) Business Management

Module Code: LCBB5008

Module Name: Management Economics

Level 5 Term 3 - Weekend

Lecturer name: Taye Osadiya

Student name: Ibrahim Gazi

Student ID: 2018574

UWTSD - London

December 2023

Economic Case Study

Table of Contents

Introduction 3

Task 1(A) - Fundamental Economic Problems 4

Task 1(B) - Various ways of solving the challenges 5

Task 2 (A) - Relevance of Demand and Supply:..... 7

Task 2(B) - Elasticity and Inelasticity of Demand:..... 9

Task 2(C) - Laws of Supply and Demand:.....10

Conclusion 12

References 13

Economic Case Study

Introduction

The Covid pandemic has had a substantial impact on corporate operations worldwide, especially major developed economies like the UK, which heavily depend on uninterrupted demand and supply chain infrastructure. The epidemic has resulted in a decrease in both demand and supply, impacting the supply chain and leading to price fluctuations due to increased demand for fuel. UK companies persist in importing raw materials and exporting components, hence exerting significant strain on global supply chains. The transition in consumer preference from services to goods has partially contributed to the strain on supply chains. The epidemic has resulted in a scarcity of drivers, causing disruptions in the transportation of goods to petrol stations.

The purpose of this report is to comprehensively evaluate the given case study by examining the underlying economic issues highlighted and proposing potential solutions to address these difficulties. We will also examine the significance of demand and supply to the case study, the distinction between price elasticity and inelasticity of demand in response to changes in fuel costs, and elucidate the laws of supply and demand.

Economic Case Study

Task 1(A) - Fundamental Economic Problems

Critical aspects such as the COVID-19 pandemic, Brexit, and subsequent difficulties are to blame for the economic woes currently being experienced in the United Kingdom. These challenges have resulted in significant economic repercussions, including supply and demand disruptions, labour shortages, and a shift in consumer tastes and preferences (Osadiya, 2023). With coordinated efforts from the government, businesses, and customers to find viable solutions, the following economic problems are still evident in the case study:

Rules and regulations to follow when engaging in commercial activities during the COVID-19 pandemic: As a result of lockdowns, social isolation, and regulations regarding health and safety, normal business operations were severely disrupted (Rauch and Schleicher, 2015). Therefore, the COVID-19 pandemic significantly limited business operations, lowering their productivity and revenue levels.

Demand deficiencies as a direct result of an increase in demand: According to Aigner-Walder (2015), demand increased in some industries even though lockdowns and economic uncertainty caused demand to decrease in other sectors. The production and pricing mechanisms were severely disrupted due to demand disparities.

Supply challenges (a deficiency of drivers): The United Kingdom is one of the many countries worldwide currently experiencing a severe labour shortage. Considering the shortage of drivers as evidenced in the case study, there was a significant disruption in the supply chain, which led to fuel shortages (Institute for Government, 2021a). Therefore, adequate labour availability is critical to enhancing seamless business operations.

The effects of Brexit on demand and supply chain facilities: The United Kingdom's exit from the European Union has led to the evolution of new trade barriers and regulations, which will significantly affect trade globally.

Panic as a result of scarce resources occurred, considering the fear of shortages as well as disruptions in supply chains. This action further worsened the strain on the supply chains. Further, there has been a significant fuel shortage recently due to widespread buying panic and a lack of drivers. Following that, other industries that rely on fuel for transportation and production were adversely affected.

Both individuals and businesses were impacted by the significant rise and fall in the price of fuel that was caused by increased demand as well as disruptions in the supply of the commodity (Heien and Pompelli, 1989). As a direct consequence, the operating expenses of several businesses increased, and rocketed price changes were experienced in fuel costs.

The high levels of debt that have been incurred to pay for rapidly rising costs are unsustainable. Households and businesses are negatively impacted, considering the increased borrowing due to the increased debt to accommodate inflation. As a result, clients are likely to spend and invest fewer resources, owing to the negative economic consequences.

The termination of furloughs and layoffs: The end of government assistance initiatives such as furlough programmes has led to various companies being forced to terminate their employees as they could not meet their financial obligations. The adjustment from unpaid leave to joblessness has had a negative effect not only on workers but also on the entire labour market.

Bankruptcies: The insufficiency of resources to meet escalated borrowings led to an increase in the prices of several goods and services and a general high cost of living. As a result of these high costs and the overwhelming debts, some businesses were forced to declare bankruptcy (Heien and Pompelli, 1989). As a direct consequence, economic activity and employment opportunities decreased.

Customers' purchasing habits shifted due to the pandemic, with more emphasis being placed on acquiring tangible goods as opposed to services. Supply chains were therefore forced to cope with the new challenges as they attempted to adjust to variations in customer demand.

Task 1(B) - Various ways of solving the challenges

Economic problems can be effectively resolved through innovative interventions that align with various sectors and businesses. Griffith (2003) argues that, to ensure a more resilient and stable supply chain system, the private sector and government authorities should collaborate in problem solving. Below are the various options for addressing the case study's economic concerns.

Governmental initiatives: As argued by Rauch and Schleicher (2015), government interventions are crucial to ensuring the continuity of supply chains and the economy at large. The government could take any of the following actions to intervene:

- Implementing regulations aimed at reducing labour shortages, enhancing product standards, and improving transportation logistics (Institute for Government, 2021b)
- Immigrate differently to attract and retain workers crucial to the economy, like truck drivers.
- Owing to the pandemic and supply chain disruptions, monetary aid should be provided to struggling businesses (Institute for Government, 2021b).

- Improve government supply chain management capabilities. Rauch and Schleicher (2015) argue that the government agencies in charge of supply chain management need to increase their capabilities to accommodate the various organisational challenges.
- Seamless communication and coordination of efforts between different tiers of government, businesses, and the general public (Institute for Government, 2021b).
- Fiscal policy, where supply-chain-stressed businesses could benefit from tax breaks or relief (Institute for Government, 2021b).

Modifying the stringency of COVID-19 rules and regulations: Businesses can resume normal operations faster if some restrictions related to the pandemic, like social isolation and capacity limits, are eliminated.

Formulating a plan for handling supply deficits is critical and can be done through companies creating specialised teams to manage and mitigate shortages (Osadiya, 2023). Such groups can monitor the supply chain for disruptions and design plans to overcome them. Fortifying supplier relationships can also enhance supply chain resilience (Griffith, 2003). Working together allows efficient information sharing, the identification of additional resources, and the development of shared contingency plans.

Finding new ways to reduce waste enables seamless supply chain processes. Griffith (2003) suggests that identifying and implementing various waste reduction methods is one way to lessen the impact of supply chain disruptions. Possible solutions include streamlining inventory and production methods and relying on fewer vendors.

Examining your own supply chain and finding areas for development is a strategy that allows organisational productivity. Griffith (2003) suggests that businesses should conduct a thorough analysis to identify any potential weak points before making any changes to their supply chain. Business productivity is, therefore, enhanced by supply chain management.

cooperation with suppliers for cost reduction. To keep prices low for consumers, businesses should collaborate with suppliers. Possible next steps include renegotiating existing contracts or jointly investigating opportunities to reduce costs.

Ensuring regular updates: Consistent communication with the relevant parties and stakeholders is essential for meaningful business operations. Griffith (2003) argues that being forthright about the difficulties and potential delays in the supply chain can help manage expectations and reduce panic buying. Therefore, maintaining contact with clients, suppliers, and workers enables effective expectation management.

Implementing technology: Improved visibility and real-time tracking of goods in the supply chain can aid informed decision-making and reduce risk when implementing cutting-edge

supply chain technologies (Osadiya, 2023). Therefore, one way to mitigate the effects of economic disruptions is by reducing a company's reliance on a single mode of transportation or region for suppliers.

Funding training and education initiatives for employees: Companies should consider financial incentives and fund training and knowledge enhancement initiatives to address labour shortages.

Considering alternative outcomes: It is important for businesses to plan for contingencies in case a disease outbreak, a natural disaster, or an international crisis disrupts the supply chain. Studies by Osadiya (2023) indicate that being well-prepared for several outcomes can help lessen the significant effects of calamities. Therefore, mitigation measures are critical to effectively managing economic disruptions.

Sustainability and resilience-boosting initiatives: ecologically responsible practices that help people recover more quickly from setbacks should be adopted for short- and long-term cost savings.

Task 2 (A) - Relevance of Demand and Supply:

Demand and supply are highly relevant in the case study due to their key role in understanding and managing the economic challenges resulting from the COVID-19 pandemic and related factors. Below is an explanation of how demand and supply are crucial in this context:

Pricing Strategy to Reduce and Manage the Pressure of Demand and Supply

Understanding demand and supply dynamics helps businesses set appropriate prices for their products and services (Aigner-Walder, 2015). During supply chain disruptions, pricing can be used strategically to balance demand, prevent excessive demand, such as panic buying, and manage available supply effectively.

Competition and Driving Prices to Be Low and Reduce Price

A competitive market depends on the interaction of demand and supply to ascertain prices (Baker, 2003). In the context of shortages, understanding the balance between demand and supply prevents price gouging and allows fair pricing (Aigner-Walder, 2015). Therefore, in the long run, stiff competition lowers the process.

Helps the Expansion of Business Productivity

Effective demand and supply management is crucial for businesses' growth, development, and sustainability (Aigner-Walder, 2015). Online platforms like Amazon use data

and analytics to maximise supply chain operations, ensuring that products are available when and where they are needed.

Marketing Strategy and Promotion of Business Concepts

Understanding demand enables businesses to customise their marketing strategies to meet consumer tastes and preferences (Bagwell, 2005). Product development is therefore enhanced, and the effective promotion of business concepts is enabled.

Balancing Inventory Management Strategy

Efficient inventory management depends on accurate demand and supply forecasting (Griffith, 2003). The just-in-time system, for instance, depends on aligning inventory levels with current demand to reduce waste and holding charges.

Finance Attraction through Investments (Initial Public Offering, IPO)

Businesses seeking investments through approaches such as IPOs need to demonstrate a clear understanding of their market demand and supply (Shapiro, 1987). Accurate data on demand for their products or services attracts potential investors looking for growth and development opportunities (Foot and Gomez, 2006). It is, therefore, important for businesses to produce reliable data for seamless business operations.

Greater Worker Retention and Satisfaction through High Salaries Payment

Labour markets are significantly influenced by supply and demand for workers (Heien and Pompelli, 1989). Competitive salaries based on market demand for specific skills and competencies help recruit and retain outstanding workers (Ellickson, 2013). Businesses should embrace worker satisfaction to enhance productivity.

Management of Risks to Maintain Equilibrium of Demand and Supply

In cases of economic volatility, understanding how supply and demand interact enables businesses to effectively manage risks (Aigner-Walder, 2015). This includes preparing for disruptions and implementing risk mitigation approaches.

Management of Shortage and Supply to Help Shift Market Demand (Matching Demand and Supply)

A clear understanding of demand and supply is crucial for aligning market demand with available supply options (Heien and Pompelli, 1989). When shortages occur, businesses can take proactive initiatives to adapt to the evolving market conditions, such as sourcing from alternative suppliers or modifying product offerings (Ellickson, 2013). Therefore, understanding the management of supply shortages enables informed supply decisions.

Task 2(B) - Elasticity and Inelasticity of Demand:

Elasticity of Demand

Elasticity of demand measures the extent of change in the quantity demanded of a good or service in response to a change in market variables, including income and price (Andreyeva, Long, and Brownell, 2010). An in-depth analysis of this principle enables organisations to identify the critical market variables for effective management of demand.

Advantages

Elasticity enables businesses to ascertain the most appropriate price for their goods and services (Andreyeva, Long, and Brownell, 2010). If demand is elastic, a slight price change can significantly change the quantity demanded (Cigliano, 1980). Also, elastic goods, which are responsive to price changes, are, in most cases, taxed less heavily.

Disadvantages

Since the demand elasticity of products can change over time and in response to market conditions, businesses must consistently monitor the pricing approaches of rivals to stay competitive (Cigliano, 1980). Conversely, elasticity is a snapshot of demand at a given time (Andreyeva, Long, and Brownell, 2010). As client tastes, preferences, and market conditions evolve, the elasticity of demand for a product changes, making it appropriate for businesses to adapt their strategies (Ellickson, 2013). Therefore, consistent monitoring of rivals in the long run negatively affects business operations.

Inelasticity of Demand

Inelasticity refers to the static quantity of a good or service when its price is altered. Inelastic demand means that when the price rises, consumers' buying preferences remain constant, and when the price falls, clients' buying habits also remain unaltered (Osadiya, 2023). Inelasticity can, therefore, involve a constant amount of a good or service in case the price changes.

Advantages

Inelastic goods could be priced higher without significantly reducing demand. Businesses can optimise this by increasing prices to increase profits.

Disadvantages

While businesses may increase prices without affecting demand, they have limited flexibility to lower prices to attract more clients. This can be a significant disadvantage in highly competitive markets (Shapiro, 1987). Therefore, limited flexibility in pricing limits effective business operations.

The Contrast Between Elasticity and Inelasticity of Demand

Price flexibility: elastic goods have high levels of price flexibility, with significant adjustments in price resulting in significant adjustments in demand (Andreyeva, Long, and Brownell, 2010). Conversely, inelastic goods exhibit limited price flexibility, as price alterations do not impact demand (Heien and Pompelli, 1989). Further, elasticity cushions against significant market fluctuations, allowing businesses to adjust their pricing strategies to maximise revenue (Cigliano, 1980). On the other hand, inelastic goods offer protection considering that prices can be increased without a significant decrease in demand, and they may not attract more consumers by lowering prices.

Examples

Elastic goods are luxury items, including designer clothing and specific foods and beverages such as gourmet coffee (Andreyeva, Long, and Brownell, 2010). On the other hand, inelastic goods include tobacco products, prescription drugs, and utilities like electricity.

Task 2(C) - Laws of Supply and Demand:

The laws of supply and demand are fundamental economic principles crucial to understanding how markets operate (Fleximise, n.d.). As evidenced in the case study, these laws enable an in-depth explanation of the changes in supply and demand for commodities such as fuel and how they interrelate with other aspects, including labour shortages. Below is an in-depth explanation of these laws.

Increased Demand When Supply Remains Unchanged Leads to Higher Prices and Higher Quantities

This law states that prices tend to rise when there is consistency in consumer demand for a product or service and the supply remains constant (Osadiya, 2023). It is the fundamental principle of how markets respond to increased consumer preferences (Shapiro, 1987). In the context of the case study, when there is high demand for fuel due to aspects such as panic buying or a shift in consumer tastes and preferences from services to goods, fuel prices can increase due to limited supply.

Decreased Demand When Supply Remains Unchanged Leads to Lower Prices and Lower Quantities

This law suggests that prices fall when consumer demand decreases, and supply remains constant. To encourage buying, businesses lower prices when they perceive reduced consumer interest (Fleximise, n.d.). In the case study, if fuel demand drops due to factors such

as economic recession or a decrease in driving activities, fuel prices may decrease to stimulate demand.

Increased Supply When Demand Remains Unchanged Leads to Lower Prices and Higher Quantities

When the supply of a product or service rises while consumer demand remains constant, prices typically decrease (Cigliano, 1980). In the context of the case study, if fuel supply increases significantly due to efforts to mitigate shortages, including bringing in more drivers, this could lead to lower fuel costs.

Decreased Supply When Demand Remains Unchanged Leads to Higher Prices and Lower Quantities

This law explains that prices tend to rise when there is a significant scarcity of goods or services compared to demand. Customers are willing to pay more to acquire what is available (Fleximise, n.d.). In the case study, if there is a remarkable shortage of drivers due to factors like Brexit and the pandemic, leading to disruptions in fuel deliveries, fuel costs can increase due to limited supply, even if demand remains unchanged.

Conclusion

In summary, businesses should understand fundamental economic principles to enhance productivity. The laws of demand and supply are essential in creating a better understanding of pricing and the availability of goods and services. Demand and supply are critical economic principles that play an essential role in managing the challenges posed by the COVID-19 pandemic.

References

Aigner-Walder, B., 2015. Effects of the demographic changes on private consumption: an almost ideal demand system analysis for Austria. *Journal of Economic and Social Studies,* **5**(1), pp. 33-57. Link

Andreyeva, T., Long, M. and Brownell, K., 2010. The impact of food prices on consumption: a systematic review of research on the price elasticity of demand for food. *American Journal of Public Health,* **100**(2), pp. 216-222. Link

Bagwell, K., 2005. The economic analysis of advertising. *Columbia University Discussion Papers*, **506**(1), pp. 50-601.

Baker, J., 2003. Competitive price discrimination: the exercise of market power without anticompetitive effects (comment on Klein and Wiley). *Articles in Law Reviews & Other Academic Journal*, **70**, pp. 278.

Cigliano, J., 1980. Price and income elasticities for airline travel. *The North Atlantic Market, Business Economics,* **15**(4), pp. 17-21.

Ellickson, P.B., 2013. Market structure and performance. *International Encyclopedia of the Social and Behavioral Sciences*, **14**, pp.9211-9216.

Fleximise., n.d. *An SME's guide to supply and demand*. [Online] Available at: Link [Accessed 29/10/2023].

Foot, D.K. and Gomez, R., 2014. Population ageing and sectoral growth: the case of the UK, 2006-2026. *Oxford Journal: An International Journal of Business & Economics*, **2**(1).

Griffith, G., 2003. The impact of supermarkets on farm suppliers. *The Australian Economic Review,* **37**(3), pp. 329-336. Link

Heien, D. and Pompelli, G., 1989. The demand for alcoholic beverages: economic and demographic effects. *Southern Economic Journal*, **55**(3), pp.759-770.

Institute for Government., 2021a. *Supply chain problems*. [Online] Available at: Link [Accessed 29/10/2023].

Institute for Government., 2021b. *Institute for Government analysis of ONS, business impact of COVID-19 survey (BICS)*. [Online] Available at: Link [Accessed 29/10/2023].

Osadiya T., 2023. *Introduction to economics*. Independently published.

Rauch, D. and Schleicher, D., 2015. Like Uber, but for local governmental policy: the future of local regulation of the 'sharing economy'. *George Mason Law & Economics Research Paper*, **15**(1). Link

Shapiro, M.D., 1987. Measuring market power in US industry. *NBER Working Paper*, **2212***.*