

Case Study Analysis of Economic Concepts and Impact of Covid-19

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Q1a: Fundamental Economic Problems in the Case Study

Several causes have had a significant impact on the economy, the most notable being the COVID-19 pandemic and the consequences of Brexit (Institute for Government, 2023). In this context, the case study draws attention to fundamental economic issues, including those related to shortages of supplies, increased demand, and interruptions in supply chain operations as a result of the interaction between pandemic restrictions and Brexit consequences.

COVID-19 Rules of Doing Business

Businesses across all industries saw a significant impact on their operating strategies with the implementation of the strict COVID-19 regulations (Institute for Government, 2023). For example, labor availability was impacted by social distance norms and movement limits in addition to the transportation and industrial industries. The transportation sector in the United Kingdom was confronted with a severe driver shortage, which was made worse by pandemic restrictions, leading to supply chain disruptions. For example, the pandemic and Brexit-related departure of EU drivers resulted in a skilled labor shortage in the transportation industry (Institute for Government, 2023). Prices fluctuated, and shortages of items, especially fuel, were directly caused by this scarcity.

Shortages of Supply (Shortage of Drivers)

The scarcity of drivers is a pivotal component in the supply chain, impacting the delivery of merchandise from production facilities to final consumers (Institute for Government, 2023). The scarcity directly results in a restricted supply of vital commodities, which has a significant influence on the economy (Tellis, 2018). For instance, the reduced number of drivers, partially due to the effects of Brexit, has resulted in logistical difficulties and postponed deliveries (Institute for Government, 2023). Consequently, this leads to a depletion of fuel resources and an increase in the overall costs associated with transportation, ultimately impacting the cost of living for consumers.

Shortages of Demand Due to an Increase in Demand

Notably, despite ongoing supply difficulties caused by driver shortages and other problems, there was a rise in demand for specific products due to changes in consumer behavior

throughout the pandemic (Institute for Government, 2023). Due to restrictions on travel and recreational activities, consumer tastes have switched from services to commodities. The shift in consumer behavior resulted in an unforeseen increase in demand for particular products, intensifying supply chain disruptions (Taylor, 2021). According to Institute for Government (2023), the abrupt surge in demand, coupled with restricted supply, resulted in widespread panic purchasing, especially in the case of fuel, as customers hastily sought to restock their tanks in response to warnings of scarcity.

Panic Buying of Scarce Resources

Purchase panics made supply chain problems much worse (Institute for Government, 2023). Customers hurried to stock up as news of fuel shortages emerged, which resulted in panic buying and further depleted the already limited supplies. The scarcity was worsened by this fear-based conduct, which led to more price volatility and unequal distribution. Initially, the Covid-19 pandemic caused a significant number of European Union drivers to depart the United Kingdom, leading to a severe driver shortage and significant disruptions in deliveries to a small number of gas stations (Institute for Government, 2023). This was because it was difficult to replace the drivers who departed the UK, most likely as a result of BREXIT and COVID. Due to the daily reports of the driver scarcity, many customers hurried to fill up their tanks, which resulted in a sharp rise in demand during a period when supply was already limited.

Effects of Brexit on Demand and Supply Chain Facilities

The Brexit decision has had several economic consequences, most notably in supply chain logistics (Taylor, 2021). The transportation sector was severely impacted by changes in immigration laws and the consequent exodus of EU drivers, which exacerbated the labor deficit (Institute for Government, 2023). Furthermore, the already complex supply chain became even more complex due to new trade laws and disruptions in the movement of goods brought about by Brexit. These consequences changed the dynamics of supply and demand, resulting in imbalances that affected several different industries.

Q1b: Ways in Which the Economic Problems Can be Resolved

Strategic and all-encompassing planning is required to address the economic issues caused by the COVID-19 pandemic and related difficulties (Institute for Government, 2023). Government action, legislative changes, and supply chain collaboration are just some options available to help alleviate these problems. The highlighted economic concerns may be alleviated by a variety of solutions, some of which include:

Government Intervention

Regulatory Adjustments

Some of the issues can be resolved by government intervention through regulatory changes. One way to lessen the scarcity would be to modify transportation laws to make it easier for new drivers to obtain licenses quickly (Institute for Government, 2023). Optimising procedures and such changes could alleviate the driver shortage and enhance the fuel supply chain. Incentives and regulatory adjustments by the government can also draw in additional drivers, solving the scarcity and bringing stability to the fuel supply chain (Taylor, 2021). This ends problems with gasoline shortages, price increases, and panic buying.

Immigration Policies

Reviewing immigration laws to make it easier for skilled drivers to enter the country could help to mitigate the scarcity and maintain the efficient operation of supply chains (Taylor, 2021). For instance, granting short-term work permits or reducing the requirements for work permits could draw more drivers to the UK (Institute for Government, 2023). Furthermore, evaluating and strengthening particular supply chains makes them more resilient to upcoming setbacks and less susceptible to unexpected economic shocks. Besides, the government can improve the capabilities of government organizations managing labour markets, supply chains, and consumer protection.

Financial Support

Granting financial assistance or incentives to impacted sectors, such as the transportation industry, might mitigate economic strain (Institute for Government, 2023). Providing subsidies for the training of new drivers or grants for the acquisition of necessary equipment could effectively tackle gaps in the supply chain and improve overall stability. Furthermore, the

government may contemplate implementing transient tax relief measures for enterprises facing challenges arising from supply chain interruptions or labour shortages. (Kiran, 2022) Possible measures include the reduction of payroll taxes, the provision of tax credits for critical products and services, or the implementation of tax deferrals for enterprises experiencing cash flow difficulties.

Relaxing Stringent Covid-19 Rules

A progressive easing or modification of the COVID-19 regulations could allow for more effective corporate operations while preserving the essential safety precautions (Institute for Government, 2023). For instance, gradually removing some regulations may enable higher production across a range of businesses, supporting the rising demand for commodities. Furthermore, losing regulations in service-oriented sectors like entertainment and dining establishments can boost these businesses (Kiran, 2022). It can satisfy the previously shifting demand from consumers for goods, easing the strain on supply networks. Furthermore, loosening COVID-19 regulations in the service sector may rekindle this industry, balancing customer preferences and relieving pressure on supply chains focused on commodities.

Developing Shortage Management Strategies

Enabling specialist teams to oversee shortages in vital domains, such as fuel supply, can promote a more regulated and just allocation of resources (Turvey, 2022). For instance, controlling panic buying with well-defined protocols for distribution can stop confusion brought on by scarcity. In addition, the implementation of shortage management teams and the reinforcement of supplier partnerships help mitigate panic buying and guarantee fair allocation (Institute for Government, 2023). Unexpected increases in demand can be lessened with clear communication techniques.

Collaborative Efforts within Supply Chains

Improving cooperation between chain suppliers can result in a network that is more robust and linked (Turvey, 2022). For instance, tighter coordination between retailers, transportation providers, and fuel suppliers can optimize processes and reduce disruptions brought on by a lack of drivers. Moreover, businesses could assess the strengths and inefficiencies of their internal supply chains. Businesses can increase their resilience to external

shocks and lessen their reliance on outside variables like driver shortages or global crises by streamlining their operations (Kiran, 2022). Furthermore, the government can work with suppliers to create cooperative risk management methods to detect, evaluate, and reduce possible risks along the supply chain.

Q2a: Demand and Supply Relevant in the Case Study

Within the framework of the case study, the dynamics of supply and demand play a crucial role in shaping the difficulties and disruptions that enterprises encounter, especially during the COVID-19 outbreak (Institute for Government, 2023). Demand and supply have a wide range of implications, some of which are included below. These include price strategies, risk management, corporate productivity, competitiveness, and financing attraction.

Pricing Strategy to Reduce and Manage Demand and Supply Pressure

Pricing tactics that work are essential for controlling the pressure brought on by supply and demand fluctuations (Baker, 2003). For example, an increased demand brought on by panic buying during the fuel shortages detailed in the case study resulted in higher prices (Aigner-Walde, 2015). In order to ensure more fair access to resources and deter panic buying, price controls or gradual price adjustments can help stabilize demand and prevent severe volatility (Bella, 2017). The case study's fuel shortage situation was characterized by increase in demand brought on by panic buying, dramatically increasing prices.

Competition Driving Prices to be Low and Reduce Price

In market dynamics, competition frequently acts as a balancing force (Bella, 2017). More competition can drive down prices when prices rise due to rising demand or limited supply. In order to regulate inflated costs brought on by increases in demand, for example, competing fuel providers may try to entice consumers by offering lower pricing. Fuel suppliers may aggressively cut their rates to draw consumers in the face of rising demand and bloated pricing. Customers gain from this competition's ability to reduce price swings and promote a more stable market environment.

Expansion of Business Productivity

The balance between supply and demand influences productivity growth and business expansion (Bella, 2017). It becomes difficult for firms to meet market demands when demand outpaces supply. Nonetheless, companies can raise production to take advantage of rising demand and boost productivity and profitability if the supply chain is effectively handled and demand is satisfied (Baker, 2003). For example, to effectively meet customer expectations in the face of growing demand, businesses may innovate, improve production, or streamline operations.

Finance Attraction through Investments

The equilibrium between demand and supply is essential for attracting investments (Turvey, 2022). When there is an equilibrium between supply and demand, characterised by stability and predictability, it fosters investor confidence (Bella, 2017). For example, a reliable and uninterrupted provision of commodities, such as fuel, guarantees investors a continuous profit, thereby attracting possible financial investments that enhance and strengthen the capabilities of the supply chain. In addition, investors are drawn to a reliable and consistent availability of crucial resources such as fuel (Turvey, 2022). Companies that demonstrate effective supply chain management and match market demands are more likely to attract investments, increasing their skills even more.

Management of Risks to Maintain Equilibrium of Demand and Supply

According to Baker (2003), ensuring market equilibrium requires effective management of risks arising from imbalances in demand and supply. As a response to shortages, organizations may implement risk management methods such as supplier diversification or the establishment of strategic reserves (Taylor, 2021). Effective risk management minimizes the consequences of unexpected interruptions, maintaining a balance between supply and demand (Bella, 2017). Moreover, organizations that use risk management techniques, such as retaining alternative suppliers or strategic reserves, are more efficient at managing interruptions, thereby assuring a more constant balance between demand and supply.

The significance of demand and supply dynamics in this case study demonstrates how their balance significantly affects price, competition, business growth, financial appeal, and risk mitigation (Bella, 2017). It is crucial to adopt a well-rounded strategy in handling these factors to guarantee stability and durability in the market, even in difficult situations.

Q2b: Elasticity and Inelasticity of Demand with Reference to Price Changes in the Cost of Fuel

Elasticity of Demand

Elasticity of Demand is a metric used to quantify how responsive a product's amount required is to shifts in one or more market variables, such as price, income, or the cost of comparable commodities (OECD, 2015). According to Gillespie (2019), elasticity of demand measures the extent to which a change in one of these variables will affect the quantity needed. A slight change in price causes a proportionately more significant change in the quantity required when demand is elastic (Bella, 2017). This suggests that consumers react quickly to changes in pricing as shown in the below diagram illustrating.

Cost of Fuel

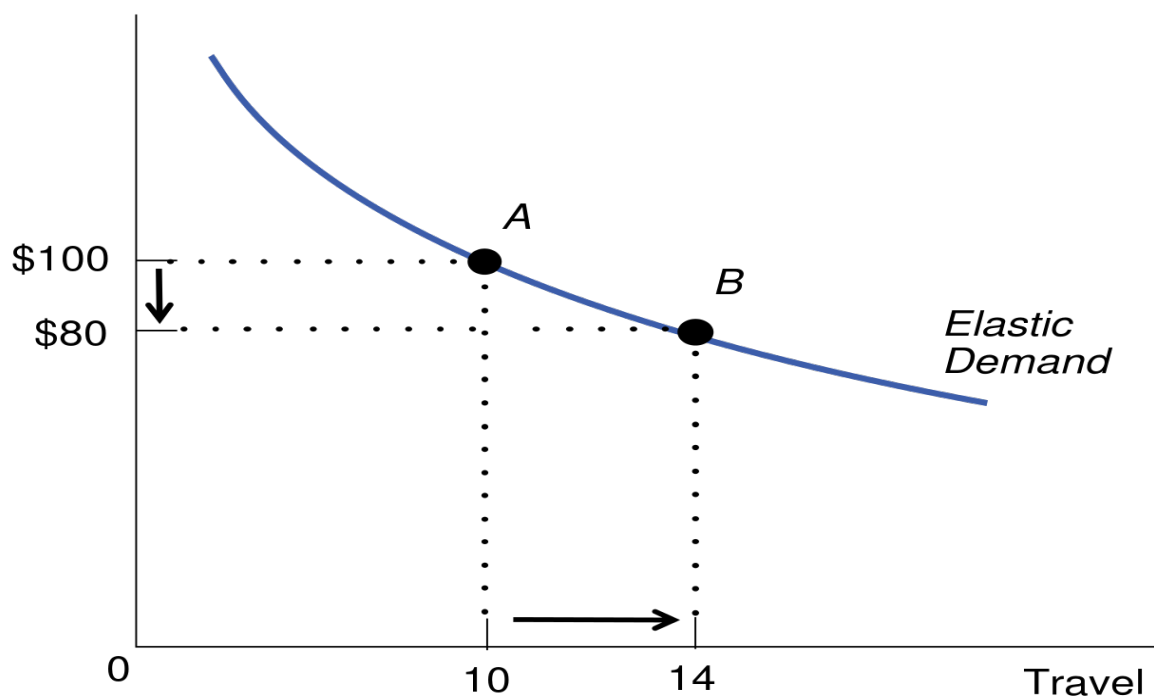


Figure 1: Elastic Demand. Source (THACKERAY, 2019).

Inelasticity of Demand

Inelastic demand refers to a situation where consumers' purchasing behaviour remains relatively constant when there is an increase or decrease in price (THACKERAY, 2019). In addition, inelastic commodities are classified as essential or items with limited alternatives. Prescription medications and tobacco products frequently exhibit inelastic demand (Gillespie, 2019). Consumers may persist in purchasing these items despite price hikes, owing to their indispensable or habit-forming qualities. The below diagram illustrate behaviour of inelastic demand.

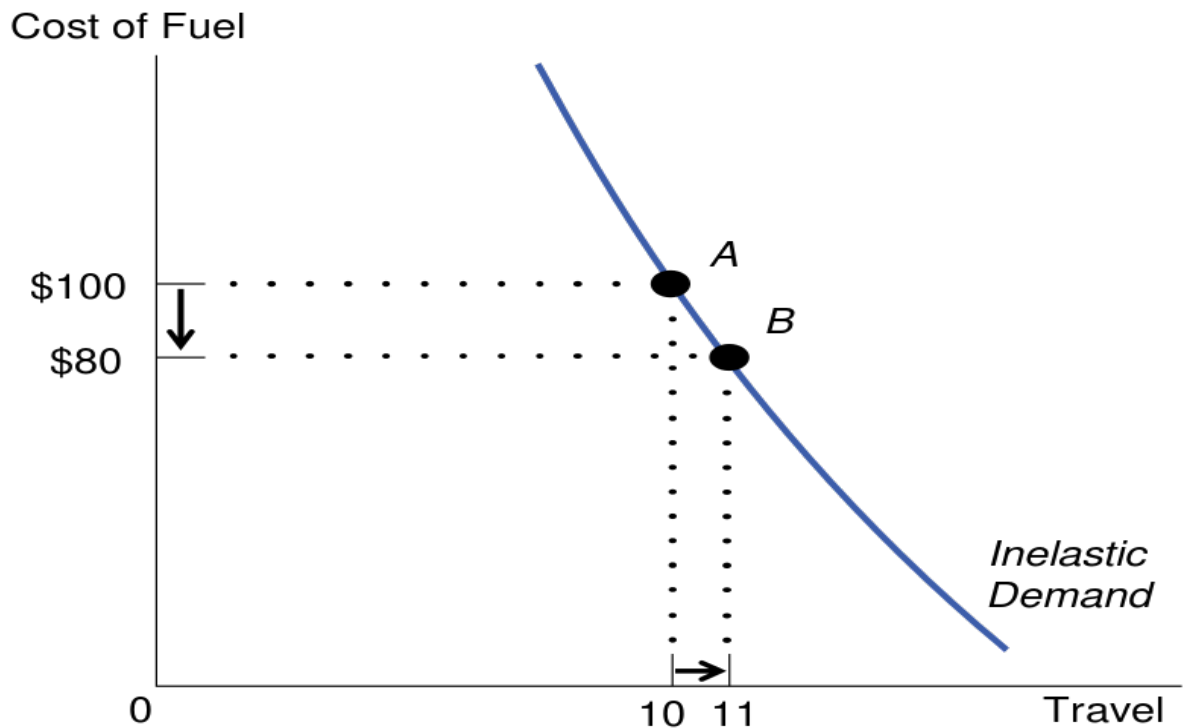


Figure 2: Inelastic Demand. Source (THACKERAY, 2019).

Contrast between Elasticity and Inelasticity of Demand

Price Flexibility

Products that have elastic demand demonstrate substantial price responsiveness. Taylor (2021) justifies that minimal fluctuations in price result in significant alterations in the quantity requested. Conversely, inelastic demand indicates a restricted ability to adjust prices (Gillespie, 2019). Significant fluctuations in price have little impact on the quantity of goods or services consumers are willing to purchase.

Protection during Market Fluctuations:

Consumers are provided with protection from market changes through the use of elastic goods. Higher costs lead to decreased consumption and increased savings (Ellickson, 2013). In contrast, inelastic commodities offer comparatively limited safeguarding against market changes. Consumers frequently persist in buying these goods even in the face of price increases.

Entry Barriers

Goods with elastic demand are frequently more vulnerable to competition as consumers are very responsive to price fluctuations (Gillespie, 2019). Reducing financial, legal, or political obstacles could entice fresh contenders. On the other hand, inelastic items can serve as barriers to entry since consumers are less sensitive to changes in price (Cigliano, 1980). New entrants may need to overcome significant financial, legal, or political obstacles in order to achieve success.

Advantages and Disadvantages

Elasticity of Demand

- **Advantage - Setting an Optimum Price:** Finding the best pricing to maximize revenue is one of elasticity's advantages (Cigliano, 1980). Companies can modify prices to achieve a balance between customer demand and profitability.
- **Disadvantage - Monitoring Competitors:** Elasticity has the drawback of requiring constant observation of rivals' marketing tactics (Gillespie, 2019). This may be expensive and time-consuming.

Inelasticity of Demand

- **Advantage - Revenue Boost by Increasing Price:** Higher pricing can increase revenue without causing a major decline in demand, which is an advantage of inelastic demand. Profits for businesses can increase (Tellis, 2018).

- **Disadvantage - Considerable Profit Boost:** One drawback of inelasticity is that a large price increase for a product that is price-inelastic might result in a big profit boost, which could cause consumers to become dissatisfied or face financial difficulty (Cigliano, 1980).

Q2c: Laws of Supply and Demand

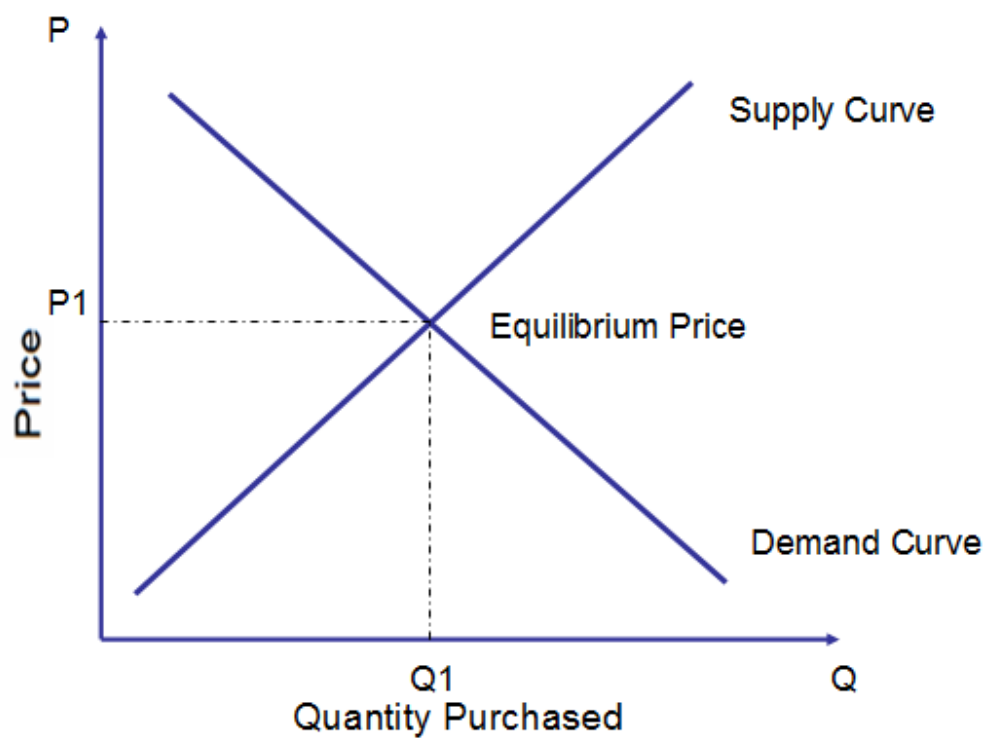


Figure 3: Supply and Demand Curve showing equilibrium price. Source (Kiran, 2022).

Increased Demand and Unchanged Supply

When there is an increase in demand for a product or service but no corresponding increase in supply, the price of that product or service is likely to go up (Gillespie, 2019). This is due to the fact that greater demand causes prices to rise, as consumers are forced to pay more to meet their needs. For example, ice cream sales tend to rise in the summer as people want to cool down from the heat. Because of the increased demand, the price of ice cream is likely to rise unless the supply expands to meet it.

Decreased Demand and Unchanged Supply

According to Kiran (2022), the price of an item or service tends to decline when there is less demand for it, and the supply is constant. This is due to the fact that lesser demand lessens the pressure on prices to rise, and sellers might have to cut prices in order to draw customers and get rid of extra stock (Tellis, 2018). For example, demand for ice cream usually declines in the winter since people are less likely to eat icy desserts during the colder months. As ice cream suppliers try to increase demand and clear out their inventory, the price of ice cream will probably go down if the supply stays the same.

Increased Supply and Unchanged Demand

The price of a commodity usually decreases when there is an increase in supply but no change in demand (Luther, 2022). This is due to the competitive pressure to cut prices among sellers brought about by the rise in supply. When a new factory opens and begins producing a product, for instance, the market supply of that product rises (Tellis, 2018). If demand stays the same, the new factory will drive down the price of that product because of increased competition.

Decreased Supply and Unchanged Demand

A good or service's price will often increase when its supply declines and its demand stays constant (Kiran, 2022). This is due to the fact that a reduced supply makes an item or service less accessible, increasing its scarcity and value to consumers. A natural disaster

destroying or damaging a large production facility producing a certain good, for example, will result in a decline in the availability of that good. In the event that demand is constant, purchasers will likely battle for the restricted supply, driving up the price of that commodity (Luther, 2022).

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