

VOLUME 1 • ISSUE NO. 1

LOGICAL ECONOMICS

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FOREWORD: ECONOMICS IN REVIEW



Welcome to our first issue of Logical Economics; this termly publication has been designed by students for students to help better understand stories that happen around the world, with just a hint of Economic theory sprinkled in.

The UK might be heading towards a recession (at the time of writing this article); interest rates remain relatively high; the cost of living crisis is still around (1); multinational firms are still exploiting developing economies and the environmental and ecological disaster that is looming feels like a weight on many shoulders (2). Sounds like doom and gloom.

However, it might not all be bad news. Machine learning and developments in AI is enabling faster research and reduce clinical trial (3); research into limitless energy is making greater strides and global absolute poverty rates are still falling (4).

Take a critically balanced view of the world.

Mr. Shah

- (1) <https://www.imf.org/en/Publications/WEO>
- (2) <https://www.pwc.co.uk/services/sustainability-climate-change/climate-change.html>
- (3) <https://www2.deloitte.com/uk/en/insights/focus/tech-trends/2017/moving-beyond-artificial-intelligence.html>
- (4) <https://devinit.org/resources/poverty-trends-global-regional-and-national/>

Back to Basics

There is no country's government that operates the same that's why it's important to be capable to differentiate each type

Command economy

Imagine you are the playwright meticulously dictating what the actors every move dialogue, costumes. Essentially this is what the government of a command economy does; you cannot own your own land and in general, relatively, you have low freedoms. Although there is a benefit to this as there might be less income inequality, meaning everyone has similar amounts of income and wealth. Not as many billionaires!

Free Market

Free market is the opposite of command economy where the government does not intervene but there is a special force called market forces. It is the economic factors that influence the price and quantity of goods and services in a market. Governments take this approach because it creates competition, innovation, and product variety due to the increase in freedom and profit incentive. There is one crucial con; public goods are underprovided. This means you would have to pay for using healthcare like in America or even paying to go to school! You might not even be told to go to school if you didn't want to.

Mixed economy

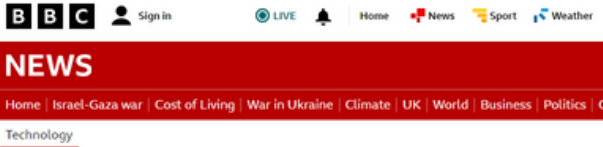
There is not such thing as a pure command or free market economy; there is always a little of the other in each. A mixed economy is right in the centre of both. They are beneficial as you have provision of public goods such as the NHS and free schooling but there is also an incentive for firms to make profit so there is more choice for us. This is called consumer sovereignty. An example of one is the UK



Monopolies

By Aaron Syed Seers

Monopolies are sole companies which have a large market share and very few competitions. Prime examples of these are Amazon, Google, Apple and Meta. Since they are so dominant, they could potentially charge higher prices for their products/services.



Apple Vision Pro: high price, high spec headset gets release date

Monopoly Rents

Monopoly rents are when monopolies raise their prices whilst consumers are forced to continue shopping at these firms due to the lack of competition. In the UK, Apple is a clear example of a monopoly who charges monopoly rents. As of recently, Apple announced that they would be selling their own mixed reality headset in the near future. Apple has priced this product at a whopping £2,749. This price is way higher in comparison to the Meta Quest 3 headset, another mixed reality headset made by Meta. However, Apple is able to sell at this price as they know customers will continue to purchase goods from them as they face little competition and have strong brand loyalty with a diverse product ecosystem that synergise together, eg: Apple watch, iPhone, AirPods and now the Vision Pro.

How does this affect us?

Many of us, like myself, shop at Amazon. By creating a monopoly power, Amazon operates by allowing retailers to sell their products on their platform. However, little did most people know, they also “copy” the products and work with manufacturers in developing countries to sell them at a lower cost, thus earning more revenue and driving competition away and eventually increase the price. Look at what they did with Amazon Prime or even Amazon Ring. As a result of this, our wallets would be shrinking whilst Amazon’s profits will be increasing.



Monopolies and the law

Many people see monopolies as having an unfair competitive advantage in the market due to their large market share and few competition. Because of this many countries try to enforce competition laws to restrict monopolies in the market. Competition laws are a field of laws used to maintain competition by preventing practices that may harm competition.

Illegal monopoly power



Monopoly power is the company’s ability to dominate a market so much that it can control the market’s prices and supply. Whilst some monopolies have gained this power by obeying the law, some companies such as Amazon have obtained this power, some consider, unethically. In the US, September 2023, FTC (Federal Trade Commission, US) sued Amazon for maintaining illegal monopoly power. Amazon did this by using anticompetitive and unfair strategies to illegally maintain their monopoly power, according to the lawsuit.

Simply put, absolute power corrupts absolutely. This saying goes with monopolies; not one business should control or significantly dominate an entire market.

FTC Sues Amazon for Illegally Maintaining Monopoly Power

Amazon’s ongoing pattern of illegal conduct blocks competition, allowing it to wield monopoly power to inflate prices, degrade quality, and stifle innovation for consumers and businesses

September 26, 2023 |

Recession- A fleeting thought.

The News

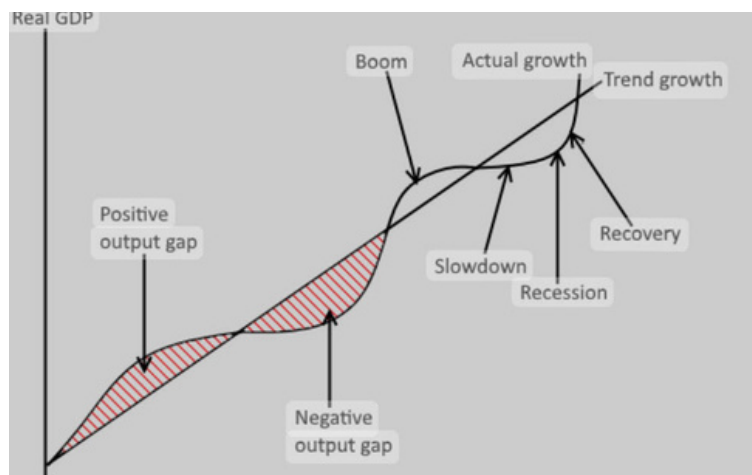
The economy shrank by a larger than expected 0.3% between October and December, after it had already contracted between July and September. The figures raise questions over whether Rishi Sunak has met his pledge made last January to grow the economy.

What is a Recession?

Negative growth refers to the decrease in the market value of goods and services produced by an economy. During this period, the UK's overall economic activity experiences a slowdown. If this occurs for two consecutive quarters, it is labelled as a recession.

How does this affect us?

Economic growth is great for an economy. Typically in this timeframe there is low unemployment people have higher incomes, private firms tend to invest more and the standard of living increases. Meantime the government also generates more money from taxes as people make more. They can now decide to spend more on benefits, public services and government workers' wages, or cut tax rates but when the economy shrinks and a country goes into recession, these things can go into reverse.



UK recession may already be over, says Bank of England boss

By Faisal Islam
Economics editor

20 February 2024, 13:20 GMT

Updated 9 hours ago



The Immediate Upturn

In just a 5 day span economist are saying The recession is over and may be the shortest and shallowest in the uk records supporting this Andrew Bailey (Governor of the Bank of England) released a statement saying *"So I would just say against a lot of talk of what we think is going to be a very small recession, we think the economy is already actually showing distinct signs of an upturn."* Furthermore, recent data from the PMI survey data is pointing to the largest rise in business activity for nine months.

Sources

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<https://www.bbc.co.uk/news/business-52986863>

<https://www.standard.co.uk/business/uk-recession-already-over-and-inflation-will-soon-hit-0-economists-say-b1140829.html>

Inflation is YOUR silent enemy

By Eshana Banerjee, Sahiba Kohli, Morsal Parwas



Have you ever wondered why there are no more £0.99 burgers anymore? This could be because of an Economic term, called 'inflation'. Inflation is when there is an increase in the general price level of goods and services.

There are two general types of inflation; Demand-Pull inflation, and Cost-Push inflation.

Demand-pull inflation occurs when there are many people wanting to consume goods and services, and since there might be limited supplies available, businesses might choose to increase their prices as a result.

Cost-push inflation might occur when businesses experience higher costs of production. For example, McDonalds might have to pay more for wheat or potatoes for their burger buns or chips. Therefore, assuming the business is rational, they might choose to pass this higher cost to their customers in the form of higher prices.



(1):<https://www.theguardian.com/business/2023/apr/19/why-are-uk-food-prices-up-by-19-and-which-foods-are-worst-affected>

(2):<https://www.bbc.co.uk/news/business-64651800>

McDonald's puts up prices on five menu items

© 16 February 2023



Inflation in McDonalds

In 2022, McDonalds announced that they were going to raise the price of the 99p burgers to £1.19. However, the real question is why have the burgers increased in price? The cost of making a burger has increased for McDonalds as well as for everyone else due to rising energy and ingredient prices. This means that McDonalds had the choice to either absorb the cost, meaning they pay out of their own pocket or they increase the price and pass on the cost to the consumers.

Milk, cheese and eggs had risen 29.7% in 2023 and this was due to many reasons, one being Russia's war in Ukraine, which sent oil and gas prices to record levels, which disrupted supplies from two of the world's biggest exporters of fertiliser, wheat, barley and other cereals, with a knock-on effect on farmers worldwide (1). As a result, McDonalds as well as retailers were forced to increase their prices, otherwise they would be making a loss.

Now we understand why McDonalds had to increase their prices, but who is really affected by inflation?

Who does it affect?

Inflation affects everyone, the only difference is how severely it affects someone. The impact of the rising prices at McDonalds varies among different groups of individuals. Fast food chains, like McDonalds, usually aim to attract individuals with low disposable income, which makes them a significant proportion of the company's customer base. Usually, you could get a meal (burger, sides, and a drink) for under £5, but now some are over £6 (2).

Many may face challenges in adjusting to the rising prices, potentially leading to them changing their spending and consumption habits. Similarly, families with children, who often rely on McDonalds for affordable dining options, may feel the strain of increased pricing, leading to them seeking alternatives or reducing the frequency of their visits.

However, what about people with higher disposable income or those who don't eat at McDonalds often, does it affect them? Individuals with higher disposable incomes and those less reliant on fast food would be comparably less affected by the price increase.

Overall, average price increases lowers the spending power of people, assuming our incomes remain the same. This, in real terms, reduces our ability to consume and lowers our living standards. You might not be able to eat at McDonalds soon! Uh oh.

£ and opportunity cost

By Aaron Syed Seers

An opportunity cost is the next best alternative foregone. An easy example to understand: spending your money or saving your money. By saving your money now in a savings account, you are giving up spending now and enjoying life but you have more money to spend later.

Throughout the years electric cars have become more and more popular, as a result governments are willing to spend more of taxpayers money on EV chargers. Do you believe that this is the right choice for governments? What could they have spent that money on instead? The alternatives are what is given up... Opportunity Cost.



Opportunity cost in day to day life

If you think about it, opportunity cost can be used in your everyday life. If your parents gave you £10, you may use it to spend lunch at McDonalds. However this would be an opportunity cost as the next best alternative to McDonalds could be Nandos. Therefore, by eating McDonalds for lunch, you are giving up the option to buy lunch at Nandos. The question about opportunity cost is, what is the best option to take given what you give up.

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Hull to get 20 new electric vehicle charging points

© 6 December 2023 · [Comments](#)

Opportunity cost of Gov spending

A real life example of opportunity cost would be seen in this BBC article right above. In this article it talks about how Hull council is planning to invest £150,000 in new electric vehicle charges in the local area. This would mean that electric cars would have more accessibility for charges to use in the area.

This would be an opportunity cost as this would mean Hull's council would have less funding available which could have been used to improve the roads. As a result, Hull's council can't invest as much into local infrastructure like roads or council houses. Less investment into roads can lead to more damage to cars or other vehicles, which could worsen car conditions and increase pollution as people would need to travel to fix their cars and replace tyres sooner.

So should Hull's council be investing in more EV charges? Well the answer is yes and no. Neither answer is right or wrong until we look at the opportunity cost and its effects. Yes because more EV charges may encourage more people to drive electric vehicles which are more earth friendly than diesel and petrol vehicles. However, no as it results in a decrease in government spending on other areas that also can provide environmental protection.

