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ADVANCED
General Certificate of Education
2024

Centre Number

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Economics

StemUp Model Solution

Assessment Unit A2 2

assessing

Managing the Economy in a
Global World



[AEC21]

AEC21

WEDNESDAY 29 MAY, AFTERNOON

TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number in the spaces provided at the top of this page. Answer **all** questions in Sections **A** and **B**, and **one** question in Section **C**.

You are permitted to use a calculator in this paper.

You must answer the questions in the spaces provided.

Do not write outside the boxed area on each page or on blank pages.

Complete in black ink only. **Do not write with a gel pen.**

INFORMATION FOR CANDIDATES

The total mark for this paper is 90.

- Section A: 20 marks
- Section B: 40 marks
- Section C: 30 marks

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question. This paper is accompanied by a Case Study Booklet.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time. In questions involving calculations, you are advised to show your workings.

Quality of written communication will be assessed in Questions **4**, **5(b)**, **(c)** and **(d)**, **6** and **7**.
Quantitative skills will be assessed where appropriate.

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Section A

Answer all questions (20 marks)

- 1 A country has entered recession. This has led to a fall in income tax revenues of £1,200 million, and an increase in spending on unemployment benefits of £600 million. In response, the government has announced a job creation programme involving spending £750 million on new schools, hospitals and public transport.

With reference to the above statement, explain the difference between discretionary fiscal policy and automatic fiscal policy. [4]

Discretionary fiscal policy is a deliberate decision by the government to change the level of government spending or taxation, e.g. the job creation programme spending £750 million on new schools, hospitals and public transport.

Automatic fiscal policy (automatic stabilisers) is a change in government spending or tax revenue that happens automatically as the economy moves through the economic cycle, without any new government decision, e.g. in the recession income tax revenues fell by £1,200 million and spending on unemployment benefits rose by £600 million as incomes fell and unemployment rose.



- 2 In July 2022, the price of a tall Caffè Latte in Starbucks in London was £3.85. The same type of Caffè Latte cost US\$4.55 in New York City.

Using this information, calculate a Purchasing Power Parity exchange rate between the US dollar and the pound sterling. [2]

$$\text{PPP exchange rate} = \text{price in US\$} \div \text{price in £}$$

$$= \$4.55 \div £3.85 = 1.18$$

$$\text{PPP exchange rate: } £1 = \$1.18 \text{ (or } \$1 = £0.85)$$

[Turn over]



- 3 The table below shows the output of cheese and tomatoes in two countries which have each decided to be self-sufficient. They divide their resources equally between production of the two goods, and opportunity costs are constant.

Country	Cheese (millions of tonnes)	Tomatoes (millions of tonnes)
Drumland	25	50
Bassland	25	100

- (a) Using the information in the table above, identify which country has a comparative advantage in cheese, and which a comparative advantage in tomatoes. [2]

Drumland has the comparative advantage in cheese (opportunity cost of

1 tonne of cheese = 2 tonnes of tomatoes, lower than Bassland's 4 tonnes).

Bassland has the comparative advantage in tomatoes (opportunity cost of 1 tonne of tomatoes = 0.25 tonnes of cheese, lower than Drumland's 0.5).



- (b) Using the information in the table opposite, explain how both countries could gain by specialisation and trade.

[6]

Before trade (self-sufficient) total output = 50m tonnes of cheese and 150m tonnes of tomatoes. Opportunity cost of 1 tonne of cheese:

Drumland 2 tonnes of tomatoes, Bassland 4 tonnes.

Each country specialises completely in the good in which it has the comparative advantage, moving all its resources (doubling output):

Drumland: 50m tonnes cheese, 0 tomatoes

Bassland: 0 cheese, 200m tonnes tomatoes

Total output is now 50m tonnes of cheese and 200m tonnes of tomatoes, the same cheese but an extra 50m tonnes of tomatoes from the same resources.

The two countries then trade at terms of trade between their opportunity cost ratios (between 1 cheese : 2 tomatoes and 1 cheese : 4 tomatoes), e.g. 1 tonne of cheese for 3 tonnes of tomatoes. Drumland exchanges 25m tonnes of cheese for 75m tonnes of Bassland's tomatoes.

After trade:

Drumland: 25m tonnes cheese, 75m tonnes tomatoes (before trade 25 and 50, so it gains 25m tonnes of tomatoes)

Bassland: 25m tonnes cheese, 125m tonnes tomatoes (before trade 25 and 100, so it gains 25m tonnes of tomatoes)

Both countries consume the same amount of cheese as before but 25m tonnes more tomatoes each, so both consume outside their own

[Turn over]



production possibility frontier. Drumland gets tomatoes at 3 per cheese instead of 2, and Bassland gets cheese for 3 tomatoes instead of 4, so both gain from specialisation and trade.



- 4 A country uses a currency known as a crown which it has fixed at a rate of 1 crown = \$2.40. Currency speculators have started to sell the currency, causing its market value to fall to \$2.00.

With the aid of a diagram, explain how the use of monetary policy can help restore the value of the crown to \$2.40. [6]

Quality of written communication will be assessed in this question.

Monetary policy is the use of interest rates, the money supply and exchange rate intervention by the central bank to achieve macroeconomic objectives.

Under a fixed exchange rate system the central bank must keep the crown at its fixed rate of \$2.40.

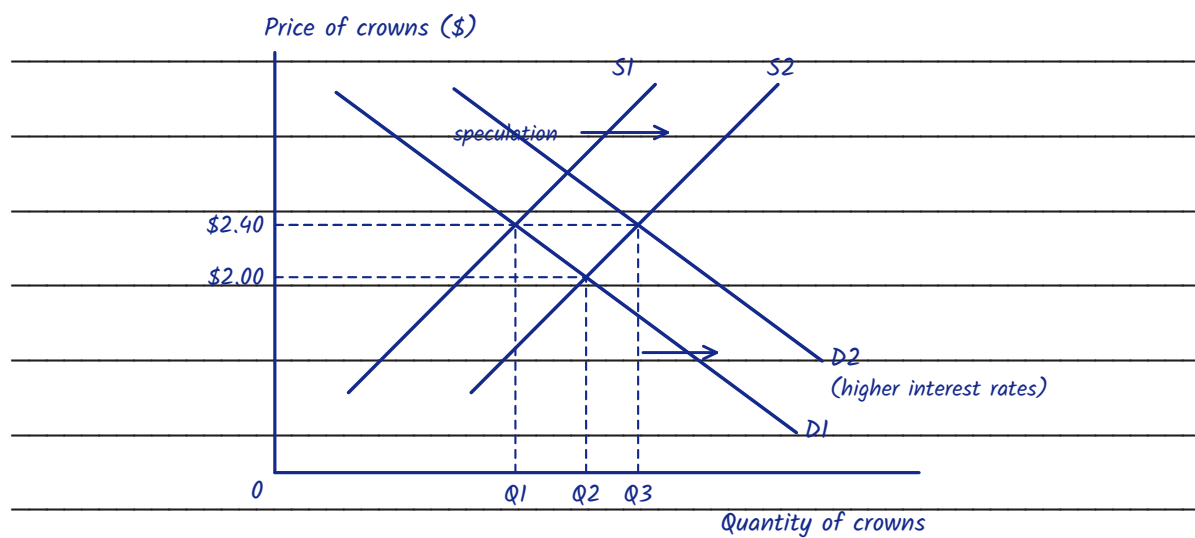
When speculators sell crowns, the supply of crowns on the foreign exchange market increases from S_1 to S_2 (diagram below). With unchanged demand D_1 , the market value falls from \$2.40 to \$2.00, below the fixed rate.

Firstly, the central bank can raise interest rates. Saving in crown-denominated deposits and bonds now gives a higher return relative to other countries, so hot money flows into the country. Speculators and foreign investors must buy crowns to do this, so the demand for crowns increases from D_1 to D_2 . Higher rates also make holding crowns more attractive than selling them, which reduces speculative selling and expectations of a devaluation.

Secondly, the central bank can use its reserves of foreign currency (e.g. dollars) or gold to buy crowns on the foreign exchange market. This also increases the demand for crowns and absorbs the extra supply from the speculators.

[Turn over]





As the diagram shows, the increase in demand from $D1$ to $D2$ restores the equilibrium exchange rate to \$2.40 even though supply is now $S2$. The extra demand ($Q3 - Q1$) matches the speculative selling. Higher interest rates may, however, reduce AD and growth, and reserves are limited, so if speculators believe the crown will be devalued the central bank may not be able to defend \$2.40 for long.



Section B (Case Study)

Answer all questions (40 marks)

Read the information in the Case Study Booklet and answer the questions below.

- 5 (a) Describe the trend in the UK's Balance of Trade in goods and services during the period shown in **Fig. 1**. [4]

The UK had a persistent deficit on the balance of trade in goods and services for most of the period. In Q1 2016 the deficit was about £7bn a quarter (exports about £133bn, imports about £140bn) and it stayed at around this level until early 2019, when it jumped to about £12bn (imports about £179bn, exports £167bn).

The deficit then narrowed and turned into a small surplus from late 2019, which lasted for 4 of the next 5 quarters during the pandemic. However, from Q2 2021 the deficit widened rapidly, reaching about £24bn to £25bn in the first 2 quarters of 2022 (imports about £202bn, exports about £178bn), the largest deficit in the period.

[Turn over]



(b) Analyse the possible consequences for the UK economy of a fall in exports. [9]

Quality of written communication will be assessed in this question.

Exports (X) are goods and services produced in the UK and sold abroad.

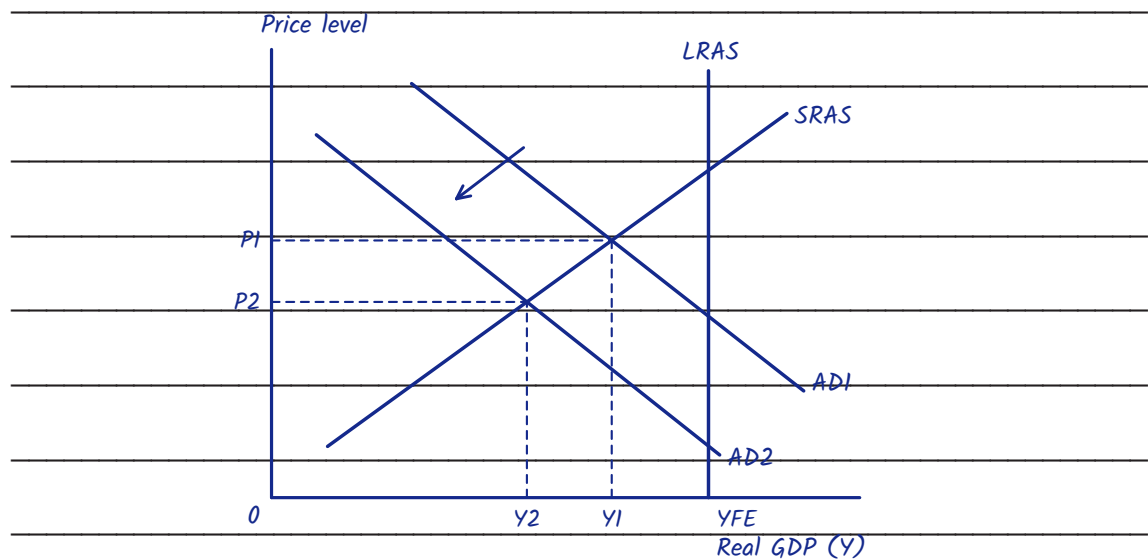
They are an injection into the circular flow of income and a component of aggregate demand, $AD = C + I + G + (X - M)$. Source 2 states that exports of goods to the EU in Q4 2021 were down by almost 10% on pre-pandemic levels because Brexit raised non-tariff barriers.

Firstly, a fall in exports reduces AD, shifting it to the left. Export firms such as manufacturers cut output, so incomes fall and, through the multiplier process, workers and firms spend less, leading to further falls in demand. The final fall in real GDP is a multiple of the initial fall in exports. Depending on the starting position, this may create or widen a negative output gap, so economic growth slows and could even turn negative, risking a recession.

Secondly, unemployment rises. Labour is a derived demand, so as export industries cut output they need fewer workers, creating cyclical unemployment that spreads to other sectors through the multiplier.

Lower export profits, and expectations of lower future sales, also damage business confidence, so firms cut investment. This worsens the weak productivity growth in Source 3, where output per hour growth fell from 1.7% to 0.7% a year, harming long-run growth.





As the diagram shows, AD shifts from AD1 to AD2, real GDP falls from Y_1 to Y_2 and the price level falls from P_1 to P_2 .

Thirdly, if imports do not fall by as much, the trade deficit widens, which Fig. 1 shows happening in 2021 to 2022 (about £25bn a quarter). There is less foreign currency to pay for the imports the deindustrialised UK needs (Source 3), and lower demand for sterling causes a depreciation, as seen in the 14% fall against the dollar in 2022 (Source 1). This raises import prices, adding to cost-push inflation.

On the other hand, the fall in AD may reduce demand-pull inflationary pressure, which is helpful given the high inflation of 2022. Overall, the size of the impact depends on the size of the multiplier and on how far the depreciation later makes exports more competitive.

[Turn over



- (c) Examine the range of policies the UK government could pursue in order to increase exports.

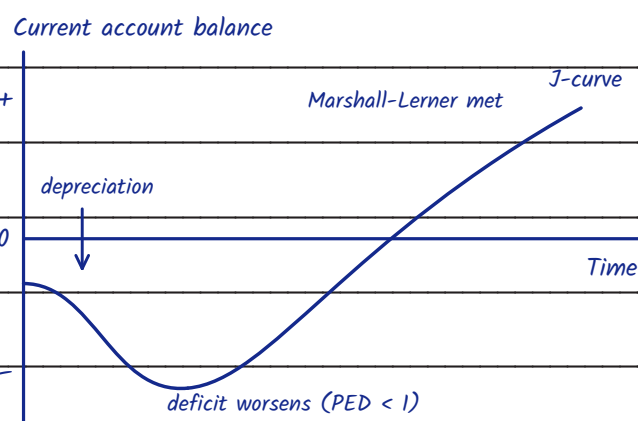
[12]

Quality of written communication will be assessed in this question.

Exports depend on price competitiveness (relative inflation, the exchange rate and unit labour costs) and non-price competitiveness (quality, design, reliability and access to markets). The government can use a range of policies.

Firstly, a depreciation of sterling, e.g. by the Bank of England cutting interest rates, causing hot money outflows, makes UK exports cheaper in foreign currency. Sterling has already fallen from \$2.04 in 2007 to \$1.08 in 2022 (Source 1). However, this only raises export revenue and improves the trade balance if the Marshall-Lerner condition holds, i.e. the sum of the price elasticities of demand for exports and imports is greater than 1. In the short run demand is inelastic as contracts are fixed, so the balance first worsens before improving, the J-curve effect shown below. Depreciation also raises import prices and costs for firms that import components, adding to inflation that may wipe out the competitive gain.





Secondly, deflationary demand-side policies, such as higher interest rates or higher taxes, could reduce UK inflation below that of competitors, improving the relative price of UK exports and reducing spending on imports. However, this would reduce AD, slowing growth and raising unemployment, and higher interest rates would cause sterling to appreciate, partly offsetting the gain.

Thirdly, the government could subsidise exports, e.g. through export credit guarantees or grants, lowering their price. This has an opportunity cost for the government budget, may protect inefficient firms, and may breach

[Turn over



WTO rules or invite retaliation.

Fourthly, supply-side policies, as Rose Davis argues, improve productivity: spending on education and training, apprenticeships, better infrastructure and investment allowances. These lower unit labour costs and improve quality, so they boost both price and non-price competitiveness and shift LRAS to the right without inflation. They are the most sustainable approach, but they are expensive and have long time lags, so they will not reverse the 2022 deficit quickly.

Finally, the government could improve market access by negotiating new trade deals, e.g. with India, the USA or fast-growing Asian economies, or reducing non-tariff barriers with the EU under the TCA. Gravity theory suggests the EU will remain the UK's most important market, so reducing EU barriers is likely to have the biggest effect, although it is politically difficult.

In conclusion, depreciation and deflation give at best a short-term, uncertain boost with damaging side effects. A combination of supply-side policy to raise productivity and better access to EU markets is the most effective long-term way to increase exports, although its success depends on time scale and on the willingness of the EU to cooperate.



- (d) Evaluate the view, expressed by Patrick Heard, that the UK government should not be overly concerned about a persistent deficit on the current account. [15]

Quality of written communication will be assessed in this question.

The current account of the balance of payments records trade in goods and services, primary income (investment income and compensation of employees) and secondary income (transfers). A persistent deficit means the UK spends more abroad than it earns year after year; Fig. 1 shows the trade deficit reaching about £25bn a quarter in 2022, a record level. Patrick Heard argues that "the balance of payments must always balance". This is true: a current account deficit must be matched by a surplus (net inflow) on the capital and financial accounts. The UK finances its deficit mainly through inflows of foreign direct investment and portfolio investment, e.g. overseas investors own 75% of Premiership football clubs and 66% of UK-listed shares (Source 3). As long as investors are willing to buy UK assets, the deficit can be financed, and the UK has operated with a deficit for many years without a crisis. He also argues that the exchange rate may correct the deficit. A deficit means the supply of sterling exceeds demand, so sterling depreciates, as in the fall from \$2.04 to \$1.08 (Source 1). UK exports become cheaper and imports dearer, so if the Marshall-Lerner condition holds the deficit narrows after the J-curve period. This automatic adjustment suggests government intervention is unnecessary.

Furthermore, a deficit is not always bad. Imports of cheaper goods raise

[Turn over



consumer choice and living standards, and imports of capital goods and components may raise productivity. If the economy faces inflationary pressure, as in 2022, the leakage of demand through imports helps to reduce demand-pull inflation.

However, there are strong reasons for concern. Firstly, relying on "the kindness of strangers" (Mark Carney) is risky. Financial inflows can stop or reverse suddenly if confidence falls, causing a sharp depreciation, as seen in 2022. At some point the UK may run out of assets to sell.

Foreign ownership also means future rent, profits and dividends flow abroad, worsening the primary income balance and so making the current account deficit worse in future. Heavy foreign buying of assets such as London property can distort asset prices.

Secondly, the depreciation may not correct the deficit. Due to deindustrialisation the UK must import many manufactured goods with few domestic substitutes, so demand for imports is price inelastic and the Marshall-Lerner condition may not hold. Non-price factors, such as Brexit non-tariff barriers (Source 2), matter more than price.

Depreciation also raises import prices, adding to the high inflation of 2022 and reducing real incomes, so UK households become poorer.

Thirdly, a persistent deficit is often a symptom of deeper problems: low productivity (output per hour growth of only 0.7% a year), weak competitiveness and slower growth (1.7% compared with 2.7% before the



crash). Ignoring the deficit may allow these problems to fester. The deficit is also a leakage from the circular flow, so lower net exports reduce AD, growth and employment in export industries.

Evaluation: whether the government should be concerned depends on the cause and the size of the deficit. A deficit caused by importing capital goods to fund productive investment, or by a temporary boom, is less of a concern than one caused by falling competitiveness, which Source 2 and Source 3 suggest is the UK's case. It also depends on how it is financed: long-term FDI is more stable than short-term hot money. The size matters too: a deficit of 1 to 2% of GDP is sustainable, but a record deficit that keeps widening is not. Finally, the time scale matters, as the exchange rate may correct it in the long run but only at the cost of higher inflation and lower living standards in the short run.

In conclusion, Patrick Heard is right that the deficit will always be financed in an accounting sense and that it does not by itself cause an immediate crisis. However, the UK's deficit is persistent, large and linked to low productivity and the effects of Brexit, and it is financed by selling assets and hot money that may dry up. The government should therefore be concerned, not by trying to eliminate the deficit with deflation or protectionism, but by addressing its root causes with supply-side policies to raise productivity and competitiveness.

[Turn over



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Section C

Answer **either** question 6 **or** question 7

Quality of written communication will be assessed in these questions.

- 6** In 2022, global Foreign Direct Investment (FDI) reached a value of almost \$1.6 trillion. This was almost 10 times the value of official overseas development aid. Some economists have argued that aid is inappropriate and leads to corruption. They argue that the path to development in less developed countries is through less aid and more FDI.

Critically examine the view that Foreign Direct Investment is a better way to promote economic development than overseas development aid. [30]

or

- 7** A think tank has claimed that globalisation has led to the loss of 3.7 million jobs in the United States since 2001. In response, one Senator called for the USA to withdraw from the World Trade Organization (WTO). This would allow the US government to impose restrictions on imports in order to protect American jobs and standards of living.

Critically examine the view that withdrawal from the WTO, and the imposition of restrictions on imports, will help protect jobs and living standards in the United States. [30]

[Turn over]



Write the number of the question you have chosen in the box below:

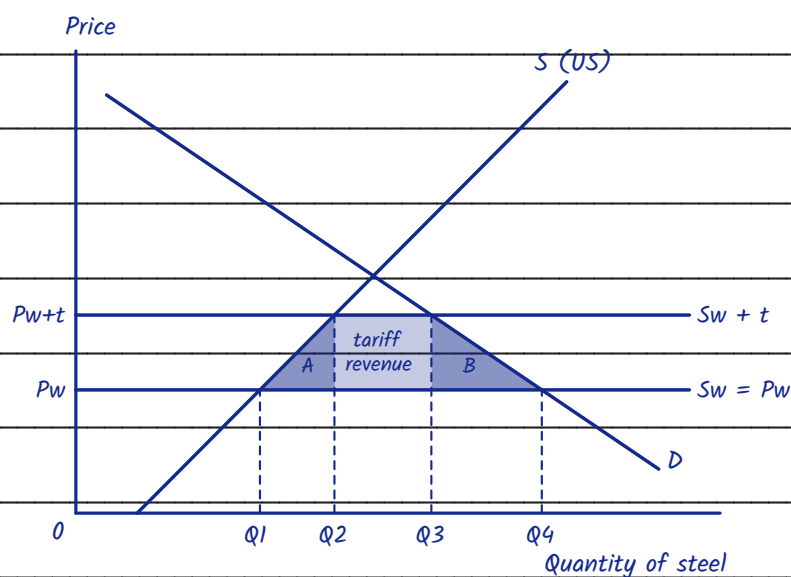
7

The World Trade Organization (WTO) is the international body that sets the rules of the global trading system. Members agree to the most-favoured-nation principle (not discriminating between trading partners), commit to maximum (bound) tariff rates, and settle disputes through its dispute settlement system. Trade restrictions (protectionism) include tariffs (taxes on imports), quotas (physical limits on the volume of imports), subsidies to domestic producers, and non-tariff barriers such as regulations. Withdrawal would allow the US to impose these on all countries without WTO limits.

The 3.7 million jobs lost since 2001 coincide with China joining the WTO in 2001, the so-called "China shock", when cheap Chinese imports of manufactured goods such as furniture, steel and electronics hit industrial areas of the US. Supporters of the Senator argue that restricting imports will reverse this.

The case for import restrictions can be shown using a tariff diagram for a good such as steel, below.





Under free trade the US buys steel at the world price P_w . Domestic firms supply Q_1 , consumers demand Q_4 and imports are Q_1 to Q_4 . A tariff raises the domestic price to $P_w + t$. US producers expand output from Q_1 to Q_2 , so they need more workers and jobs are protected or created in import-competing industries. Imports fall to Q_2 to Q_3 , and the government gains tariff revenue (the shaded rectangle), which could be spent on public services or retraining. Higher domestic output and incomes may, through the multiplier, raise AD and employment further, and the current account deficit

[Turn over



may narrow. A quota has a similar effect on price and domestic output, but the revenue goes to foreign exporters or importers as quota rents rather than to the government.

There are also traditional arguments for protection. Infant industries, e.g. new green technologies, may need protection until they gain economies of scale. Strategic industries such as steel, semiconductors and defence may need protecting for national security. Protection may also stop dumping (selling below cost) and give declining industries time to restructure, reducing structural unemployment in areas such as the Rust Belt. Nearly every developed country, from Tudor England to modern Japan, used protection while industrialising, and most countries still protect agriculture.

The theory of comparative advantage also has weaknesses: it assumes full employment, perfect factor mobility and no transport costs, and the gains from trade are distributed unevenly, so laid-off manufacturing workers may not find new jobs easily.

However, there are strong arguments that import restrictions will not protect jobs and living standards overall.

Firstly, consumers lose. The price rises from P_w to P_w+t and consumption falls from Q_4 to Q_3 , so consumer surplus falls. Part of this goes to producers and the government, but triangles A and B are a deadweight welfare loss: A is the production inefficiency of using high-cost domestic producers instead of cheaper imports and B is the lost consumption. Higher



prices reduce real incomes and living standards, and as poorer households spend a larger share of income on traded goods, tariffs are regressive.

Consumers also have less choice.

Secondly, firms that use imported inputs face higher costs. When the US imposed tariffs on steel and aluminium in 2018, steel-using industries such as car makers and machinery firms faced higher costs; these industries employ far more workers than steel production, so jobs saved in steel can be outweighed by jobs lost elsewhere. Higher costs also make US exports less competitive.

Thirdly, retaliation is likely. Other countries would impose tariffs on US exports, as China did on US soybeans in 2018, forcing the US government to spend billions of dollars supporting farmers. Without the WTO there would be no dispute settlement system, so a trade war could escalate. The Smoot-Hawley tariffs of 1930 led to widespread retaliation, a collapse in world trade and contributed to the Great Depression. Export industries, which tend to be high productivity and well paid, would lose jobs, and falling world trade would reduce growth for all countries.

Fourthly, protection reduces efficiency in the long run. Protected firms face less competition, so they have less incentive to cut costs and innovate, leading to X-inefficiency and lower productivity. Resources are moved away from the industries in which the US has a comparative advantage, such as technology, finance and services, so world output and US living standards fall.

[Turn over



Withdrawal would also damage the US's reputation and weaken the rules-based system that has supported global growth since 1945.

Finally, trade is not the main cause of job losses. Many economists argue that automation, robotics and AI have destroyed more manufacturing jobs than imports, so restricting imports would not bring these jobs back. Overall US unemployment has often been low despite the 3.7 million lost jobs, suggesting that the problem is regional and structural rather than a lack of jobs in total. Tariffs may also cause the dollar to appreciate as import demand falls, offsetting the protection and hurting exporters.

Evaluation: the effect depends on several factors. It depends on the price elasticity of demand for imports: if demand is inelastic because there are few domestic substitutes, imports fall little and the main effect is higher prices, not more jobs. It depends on the size of the domestic industry's spare capacity and whether US firms can expand supply. It depends on the time scale: in the short run some jobs in import-competing industries may be protected, but in the long run lower efficiency, retaliation and higher costs are likely to reduce jobs and real incomes. It depends on whether other countries retaliate, which is very likely if the US leaves the WTO.

Also, withdrawal is not necessary to deal with unfair trade, as the WTO already allows anti-dumping duties and temporary safeguard tariffs.

In conclusion, withdrawal from the WTO and the imposition of import restrictions may protect some jobs in specific import-competing industries



such as steel in the short run. However, the costs to consumers through higher prices, to firms through higher input costs, and to exporters through retaliation are likely to be much larger, so total employment and US living standards would probably fall. The jobs and communities affected by globalisation are better helped by targeted policies such as retraining, regional investment and trade adjustment assistance, and by using WTO-compliant measures against unfair trade, rather than by leaving the WTO.

[Turn over



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Question Number	Marks
Section A	
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Section C	
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Examiner Number

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Rewarding Learning

ADVANCED
General Certificate of Education
2024

Economics

Assessment Unit A2 2

assessing

Managing the Economy in a Global World

[AEC21]

WEDNESDAY 29 MAY, AFTERNOON

CASE STUDY BOOKLET

**For use with
Section B**

The following passages were compiled in September 2022.

Case Study: Is the UK the sick man of Europe?

Source 1: A sterling crisis?

In 2022, things looked bad for the UK economy. Between January and September, the pound depreciated by 14% against the dollar. This could be seen as a continuation of a long-term trend. In December 2007, before the financial crash, the pound was worth \$2.04; by September 2022 it was trading at \$1.08. Over the same period, sterling depreciated by over 20% against a basket of currencies of the UK's main trading partners.

There are many factors behind long-term falls in the value of sterling, but most economists agree that one of the most significant causes has been the UK's enduring trade deficit.

Fig. 1 below shows recent trends in the UK's trade in goods and services.

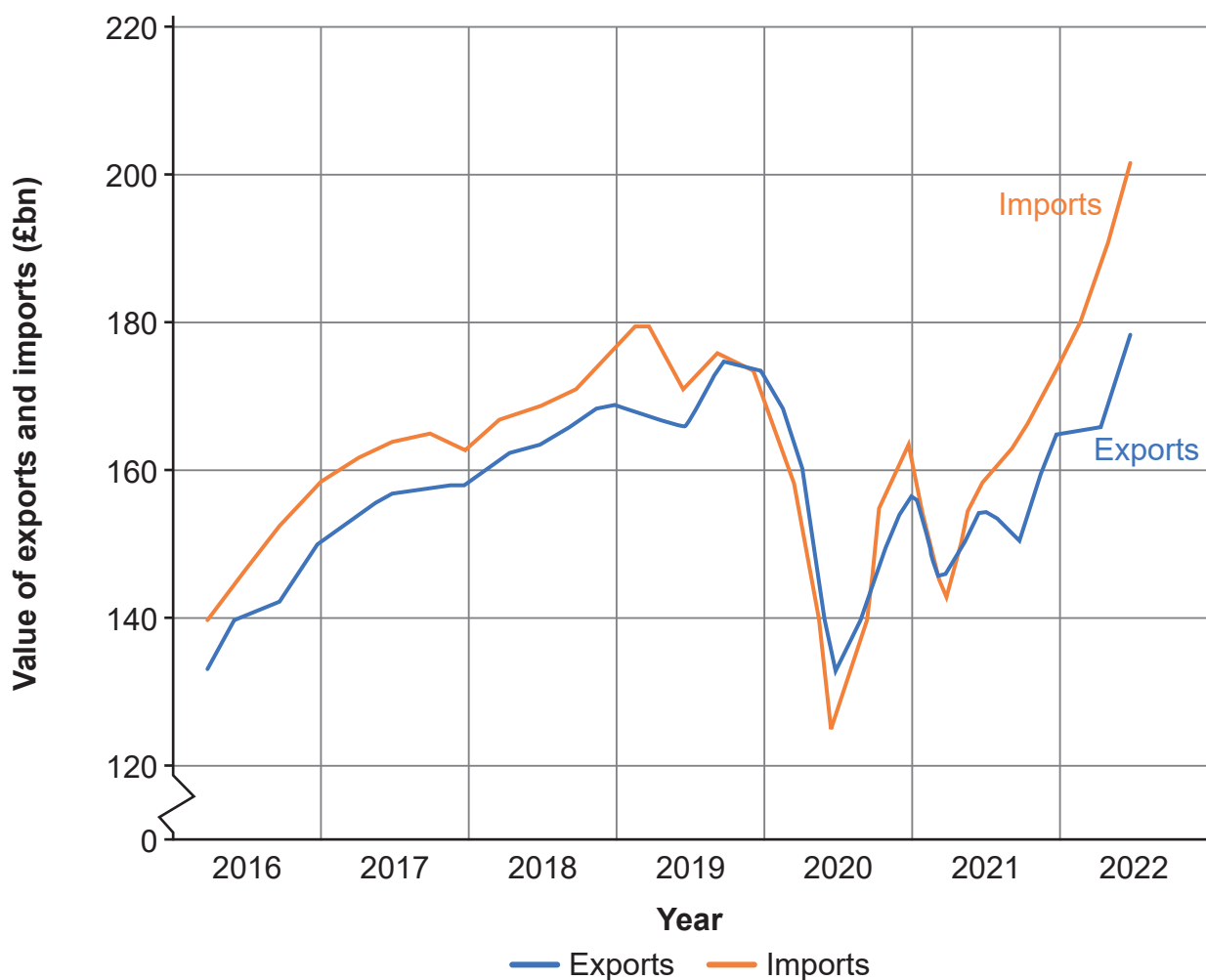


Fig. 1 UK exports and imports of goods and services, at market prices, Quarter 1 2016 to Quarter 2 2022

Source 2: Exports under threat

On 30 December 2020, the European Union (EU) and the UK government signed a Trade and Cooperation Agreement (TCA) to conclude the process of Brexit – Britain’s withdrawal from the EU. Under its terms, the UK ceased to be a member of the Customs Union and Single European Market from 1 January 2021, but British firms continue to have tariff-free access to the EU market.

Many economists worry that Brexit has had a significant negative effect on the competitiveness of the British economy. There are now many non-tariff and regulatory barriers which add to the cost, and lengthen shipping times, of British exports. Brexit disrupted long-standing supply chains, making it more difficult for British firms to import from the EU. Ending free movement of labour contributed to labour shortages in many industries. All of these factors increased business costs. The Office for Budget Responsibility (OBR) reported that “exports of goods to the EU in the fourth quarter of 2021 were down by almost 10% on their pre-pandemic levels”.

Proponents of Brexit believed that it could lead to the revival of British trade. Unrestricted by EU rules, Britain could lower taxes and deregulate its economy. Global Britain would be able to negotiate its own trade deals with other countries; it could realign away from Europe towards the faster-growing Asian economies. However, conflict with China over concerns about its human rights record was one setback to this plan.

Trade expert Rose Davis has been critical of some of these arguments. Her belief is that countries will carry out the most significant part of their trade with the largest economies closest to them, the so-called gravity theory. “The UK can’t be floated to the middle of the Pacific Ocean, so the EU will likely remain our single most important trading partner. To improve Britain’s trade competitiveness and boost exports, government needs to do the hard work of boosting productivity and improving the supply side of the economy.”

Source 3: The kindness of strangers

Falling exports to the EU have been one of the many problems faced by the UK economy. Due to the long-run deindustrialisation, Britain needs to import large amounts of manufactured goods. A fall in exports means less foreign currency is available to pay for these imports. Moreover, since the financial crash of 2007 to 2009, the UK economy has struggled. In the decade prior to the crash, UK GDP grew at an average annual rate of 2.7%. In the decade from 2009 to the start of the pandemic, that growth had fallen to 1.7%. Progress in productivity also slipped back, with the annual increase in output per hour falling from 1.7% in the first decade to 0.7% in the second. To make matters worse, 2022 saw the highest rates of inflation in the UK in recent history.

Former Governor of the Bank of England, Mark Carney, observed that the UK economy depends on the kindness of strangers. He meant that overseas investment into the UK economy was needed to create inflows to balance the huge trade deficit on the current account. For some time, investors from overseas have been buying shares in the service sector. It is overseas investors who own 75% of Premiership football clubs and 66% of UK-listed shares are foreign owned. At some point the UK may run out of assets to sell.

However, other economists are more relaxed. Patrick Heard, an economics professor, claimed “there is never a shortage of people eager to predict disaster for the UK economy. We have been able to operate successfully with a current account deficit for many years. The reality is the balance of payments must always balance, and changes in the exchange rate may help reduce the current account deficit. I have no doubt these prophets of doom will be proven wrong and our economy will grow strongly in the future”.

THIS IS THE END OF THE CASE STUDY BOOKLET

Sources

Source 1:

Adapted from How are our Brexit trade forecast assumptions performing? Office for Budget Responsibility.
<https://obr.uk/box/how-are-our-brexit-trade-forecast-assumptions-performing/>

Source 2:

Adapted from The latest evidence on the impact of Brexit on UK trade
<https://obr.uk/box/the-latest-evidence-on-the-impact-of-brexit-on-uk-trade/>

Source 3:

Adapted from UK will have to rely more on the kindness of strangers by Duncan Weldon
<https://www.ft.com/content/ace130b4-91fb-480f-b438-00d830491548>

Source 4:

Adapted from The initial impact of Brexit on UK trade with the EU. Office for Budget Responsibility.
<https://obr.uk/box/the-initial-impact-of-brexit-on-uk-trade-with-the-eu/>

Data / Graph - Office for National Statistics

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