

## Information for students taking AS/A Level Economics at Latymer



It is not a requirement to study Economics at GCSE to study the subject at AS/A2 but we recommend a minimum of 7 in Maths, English Language and Economics or Business Studies if studied at GCSE.

However, it would be useful for potential Year 12 students to gain an appreciation of Economics by completing the following exercise and considering the reading list below. This should hopefully aid your transition to A-level Economics.

### Activity 1 – School of thoughts

Research the main schools of thoughts in Economics. Who are the main contributors and what key theories or concepts did they develop? You might look into the following:

- Classical economists
- Marxism
- Keynesianism
- Monetarists
- The Austrian school

### Activity 2

**ECONOMY** 21 APRIL 2020

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## The coronavirus pandemic shows why the West must transform its economic logic

We must end our dogmatic reliance on global supply chains  
and adopt “just-in-case” thinking.

BY ROBERT SKIDELSKY [Follow @rskidelsky](#)

One of the things the Covid-19 lockdown got me thinking about was Noah’s Ark. Remember the original: God vowed to destroy mankind with a great flood because of its wickedness, but told Noah and his family to self-isolate themselves in an ark – a substantial building with three stories – with enough food for a long stay; to bring in two specimens of every living and creeping thing; and to stay put till the flood had subsided.

Noah and his clan isolated themselves seven days before the flood started. The flood peaked in 40 days. As the waters receded, the lock-up instructions were gradually relaxed and, in a further two months, it was safe for Noah and his family to go out again and resume their normal lives. Everyone and everything on land that had the “breath of life” had died.

Leave aside the striking parallels, which will convince all Jehovah’s Witnesses and religious fundamentalists that it’s “all in the Bible”. Leave aside the fact, so far, coronavirus is much more forgiving than the biblical deity. Most of us will survive this particular flood of germs.

Nevertheless, the Noah’s Ark problem recurs whenever rising demand presses on a fixed supply. In the biblical story the shortage was in the supply of salvation, which was strictly limited to the righteous Noah and his family. In today’s secular version, there is a fixed (in the short run) supply of medical goods: most notably protective clothing, tests, ventilators, hospital beds, and so on. So these items have to be rationed.

On what principle? The free-market solution is to ration by price. The price of goods in short supply goes up, leaving only the rich able to afford them. If we had a free market in health care, they would be able to buy up the lion’s share of scarce medical goods. Eventually the quantity of medical goods would rise to meet the increased demand, but in the meantime the poor would have to do without.

The socialist solution is ration books or queueing. In the first case, everyone is allocated an equal share of the scarce resource; the second works on a “first come first served basis”: the people at the head of the queue get what’s in the shop, and the rest get nothing. Long queues, with nothing in the shops to buy, were a feature of late Communism.

But as soon as we think of the problem in terms of life-threatening viruses and medicines, we see that neither the free market nor the socialist solution can be made to work. Any attempt to apply the free-market solution would lead straight to revolution.

Socialism has severe problems, too. Some medical supplies, such as masks, can be successfully rationed, with everyone receiving a fixed number. But hospital treatment can’t be rationed, as meat and eggs were during the Second World War, because it can’t be divided up into individual portions. For example, it would make no sense to allocate a tenth of a ventilator to everyone. Ultimately, although testing can be done on a random basis, treatment cannot be random.

Evidently, some different principle of selection is needed. This takes us back to the biblical story. God saved the virtuous; we have decided to prioritise the economically useful. The old, the sick, the infirm, those with “underlying health issues”, will be left to live or die as they may under conditions of lockdown; the overwhelming share of scarce medical supplies will go to those with a viable future. Utility replaces virtue as the highest value.

Since we have got ourselves into this particular shortage trap, it is hard to see what other principle of selection is available. Allocating scarce medical supplies to the medically and economically useful is clearly the only sensible thing to do.

But it sits uncomfortably with another principle to which the liberal world is committed: that each life is of equal value. It is in the name of equal rights to “life, liberty, and happiness” that we ban all forms of discrimination against particular individuals and groups. But in the situation we face today, someone must decide that some lives are more valuable than others. Some people will be selected for the ark, while others will be left to face the future as best they can until we develop a vaccine or the virus has done its work.

The conclusion seems clear enough. Since we have no ethically accepted principle of choosing between who is to live and who to die, we should take exceptional pains to ensure that we do not face acute shortages of life-preserving equipment. It is a scandal that the developed world was caught so short of tools to deal with the pandemic (some countries more than others). For this there are a number of reasons.

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The first is the policy of austerity, which now shines forth in its full wickedness. The evidence is strong, as *The Sunday Times* reported, that “pandemic planning became a casualty of the austerity years”. As a result, our government faced a very poor trade-off between medical intervention and “herd immunity”. The situation may even be worse than thought: recent research has questioned the degree of immunity, and a higher number of deaths may follow. Broadly speaking, the shorter we are of medical resources, the more drastic the lockdown will need to be.

But austerity is by no means the only culprit. A second and more fundamental explanation for our lack of preparedness is the business philosophy of “just in time”. As global health expert [Alanna Shaikh](#) put it: “Just-in-time ordering systems are great when things are going well. But in a time of crisis, it means we don’t have any reserves. If a hospital or a country runs out of face masks or PPE equipment, there’s no big warehouse full of boxes where we can go to get more. We have to order more from a supplier, we have to wait for them to produce it, and have to wait for them to ship it, mainly from China.”

This criticism applies to much more than medical procurement. It challenges the just-in-time orthodoxy generally prevalent in business. Reserves, the argument goes, cost money. Efficient markets don’t require firms to have inventories, just to have enough “stock” to satisfy the consumer at the point of demand. To hold financial reserves against a rainy day is also wasteful. In efficient markets there are no rainy days: so firms should be leveraged up to the hilt.

This is fine, provided there are no unexpected events. Upon a “shock”, such as the 2008 financial crisis, the whole efficient market model collapses, and with it the economy. Something of this kind has now happened to our medical services. Bed occupancy is as high as 98 per cent in our marketised NHS, meaning there is no longer a reserve, and we are not self-sufficient in doctors and nurses; we expect other countries to train them.

We need to restore what used to be called “the precautionary principle”. In all those situations in which we can rationally anticipate a severe life-threatening event, “just-in-time” thinking needs to be replaced by “just-in-case” thinking.

But this is not all. A major fault lies in the attitude of neo-classical economists and their political followers to “innovation”. The general idea is that nothing will be invented unless companies are given extended monopoly rights (patents) over the invention to enable them to recoup their investment. This is not only historically wrong (most innovation has been done or financed by government), it can also have the effect of keeping life-saving inventions off the market.

Dr. Shamel Azmeh **points out** that it would have been perfectly possible to develop ventilators “simple enough to be stockpiled and quickly deployed”, but a prototype of such a ventilator commissioned by the US government was aborted in 2012, after the private company concerned was acquired by a large producer of “expensive, immobile, highly technical, difficult to use” ventilators suitable for a rich-country market. This kind of suppression of useful medical tools is little short of criminal.

A final cause of unnecessary shortages is the West’s dogmatic reliance on global supply chains. It is obviously more “efficient” to have something produced in a cheap labour location than through more expensive domestic labour. But what happens when supplies from China are interrupted, because of sudden increased demand in China? (As reportedly happened in the case of surgical masks.)

The Noah’s Ark problem can never be entirely avoided because extreme, unexpected events will continue to occur. But we can at least be better prepared for the next pandemic. The fact Covid-19 was unexpected should not stop us taking precautions against this class of disaster.

Key measures would include:

1. Stockpiling. Billions of dollars are spent stockpiling weapons of mass destruction. The same logic should be applied to stockpiling weapons of mass salvation. For example, a world authority could be tasked with maintaining a strategic reserve of medical supplies needed to support the life of everyone on earth for three months – in the face of a limited range of drastic events. This should be financed by taxes levied on states in proportion to their national incomes. Such stockpiling could also be done nationally or regionally: the EU would be an ideal place to start. If this was accompanied by multilateral disarmament, it might even be possible to reduce taxes.
2. No patent laws should apply to medical innovation. Public contracts and prizes should be the only incentive.
3. Countries which can afford to should retain enough spare domestic capacity to scale up medical production rapidly if needed. This would be in addition to stockpiling. Part of this spare capacity should be automatically available to counter medical crises in the developing world. The logic of globalisation does not apply to “essential” services.

A final thought: we don't know how to increase the supply of virtue – but we do know how to increase the supply of ventilators.

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Robert Skidelsky is the author of a three-volume biography of J M Keynes, a cross-bench peer and emeritus professor of political economy at the University of Warwick. His most recent book is *Money and Government: The Past and Future of Economics*

**Read the article above and answer the following questions:**

- 1) Why does Robert Skidelsky think about Noah's Ark when thinking about the Covid-19?
- 2) What is the fundamental economic problem?
- 3) How does the current situation illustrate the economic problem?
- 4) The current situation also brings up some serious ethical issues. Can you explain how?
- 5) Why is Just-in-time an undesirable approach according to the author?

**Activity 3 – Further reading**

At the start of Year 12 you will be issued with a reading list of recommended titles for Economics and Business. Here are books you might want to read:

Ha-Joon Chang	Economics: The User's Guide (2014)* 23 Things They Don't Tell You About Capitalism (2011)*
Tim Harford	<a href="http://www.youtube.com/watch?v=Ex-2LlyS6YI">http://www.youtube.com/watch?v=Ex-2LlyS6YI</a> Adapt: Why success always starts with failure (2012)* The Undercover Economist strikes back: How to ruin an economy (2014)*
Steven Levitt Stephen J Dubner	Freakonomics (2005)* Superfreakonomics (2009)* Think Like a Freak (2015)*

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