

Supply Side exercise

A lot of supply side content has been covered elsewhere – in Investment and AS functions. This is an exercise designed to bring it all together using recent budgets.

Instructions:

Break the students into small groups and give each group the budget highlights from one year. Their task is for each policy from their budget to:

- 1) Work out what the policy is supposed to do in general
- 2) Work out what aspect of quantity/quality/efficiency of use of labour/capital/product markets it is intended to improve
- 3) Be able to link the policy to the AS function – explain why exactly the policy will cause horizontal or vertical shifts in the AS function
- 4) Think about what might go wrong/why the policy might be ineffective/counterproductive etc.

Once this has been done, get each group to feed back their main findings to the room as a whole – perhaps choose the two policies they think are best together with the limitations of those policies.

Collectively a big grid of SSPs by labour/capital/product market and quantity/quality/efficiency of use could be added to on a shared document, interactive white board or a piece of flipchart paper.

Budget 2008

In each case explain briefly, why the policy might help the Aggregate Supply schedule (curve) to shift, how it will help the UK achieve its policy objectives and what problems you might foresee.

- the next stage in the Government's reforms to simplify the tax system and to make work pay is cutting the basic rate of income tax from 22 pence to 20 pence from April 2008;
- major reforms to the corporate tax system, reducing the headline corporation tax rate from 30 per cent to 28 per cent from April 2008;
- Investment in education and skills in the UK to rise to £90 billion by 2010-11;
- the restriction of tax relief available on empty commercial properties, to encourage the supply of office, retail and industrial premises;
- steps to simplify the tax system and business support to enable business to focus on growing and innovating;

Budget 2011

In each case explain briefly, why the policy might help the Aggregate Supply schedule (curve) to shift, how it will help the UK achieve its policy objectives and what problems you might foresee.

- a reduction in the main rate of corporation tax by a further one per cent. From April 2011, the rate will be reduced to 26 per cent with further yearly reductions of one per cent until 2014 when it will reach 23 per cent;
- dropping existing proposals for specific regulations which would have cost business over £350m a year;
- £100m for local authorities to repair potholes caused by the cold winter weather;
- increase the rate of R&D tax credits for small and medium-sized enterprises from 175 per cent to 225 per cent by April 2012;
- 21 new Enterprise Zones, to focus growth in specific parts of the UK.
- funding for an additional 80,000 work experience placements for young people over the next two years and up to 50,000 additional apprenticeship places over the next four years;

Budget 2010

In each case explain briefly, why the policy might help the Aggregate Supply schedule (curve) to shift, how it will help the UK achieve its policy objectives and what problems you might foresee.

- A reduction in corporation tax from 28 to 24 per cent over the course of four financial years from April 2011, giving Britain the lowest rate in the G7 and one of the lowest in the G20.
- A reduction in the small profits rate of corporation tax to 20 per cent from April 2011, instead of the planned increase to 22 per cent.
- Cutting national insurance, making it cheaper for companies to employ people. The threshold at which employers start to pay National Insurance will be raised by £21 per week above indexation in April 2011.
- A new tax scheme to help create new jobs in parts of Britain outside the Greater South East by exempting new businesses from up to £5,000 of employer National Insurance Contributions payments for each of their first 10 employees hired.
- The Enterprise Finance Guarantee (EFG) supports lending to small businesses that find it difficult to access normal commercial loans. To ensure that more small firms have access to credit, the EFG will be increased by £200 million to support £700 million of additional lending until 31 March 2011.

Budget 2009

In each case explain briefly, why the policy might help the Aggregate Supply schedule (curve) to shift, how it will help the UK achieve its policy objectives and what problems you might foresee.

- a £750 million Strategic Investment Fund to support advanced industrial projects of strategic importance, of which a third of the funding will be earmarked for low carbon projects and to help make the UK a worldwide leader, £405 million to support low-carbon industries and advanced green manufacturing, such as wind energy; and
- a guaranteed job, training or work placement for all 18-24 year olds who reach 12 months unemployed to ensure no young people are left behind due to long term unemployment;
- an additional payment alongside this year's Winter Fuel Payment, worth a £600 million funding package of measures to build more homes through unlocking sites currently sitting dormant;
- additional funding for Jobcentre Plus to help move people back into work;
- that the September Guarantee of a place in education and training to every 16 and 17 year old who wants one will be met in full - an extra 54,500 student places in the next academic year;

Budget 2012

In each case explain briefly, why the policy might help the Aggregate Supply schedule (curve) to shift, how it will help the UK achieve its policy objectives and what problems you might foresee.

Reforms to support growth

The Government will:

- Confirm selection of Belfast, Birmingham, Bradford, Bristol, Cardiff, Edinburgh, Leeds, London, Manchester and Newcastle to become broadband super-connected cities, as part of the £100 million investment announced at 2011 Autumn Statement. £50m will be used to fund a second wave of cities.
- Introduce corporation tax reliefs from April 2013 for the video games, animation and high-end television industries, subject to state aid approval; and following consultation:

A fairer, more efficient and simpler tax system

- Increasing an individual's income tax personal allowance by a further £1,100 in April 2013, taking it to £9,205 in total;
- Reducing the top rate of income tax from 50 per cent to 45 per cent in April 2013;
- Reducing the main rate of corporation tax by an additional one per cent, so that the rate will reduce from 26 per cent to 24 per cent in April 2012, to 23 per cent in April 2013 and will come down to 22 per cent by April 2014.

Budget 2013

In each case explain briefly, why the policy might help the Aggregate Supply schedule (curve) to shift, how it will help the UK achieve its policy objectives and what problems you might foresee.

The Government will:

- make the UK tax system the most competitive in the G20 by reducing the main rate of corporation tax by an additional 1 percentage point in April 2015, so it reaches 20 per cent, the joint lowest level in the G20;
- increase capital spending plans by £3 billion a year from 2015-16, to lock in recent increases in capital spending over the Spending Review 2010 period, funded through reductions in current spending. As a result, public investment as a share of GDP will be higher on average over this Parliament and the next Parliament collectively than it was under the previous government. The Government will also set out long-term plans to 2020-21 for the most economically valuable areas of capital expenditure in the 2015-16 Spending Round;
- provide £1.6 billion of funding to support strategies in 11 key sectors as part of its industrial strategy. From this fund the Government, in partnership with industry, will create an Aerospace Technology Institute, which will provide a total of £2.1 billion of research and development support over seven years, with the Government and industry contributing equal shares;
- introduce a package of support for the UK shale gas industry including introducing a new shale gas field allowance and extending the ring fence expenditure supplement from six to ten years for shale gas projects, to promote investment in the industry at an early stage of its development.
- invest in new affordable homes by doubling the existing affordable homes guarantee programme, providing up to an additional £225 million to support a further 15,000 affordable homes in England by 2015
- meet its commitment to make the first £10,000 of income free from income tax a year ahead of schedule: the personal allowance will be increased by £560 to £10,000 in 2014-15. By April 2014, 2.7 million low income individuals under 65 will have been lifted out of income tax altogether and from April 2014 the typical basic rate taxpayer will pay £705 less income tax a year in cash terms as a result of this Government's actions;
- introduce a new Tax-Free Childcare Scheme. The Government will support working families with 20 per cent of their childcare costs up to £1,200 per child per year. This new system will be phased in from autumn 2015, over time replacing the existing system of Employer Supported Childcare (ESC). At the point the new offer is introduced, existing members of ESC can choose to remain in that scheme.

Budget 2014

In each case explain briefly, why the policy might help the Aggregate Supply schedule (curve) to shift, how it will help the UK achieve its policy objectives and what problems you might foresee.

- support businesses across the UK to invest and expand by doubling the annual investment allowance to £500,000 until the end of 2015
- take further action to boost housing supply by extending the Help to Buy: equity loan scheme, creating a £500 million Builders Finance Fund to provide loans to SME housing developers, and creating an Urban Development Corporation for a new garden city in Ebbsfleet
- provide £140 million of new funding to repair flood defences that have suffered damage in the recent severe flooding, and provide £200 million to establish a potholes challenge fund
- set out the next steps in the government's industrial strategy, including establishing a new Alan Turing Institute for analysing and identifying useful insights in Big Data, and investing another £74 million over 5 years in the UK's network of Catapults to support the commercialisation of novel technologies
- maximise the benefit of North Sea oil and gas for the UK economy by announcing a new allowance for ultra high pressure, high temperature oil and gas projects, and working with the new oil and gas agency to ensure that the UK's tax regime remains competitive
- reduce taxes by increasing the level of the personal allowance again to £10,500 from April 2015 – meaning that this government's increases to the personal allowance will then be worth £805 to a typical basic rate taxpayer, and over 3.2 million low earners will have been taken out of income tax altogether