**Case Studies**

1. Challenges facing the global fishing industry

2. Railway

**Question for discussion:**

**Qn: The recent Covid-19 crisis has contributed to extensive disruption of the world economy in terms of the absence of production, failure crop harvest, distribution of resources for production and supply chain breakdown. At the same time, the lockdown has led to the reduction of consumption and disruption of infrastructural development by the state.

i) Using the PPC diagram, explain how the Covid-19 can affect the economy. (6)**

The Covid-19 Crisis affects the economy as there would be reduction in the production and production capacity. The reduction in consumption and the disruption of infrastructural development means that there would be under-utilization of resources for production which leads to inward shift of the production level, implying that there would be lesser production of both consumer and capital goods. At the same time, bad harvest, failures in the distribution of the resources and supply chain breakdown undermines the economy from developing its production capacity and this would cause an inward shift of the PPC , reducing the availability of resources for production which means that there is reduction in production capacity. This implies that the economy is experiencing both reduction in actual and potential growth.

Diagram

As seen from the diagram, the original production level of the economy is at A where the production level is on the PPC I where the output level of the consumer goods is Q1 and capital goods is Q1. The crisis causes a reduction in the level of production of capital and consumer goods and reduces the output of both goods to Q2. The reduction in the production capacity is seen by the inward shift of the production possibility curve from PPC I to PPC II. This implies that the economy has reduction in both actual and potential growth.

Case Study

1. GCE A Level H1 Economics 2018 Question 1

**Challenges facing the global fishing industry**

**Extract 1: Illegal fishing off the coast of Africa**

West Africa suffers more proportionately from illegal fishing than any other region in the world, with an annual loss of US$1.3 billion. Rising global demand for fish has attracted fishing fleets from around the world to the African waters. Trawlers from Europe are still the primary foreign presence, but fleets from Russia, China, South Korea and other East Asian countries have also expanded in recent years.

The illegal fishing reduces revenue and jobs for the region, but also puts extra pressure on fish stocks worldwide and harms the total marine environment, for example by damaging habitats and discharging waste into the sea. Too often, as well, African nations lack the capacity to monitor and enforce fishing regulations, so that concerted international action is needed.

Source: Africa Progress Panel, 19 June 2014

(a) (i) Using a production possibility curve diagram, explain the trade-off that exists between fish farmed for food use and fish farmed for non-food use. [2]

(ii) Explain the likely opportunity cost of catching and landing large numbers of young, under-sized fish. [3]

2. ACJC H2 Economics 2018 Prelims Question 1

**Railway**

**Extract 1: Connecting Britain**

High-Speed 2 (HS2) is a planned rail network between London, the West Midlands and the North. It will be the biggest construction project in Europe and it is expected to bring great economic benefits to the country. The construction of HS2 will be a major generator of jobs and businesses directly linked to the project. The benefits will fall across a wide range of industrial sectors from the construction sector to the civil engineering and rail industries.

Beyond the construction of the railways and stations themselves, associated development triggered by HS2 can have an important impact on the economy. There is evidence that infrastructure has a stronger positive effect on growth.

However, many who live along the proposed route are naturally opposed to the project. One major reason is obviously the prospect of years of disruptive construction work, followed by up to 28 trains an hour screaming past their homes and villages at speeds of up to 400km/h.

The Institute of Economic Affairs (IEA), predicts that costs will be greater while the economic benefits will be lower than what the government has forecasted.

The overall costs would be higher for a number of reasons, ranging from minor costs such as compensation for disruption during the construction work being paid to residents staying near construction sites, to major expenses arising from a resulting need to expand and upgrade existing stations that are going to link to the HS2. Moreover, when operating costs are added to the initial investment of HS2, the overall cost could increase substantially.

Furthermore, the overall revenue from ticket sales are unlikely to match expectations stated by the UK government.

*Source: GOV.UK developer docs, accessed 20 July 2019*

(c) Extract 1 explains that the UK government is considering building the High-Speed 2 (HS2) rail network to improve rail connections in the country.

(i) Explain a possible opportunity cost that the government might incur in the building of HS2 rail network. [2]

(ii) Explain how the production possibility curve of the economy will change when the High-speed 2 (HS2) rail network is completed. (5)

Answer

(i) Opportunity cost is the forgone **value** of the **next best** alternative. If the UK government built the HS2, the government might have forgone the benefit of spending on higher education such as making the UK a more attractive place for FDI.

(ii) When the rail network is completed, it can be observed that the production possibility curve expands and shifts outward from PPC 1 to PPC 2 as there is a higher level of production capacity to enable the economy to increase production. There is a higher degree of mobility of resources which expands the availability of resources, enabling the economy to increase production of the goods and services. As a result, the economy moves from the production level within the production possibility curve to the production level on the PPC 1 as there is a greater utilization of resources for production, made possible by the HS2 rail network. Consequently, we can observe that there is actual and potential growth in the economy as there is a higher level of output and the outward shift of the production possibility curve.

As seen from the diagram, the building of the HS2 network will shift the PPC from PPC1 to PPC2 indicating that there is potential growth. This enables the production of both consumer and capital goods in the UK to increase from Q1 to Q2, indicating that there is actual growth.