

CONTENTS

| | | |
|---|--|-----|
| | Preface | x |
| | Acknowledgements | xii |
| 1. Changes in the UK economic structure | Synopsis | 1 |
| | Structure defined | 1 |
| | Structural change in the UK | 3 |
| | Causes of structural change | 10 |
| | Consequences of structural change | 22 |
| | Conclusion | 25 |
| | Notes | 25 |
| | References | 26 |
| 2. Company accounts as a source of financial information | Synopsis | 27 |
| | Company accounts and the assessment of company performance | 27 |
| | International Accounting Standards | 42 |
| | External Sources of financial information | 43 |
| | Conclusion | 49 |
| | Notes | 49 |
| | References | 50 |
| 3. Firm objectives and firm behaviour | Synopsis | 51 |
| | Firms' objectives | 51 |
| | Firm behaviour | 58 |
| | Conclusion | 65 |
| | Notes | 66 |
| | References and further reading | 66 |
| 4. The small firm | Synopsis | 68 |
| | Definition of the small firm | 68 |
| | Importance of the small firm | 69 |
| | The neglect of small firms | 72 |
| | The renewed interest in small firms | 73 |
| | Measures to help small firms | 75 |
| | European Union Policy for small firms | 81 |
| | Conclusion | 82 |
| | Note | 83 |
| | References and further reading | 83 |
| 5. Mergers and acquisitions in the growth of the firm | Synopsis | 85 |
| | Definitions | 85 |
| | Types of merger | 86 |
| | Economic theory and merger activity | 87 |
| | Trends in UK merger activity 1949-1994 | 93 |

| | | |
|-----|--|------|
| | Control of mergers and acquisitions | 96 |
| | Corporate restructuring | 110 |
| | Conclusion | 112 |
| | Notes | 112 |
| | References | 113 |
| 6. | Oligopoly | 115 |
| | Synopsis | 115 |
| | Definition and measurement of oligopoly | 115 |
| | Oligopoly in theory and practice | 120 |
| | Conclusion | 132 |
| | Notes | 132 |
| | References | 133 |
| 7. | The multinational corporation | 134 |
| | Synopsis | 134 |
| | What is a multinational corporation? | 134 |
| | How important are the multinationals? | 135 |
| | Multinationals and the UK economy | 137 |
| | Why do companies become multinational? | 140 |
| | Foreign direct investment | 147 |
| | The impact of multinationals on the UK economy | 150 |
| | Conclusion | 160 |
| | References and further reading | 161 |
| 8. | Privatization and the nationalized industries | 162 |
| | Synopsis | 162 |
| | Nature and importance | 162 |
| | Reasons for nationalization | 163 |
| | Issues facing nationalized industries | 165 |
| | Performance of the nationalized industries | 172 |
| | Privatization | 173 |
| | International privatization | 185 |
| | Conclusion | 187 |
| | Notes | 187 |
| | References and further reading | 187 |
| 9. | Pricing in practice | 188 |
| | Synopsis | 188 |
| | Pricing in theory | 188 |
| | Pricing in practice | 190 |
| | Conclusion | 202 |
| | Notes | 202 |
| | References | 203 |
| 10. | Economics of the environment | 205 |
| | Synopsis | 205 |
| | Role of the environment | 205 |
| | Sustainable growth | 207 |
| | Sustainable economic welfare | 210 |
| | Global environmental changes | 211 |
| | Cost-benefit analysis and the environment | 214 |
| | Market-based and non-market-based incentives | 217 |
| | Applications of environmental policies | 2210 |
| | Transport and the environment | 227 |

| | | |
|-----------------------------------|--|-----|
| | Implementation of policy types | 232 |
| | Conclusion | 235 |
| | References and further reading | 235 |
| 11. Transport | Synopsis | 237 |
| | Characteristics of transport | 237 |
| | The demand for transport | 240 |
| | The supply of road space | 242 |
| | Road transport congestion | 246 |
| | Government transport policy – regulation or competition? | 254 |
| | Government's free market policy – case studies | 256 |
| | Conclusion | 263 |
| | References and further reading | 264 |
| 12. Social policy | Synopsis | 266 |
| | The Welfare State | 266 |
| | Quasi-markets in welfare provision | 270 |
| | Health care | 271 |
| | Education and training | 282 |
| | Housing | 286 |
| | Conclusion | 290 |
| | Note | 290 |
| | Appendix 1. Stages of redistribution and definitions of income | 291 |
| | References and further reading | 291 |
| 13. Consumption and saving | Synopsis | 293 |
| | Consumption | 293 |
| | The Keynesian consumption function | 294 |
| | Post-Keynesian theories of the consumption function | 299 |
| | The savings ratio | 306 |
| | Forecasting consumer spending | 311 |
| | Conclusion | 312 |
| | Notes | 312 |
| | References and further reading | 313 |
| 14. Investment | Synopsis | 314 |
| | Nature of investment | 314 |
| | Gross Domestic Fixed Capital Formation | 315 |
| | The importance of investment | 325 |
| | Conclusion | 328 |
| | Note | 328 |
| | References | 329 |
| 15. Public Expenditure | Synopsis | 331 |
| | Trends in UK public spending | 331 |
| | Components of UK public spending | 333 |
| | The size of public expenditure | 337 |
| | Explanations of the growth in public expenditure | 338 |
| | International comparisons of public expenditure | 340 |
| | Should public expenditure be restricted? | 341 |
| | Public expenditure planning, monitoring and control | 343 |

| | | |
|------------------------------------|---|-----|
| | New Control Total | 348 |
| | Has the Conservative government controlled public spending? | 348 |
| | Conclusion | 350 |
| | Notes | 351 |
| | References and further reading | 351 |
| 16. Taxation | Synopsis | 353 |
| | The taxes that are collected: some taxation concepts | 353 |
| | The pattern of UK taxation | 357 |
| | Does the level of taxation matter? | 363 |
| | Direct vs indirect taxes | 369 |
| | Tax and social security reform | 371 |
| | Conclusion | 378 |
| | Notes | 378 |
| | References and further reading | 378 |
| 17. The UK financial system | Synopsis | 380 |
| | Role of financial institutions | 380 |
| | The UK financial systems | 381 |
| | Financial institutions | 385 |
| | Financial markets | 399 |
| | The key features of the single financial market | 407 |
| | The new challenges for the financial services sector | 409 |
| | References | 410 |
| 18. Money | Synopsis | 412 |
| | The nature of money | 412 |
| | The importance of money | 414 |
| | Counting the money stock | 418 |
| | Monetary control | 424 |
| | Assessment of monetary policy in the 1980s | 434 |
| | Assessing monetary control in the 1980s | 438 |
| | Conclusions | 441 |
| | References and further reading | 442 |
| 19. Inflation | Synopsis | 443 |
| | The definition and measurement of inflation | 443 |
| | Low inflation as a policy objective | 449 |
| | Economic theory and inflation | 454 |
| | The policy implications of the two views of inflation | 470 |
| | Central Bank Independence and the ERM | 477 |
| | Notes | 478 |
| | References | 478 |
| 20. Unemployment | Synopsis | 480 |
| | Unemployment in the UK | 480 |
| | International comparisons | 487 |
| | Unemployment and economic theory | 488 |
| | Why did unemployment increase? | 496 |
| | Why did these adverse developments have such an effect on unemployment? | 498 |

| | | |
|--|---|-----|
| | Sources of persistence in EU unemployment | 500 |
| | Notes | 504 |
| | References and further reading | 505 |
| 21. Regional and urban policy | Synopsis | 506 |
| | The regions and their characteristics | 506 |
| | The regional problem | 506 |
| | Regional policy in the UK | 511 |
| | The policy instruments | 513 |
| | The effectiveness of regional policy | 515 |
| | The urban problem | 520 |
| | Urban policy in the UK | 522 |
| | 1994 – the effectiveness of urban policy | 528 |
| | Conclusion | 531 |
| | Notes | 531 |
| | References and further reading | 532 |
| 22. Trade unions, wages and collective bargaining | Synopsis | 534 |
| | Types of trade union | 534 |
| | Trade unions and change | 538 |
| | The employers | 541 |
| | The structure of collective bargaining | 549 |
| | Wage determination and collective bargaining | 549 |
| | The effects of collective bargaining | 556 |
| | Conclusion | 559 |
| | Notes | 559 |
| | Appendix | 560 |
| | References and further reading | 560 |
| 23. Distribution of income and wealth | Synopsis | 563 |
| | Distribution and justice | 563 |
| | Issues in distribution | 563 |
| | Income distribution between people | 564 |
| | Income distribution between factors of production | 568 |
| | The earnings distribution | 569 |
| | Distribution of wealth | 573 |
| | Poverty | 575 |
| | Poverty in UK/EU | 577 |
| | Conclusion | 578 |
| | References | 579 |
| 24. Exchange rates | Synopsis | 580 |
| | The foreign exchange market | 580 |
| | Exchange rate definitions | 583 |
| | Exchange rate determination | 585 |
| | Economic policy and the exchange rate | 597 |
| | The gold standard system | 600 |
| | The IMF system | 601 |
| | The floating exchange rate system | 603 |
| | Notes | 604 |
| | References | 605 |

| | | |
|--|--|--|
| 25. United Kingdom trade performance | Synopsis The nature of the problem Reasons behind UK trade performance The importance of visible trade for the UK Conclusion Notes References and further reading | 606 606 611 626 630 631 631 |
| 26. Free trade, regional trading blocs and protectionism | Synopsis Free trade Regional trading arrangements Protectionism Conclusion Notes References and further reading | 635 635 638 641 651 651 652 |
| 27. Managing the economy | Synopsis The objectives of policy The instruments of policy Problems in managing the economy The theory of economic policy Post-war macroeconomic policy in practice Medium-term economic strategy Supply-side strategy Economic policy in an international context Conclusion Notes References | 653 653 654 658 659 663 667 672 676 679 679 681 |
| 28. The European Union | Synopsis Historical background Structure Finance and the EU budget Policy areas The Single European Act, 1986 Conclusion Notes References and further reading | 682 682 685 687 691 708 714 716 717 |
| 29. International money | Synopsis The IMF system World liquidity The current international system – an evaluation International debt Resolving the debt problem Conclusion Notes References and further reading | 720 721 723 730 731 732 744 746 747 |

30. A guide to sources

Synopsis 748
 Statistical sources 748
 Information sources 752
 Other applied materials 754
 Electronic media 756

...in the level of analysis, and indeed in the balance between information and theory. All the book is best read in conjunction with a good introductory text on the theory of wages.

...many individuals for help during the course of this project. However, each of the contributors to the various chapters, and this is acknowledged more fully at the end of the book. Thanks are also due to Professor James Meade and Dr Paul Samuelson for help on particular aspects of the manuscript. We would also like to thank Olga Peppercorn, Librarian at the Department of Applied Economics, Cambridge University, for access to a wide range of journals and periodicals for information on contemporary events. That the exercises in this book are ultimately worth while is a quality expressed by Professor James Meade in the following quotation taken with his permission from a letter to the author:

...the courses. Our intention is to provide a guide to the economic events and events. Accordingly, in this book the application of theory to the application of basic economic theory to the UK economy which combine information and analysis in a very wide range of topics. The book is intended for undergraduate students in the first and second years of degree courses in economics, the social sciences and business studies, and for those taking professional courses with an economic content. The material will also be useful to many involved in Higher and National Diplomas and Certificates of the BTEC, and to the serious A level student. Much of the content begins at an introductory level and is suitable to those with little or no previous exposure to economics, although the diverse nature of the various topic areas inevitably means

Our hope is that Applied Economics will take the reader some distance along this route by combining information with analysis over twenty-nine separate topic areas. The book also examines in detail the major economic issues arising within each topic area. These are of interest in their own right and, more pragmatically, often form the substance of examination questions. Although the focus of Applied Economics is the UK, extensive reference is made throughout to the experience of the other advanced industrialized countries, helping the reader place any observations on the UK in a broader international context.

Each chapter concentrates on a particular topic area and begins with a synopsis setting out the issues to be investigated, and ends with a conclusion, reviewing the major findings. The largely self-contained nature of each chapter gives the book a useful degree of flexibility. For instance chapters can be read selectively, in any order appropriate to the reader's interest or to the stage reached in a programme of study. This may be helpful to the reader as courses rarely follow the same sequence of topics. On the other hand the topics have been arranged with an element of progression, so that the reader may begin at Chapter 1 and read the chapters consecutively. The book then takes the form of a 'course' in applied economics.

Applied Economics is designed for undergraduate students in the first and second years of degree courses in economics, the social sciences and business studies, and for those taking professional courses with an economic content. The material will also be useful to many involved in Higher and National Diplomas and Certificates of the BTEC, and to the serious A level student. Much of the content begins at an introductory level and is suitable to those with little or no previous exposure to economics, although the diverse nature of the various topic areas inevitably means