

# THE CATSE 100



## The Christmas Edition - December 2021



**Welcome to our Christmas edition!**  
**See what's new**

### IN THIS EDITION

*This is our last newsletter for 2021 and we will be covering some of the key financial and business issues facing firms and the economy as we move into 2022 as well as some interesting philosophical topics*

Having faced nearly two years of severe disruption alongside previously untested economic and social restrictions, many businesses are in a very vulnerable state.

This Christmas period should be a vital boost to help businesses recover from the difficulties of the last two years. However, the threat of restrictions returning as a response to the Omicron variant, alongside reduced business resilience and consumer confidence, makes it difficult for some industries, especially travel and hospitality, to survive.



The coming year will be one of increased taxation on individuals and businesses, increased inflation, debt repayment of government loans, continued supply chain disruption and rising wage pressures - a tumultuous and interesting year lies ahead!

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## How to manage the expected rise in inflation in the UK

**DAN YENDALL**

Inflation is the measure of how much the prices of goods and services have risen over time. There are various indices that can be used to measure inflation. Currently, the most used index in the UK is the CPI (Consumer Price Index) and this examines the weighted average of prices of a basket of 700 consumer goods and services. The inflation target is 2%, though the actual current measured rate is higher than 4% with an estimate that by spring 2022 it will have exceeded 5%. As of now, there are 2 dominant sets of

expectations of what will happen to the inflation rate towards the end of this year.

The first, held by the Bank of England and the government is that little intervention needs to occur as the inflation rate is transient and will reduce in the coming year. Andrew Bailey, the governor of the Bank of England believes that inflation will reduce because the inflation baseline in 2020 was low due to the pandemic and the 'Eat Out to Help Out' scheme and therefore, the change for the current year is heightened. He also believes that the specific supply chain issues of increased global shipping costs and the shortage of semiconductors had

an exaggerating effect on inflation and will drop away as these are resolved

His conclusion in his Bank of England letter to the Chancellor, initiated by the inflation rate being over 1% higher than target, was that although inflation is expected to rise to over 4% in 2021 Q4 this will not be sustained, and no interest rate changes are required now.

The alternative viewpoint from other analysts is that the inflation rate could increase much higher. The policy of quantitative easing is an inflationary tool because it increases the money supply. This policy has been a key government tool since March 2009 after the financial crisis. However, during the pandemic QE gave money not only financial institutions but also directly to consumers via furlough assistance. This is an untested and unpredictable factor in inflationary trends. In addition, traders in markets today are less experienced at dealing with the volatility of an inflationary market. This combined with lower GDP growth than anticipated and the end of the furlough scheme creates an uncertainty that the markets will integrate into their prices as a potential risk factor, driving up the inflation rate.



## Dan Yendall

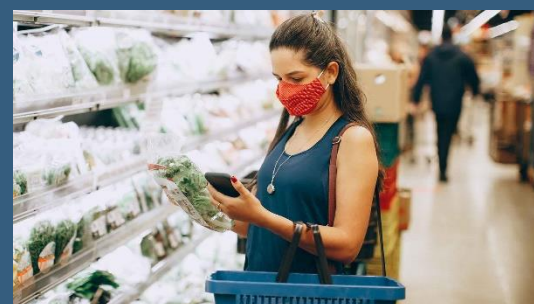


There are two main demand-side policies that can be used to deal with this expected rise in inflation. The first is a deflationary monetary policy. This involves the Bank of England increasing the interest rate to increase the amount of money consumers save and reduce the amount they spend. Wage controls can also reduce consumer spending, but this is difficult to enforce and can lead to a spiral of wage inflation demands and strikes. This reduction in spending

theoretically brings about a reduced which in turn cause excess aggregate supply, driving down the price level and therefore inflation. Similarly, the second policy of deflationary fiscal policy increases the tax rates on consumers through higher income tax, to reduce their disposable income and ability to spend. This reduction in consumption again should reduce the aggregate demand for goods and services in the economy, driving down the price level. There are supply-side policies to control inflation by increasing long term competitiveness and productivity, but this takes a long time to have an impact and has no guarantee of success in the short or long term.

Huw Pill, the Bank of England chief economist has warned inflation could reach 5% but there was no decision to raise interest rates at the November meeting of the MPC (Monetary Policy Committee). The December MPC meeting

will be the one to watch as an increase in interest rates will be a sign that inflationary pressures are worse than expected. However, the effect of Omicron might put paid to that. Watch this space.





## Southeastern Railway - becoming nationalised

**OLI WILLOUGHBY**

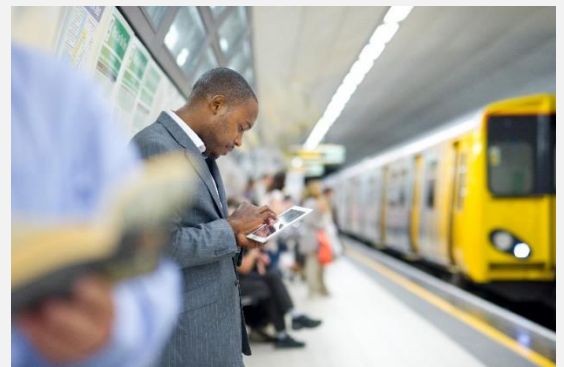
Recently Southeastern railway has become nationalised after failing to declare more than £25 million of taxpayers funding. Grant Shapps, Secretary of State for Transport, who ordered the takeover said, 'There is clear, compelling, and serious evidence that LSER (London & Southeastern Railway) have breached the trust that is absolutely fundamental to the success of our railways.' LSER are the third railway network to be nationalised after London Northeastern Railway and Northern. The fee owed was going to be reinvested into the HS1 route between the British channel and London.



Even though the consumers won't experience a change in their daily commute, the trains and rails will be owned by a different body. The Government initially privatized the railway firms to make the networks more efficient using innovation. Firms could produce abnormal profit which could be reinvested to stimulate dynamic efficiency.



Furthermore, the sale of the railways would raise funds to the government to be invested into other places. Even though railways are natural monopolies the government has found ways to stop them exploiting their powers.



## Oli Willoughby



For example, there are quality checks for all railways ensuring that the private firms must reinvest to keep having high quality services. The decision to place LSER under government control could

have influenced the government to implement a major overhaul of all the UK's railways. This could result in the national rail network being owned by one body, to stop private firms exploiting the consumers. The pandemic broke a lot of models for funding and operating public transport.

The government's plan is that Britain's trains will continue to be operated by private companies but, the railways will be overseen by a new body called Great British Railways. This plan could also be positive for the environment by the UK looking at ways to introduce more eco-friendly trains.





# Does all power originate from manipulation?

**VICKI MILLER**

Fear, intimidation, and manipulation — often, this is our typical association with power. By society too often casting ‘power’ into a negative light, we simply overlook the prospect for a more positive viewpoint. For some, it seems inexplicable to deploy hope and power in the same sentence, as these two concepts could not be further apart. While there are a multitude of cases where considerable power is gained from deception, there are also countless examples of power being used to a positive effect. These positive cases however, tend to receive less,

recognition than deserved, hence, upholding society’s negative perception of power.



When interrogating the concept of power, it is clear why we frequently hold negative preconceptions. This is evidenced by research, which revealed, that those in positions of high power can be egotistical and controlling individuals.

For example, it has been found that a business CEO is four times more likely, than the average person, to show extreme psychopathic traits. Psychopaths are people pleasers and generally have exceptional conversation skills, due to the lack of social inhibitions that hold others back. Furthermore, they have no concern for others and can be ruthless with ease — a trait which thrives in the business world, especially not being afraid to make difficult decisions. They also have an innate longing for dominance over others and strategically create a ‘game plan’ to achieve this. While cases of this mental disorder seem too rare to create any solid claims, the method of manipulation is far from unique to a psychopath and unfortunately, much more common than you may expect. When you look at companies like Disney, for instance, all we notice is the success, magic, and enormity of the brand, whereas if you look closer, much of this is built from the destruction and exploitation of the vulnerable. For each doll that Disney sells (£35), the workers making it in the Wah Tung factory in China receive only 1p and in addition, they average over 150 hours of overtime work a month in poor conditions. Still, it is not only workers that Disney might be viewed as manipulating, but society, by allowing us to fall into this ploy — supporting a business which has caused unquantifiable despair to so many. The power Disney have over their consumers and competitors is largely due to unethical globalization and manipulation, that the majority may be unaware of.

On the other hand, it seems harsh to argue that all power originates from manipulation, as this assumes there is an objective definition of power, when, the concept is much more complex. Power is not just negatively enforcing views on others, but also positively inspiring and promoting change in aspects of the world where this is required. Cases that present power in a positive light simply lack acknowledgement

## Vicki Miller



in comparison to it being feared, this is particularly true in the media. The president of New Zealand, Jacinda Ardern, has been seen to encourage a new form of leadership and power, one with compassion at the center, rather than merely manipulation.

An example is when she took a 20% decrease in wages in solidarity for those who lost jobs and suffered from the Coronavirus lockdown. While this is a clear example of where power is something to be appreciated, there were little reports on this in the media and it

was rarely spoken about. In contrast, in April 2020, when this took place, most media attention was on Donald Trump’s contentious coronavirus briefings. This points out a prominent flaw in our society, we too often focus on the negative, rather than celebrating the positive, as if we need something to always fear and be wary of, rather than something to look up to. Power and hope are too often seen as diametrically opposed concepts when this is far from the case. Huge power can come from hope, and hope can even be seen as powerful.

For example, protests are movements of empowerment in the hope for a better future, the power that arises from all peoples coming together with the same end goal, is immense. There have been numerous protests and movements in history that have impacted the world vastly, moving society in a positive direction. One of the most recognized examples of this is the suffragette movement that began in 1897. Throughout the many years of persistent protest, there were several

new laws passed and attitudes drastically changed regarding women’s rights and the injustice that was far too pronounced in society. For example, in February 1918 women over the age of 30 were allowed to vote; in November 1918 women were allowed to stand as MPs and in 1928 everybody over the age of 21 was given the right to vote. It is possible that these changes would never have come about without the optimism, spirit, and persistence of the Suffragettes. Once again showing why power does not always come from manipulation, rather hope.

Power, therefore, is too often misunderstood and misinterpreted, but once you delve into the true complexity and heart of the concept, manipulation and negativity are not at the core. Power is not inherently manipulative but can be easily manipulated. This is what we must be aware of. Though it can be dangerous, power can also be beautiful and a driving force that can have such a positive impact on society, if used correctly.



## The issues with the supply chain

**ARTHUR BOTT**

Recently the UK has been suffering from a major and sustained supply chain crisis. There was a mass shortage of petrol and other key necessities throughout industry. During Covid we have seen an increasing trend away from globalization: the process of hugely increased interconnectedness and decreasing transport costs. Recently, however, in stark opposition to this, we have seen a wave of more inwards thinking nationalism, and this, when combined with the effects of Brexit and Covid policies has led to a huge shortage of labor and increasing transport and logistics costs.



After the Brexit deal that came into effect on the 1st of January 2021 there was a widespread exodus of workers that didn't hold UK citizenship. According to a March 2021 population survey there were 16,000 less EU nationals working as lorry drivers compared to 2020, this was compounded by an existing 60,000-man shortage pre-Covid. The UK's exit from the worst part of the Covid pandemic led into a world of

massively increased consumer spending and the shortage was compounded as existing stockpiles of goods became rapidly depleted and companies were unable to cope with the ever-increasing demand. This major shortage first came about with the mass lorry shortage during the harvesting season in July 2021, where thousands of tons of UK grain was left to rot because of the inability to transport it to mills, forcing existing drivers to work significantly longer hours. These huge issues were further compounded following the end of the summer holidays. As parents and other people became increasingly dependent on traveling again, to get children back to school as well as the necessity to drive into work as the world returned to being in person and less virtual again.



## Arthur Bott



This increased fuel usage consequently manifested itself in a shortage of fuel, as the month previously, a large number of drivers had switch to more agricultural logistics jobs to cope with the harvest pressures that fuel industry and others

were increasingly suffering, from an increased shortage, only compounding the existing shortage. Thus, as the fuel consumption was going up, the supply was going down, leading to the shortage of fuel, soon spreading to other goods as diverse as Nando's and Irn Bru and leading to widespread panic and overconsumption, reminiscent of the hand sanitizer, mask and toilet paper shortages at the start of the pandemic.

Whilst the crisis increasingly seems to be dying down, the government has made it very clear that it's looking for a long-term solution to this to try to stop a repeat. They have opened provisions to train 6,000 new HGV drivers for free and offered

temporary work visas to foreign citizens in order to incentivize them coming back to the UK. Overall, we will have to see the effects of these programs, even if they already seem to be failing; only 300 applications for visas have been put in and the government seems to be over providing for the training with few applicants into those programs; going into the future this will be a topic to follow.



# SCHOOL FOCUS



## The School Café

### OLI BRAND

The brand-new café, located in the concourse, was met with positivity when it first opened last year, however, as with all great things – there had to be a catch! In this case it all comes down to the price of a coffee. Although many may be quick to argue that it is simple supply and demand, the situation is not so straightforward.

The Price Elasticity of Demand (PED) of the school café is likely to be inelastic due to several reasons. Coffee is relatively cheap (as a proportion of income) and caffeine is a potentially addictive substance but most importantly, there are little to no substitutes for the goods sold at the café. Although you could bring in your own coffee this would (due to practical reasons) limit you to one per day and it would have to be drunk in the morning. Due to regulations enforced by the school, students are unable to leave during the day to purchase food and drink from an alternative vendor.

Therefore, the café has monopoly power and is free to exploit its customers and rake in large abnormal profits



## Oli Brand



Although inflation figures have made headlines recently, the price hikes at the café far exceed the average price rises seen across the economy. At this point a regulator is required to protect the interests of consumers and prevent the further misallocation of resources. A recommended policy could be price capping which could lower prices (using an RPI-X system) or at least limit further increases (using an RPI+K system). This way the lack of competition faced by the café cannot be exploited in the manner currently experienced and students and teachers alike will be protected.



## The UK's Energy Crisis

**ANDREW STEEDMAN**

Since the start of September, 17 energy firms in the UK supplying over 2.5 million customers have collapsed, and subsequently their customers have been transferred to Shell Energy, Eon, EDF and British Gas. The main reason for this is that wholesale natural gas prices have increased amidst colder winters, and increased demand from China. Additionally, natural gas is a non-renewable energy source, so as humans continue to consume natural gas for heating and cooking, supply will decrease, only leading to the price of gas increasing more, and there was a demand side shock from consumers wanting more gas after lockdown eased.



Gas prices started rising in April of this year, from a base price of around 45p per therm (unit of gas), to 160p per therm in November 2021.

In October of this year, Russian President Vladimir Putin announced that they were prepared to stabilize global gas prices. Gazprom, which is Russia's state-owned monopoly gas company may increase exports.



## Andrew Steedman

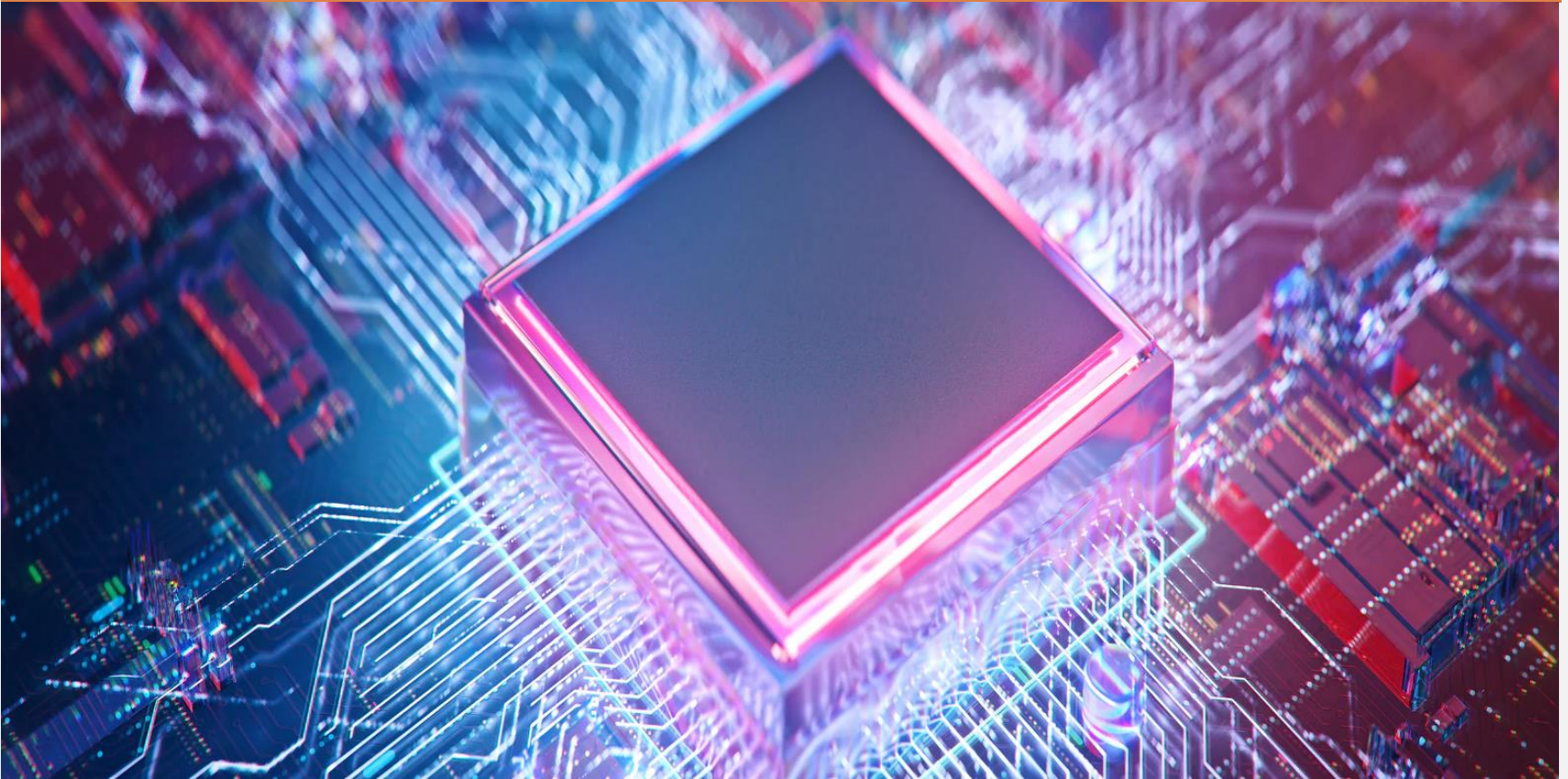


They were limiting exports in order to artificially raise the price of gas, but to avoid a crisis Putin may ensure that they increase their exports. Ukraine, Poland and many other Eastern European countries called upon the

European Commission to determine whether Russia was manipulating the market. Germany stated that "Russia can only deliver gas on the basis of contractual obligations", appearing to side with the Kremlin. Demand for Liquefied Natural Gas has also increased, as consumers wish to switch away from petrol and diesel cars, making LNG become a more desirable option, because it is a more efficient and cleaner fuel.



In the UK, domestic production of natural gas from the Continental Shelf makes up for 48% of the UK demand, with the next largest supplier being Norway. Ofgem (the UK's energy regulator) has implemented an Energy Price Cap to protect consumers.



## What are semiconductors and why is everyone still freaking out about them?

**MARCUS CHANDRA**

For the average person on the street, semiconductor chips most simply explained are electric circuits, found in all our everyday electronic products like toothbrushes, smartphones, washing machines etc.

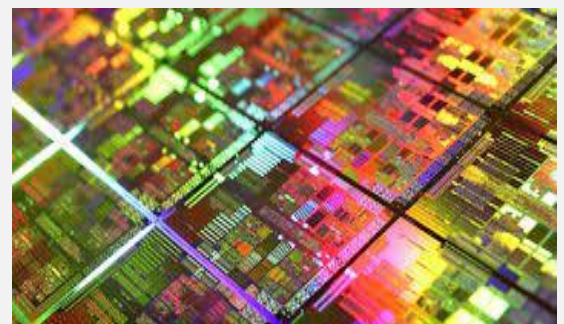
This pandemic has fundamentally changed everything, and like never, we need computers, phones, and game consoles to stay connected through it all. This is part of a larger trend that shows we now live in a much more rapidly



digitalizing world than we did back in 2019, fueling vast derived demand for these chips, microscopic yet crucial components in competing supply. And currently when our economies need them more than ever, we're facing a prolonged shortage of them. This begs the question; what is going to happen

to all our stuff?

Well for starters, many of the big chipmakers are already running at close to full capacity, firms like GlobalFoundries, and most importantly TSMC (Taiwanese firm which possesses half of the revenue share worldwide). Most would agree that the semiconductor industry is TSMC's monopoly, and recently it had announced that due to excessive demand, it would stop its bulk-buy price cuts (second-degree price discrimination), meaning that input costs are being bumped up for production; heavy firms like automakers with as much as a 20% increase in price for chips. This shift in variable cost means that firms are having to cut production and let workers go, among them are Toyota, Ford, and Volkswagen.



## Marcus Chandra



Another consequence is that firms are having to suspend product lines and put releases on hold as chip orders take months to fulfil- Apple had to hold off the iPhone 12 launch for 2 months.

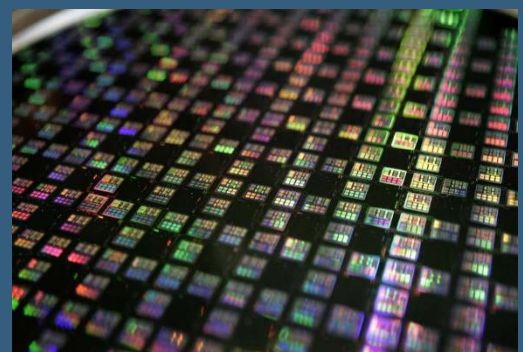
With their scarce supply of chips, firms like Nissan are strategically allocating them by cutting certain functionality like navigation systems and a smart rear-view mirror.

It's likely that we'll observe very marginal increases in price for everyday products due to the shortage, and that we'll have to wait longer for those trendy new products we can't wait to get our hands on.

Food for thought: TSMC is ahead of the game in every way, they are developing the most advanced chips on earth (3nm) with economies of scale and no other competitors can begin to take them up on it. They are in the works of establishing enormous new multi-billion-dollar plants to upscale.

What are the implications of TSMC's growing monopoly power?

*Send in a response to this prompt or the whole editorial to possibly be featured in the next edition!*





# NOTICES

## *Your Newsletter needs you!*

This newsletter is a student led publication and as the current U6 who run it will be leaving a new team is needed to take it over.

## *Who can get involved?*

All year groups can get involved!

## *What can I do?*

There are lots of roles: writing articles, finding artwork, editing, layout and design, production and management.

## *How much time will it take?*

The articles are short form and you can be an occasional contributor or a regular - then take as long as you want to delve into the topic. The production team usually have a couple of short meetings to agree the next issue topics and deadlines and then a final proofread before publication.

## *What other benefits are there?*

Aside from working in a great team of enthusiastic people interested in the same topics as you, it's a great way to delve into business and economics topics that excite you and to share that knowledge. It also enables anyone thinking of doing a degree in economics or business at university to demonstrate many key skills and experience necessary for a brilliant personal statement. The wide and deep topic knowledge plus the organizational, management, liaison skills you will develop are exactly the elements to include in a personal statement to make you stand out from the crowd!

## *This is your newsletter - join the team!*

For any further details or to join the team contact Mrs de Silva