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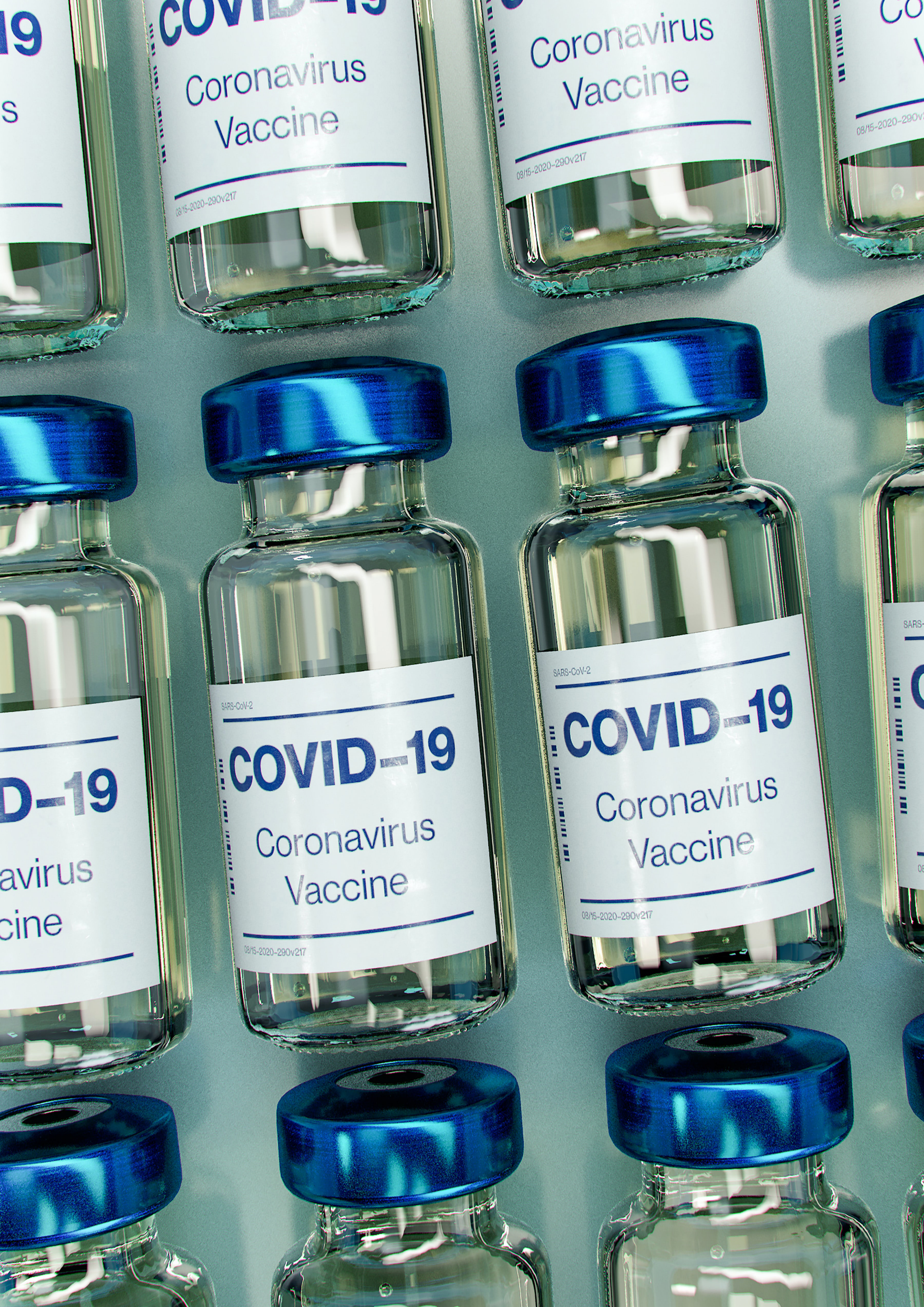

GRIFFENOMICS
NEWSPAPER

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Contents:

Bitcoin
BY Aryann Gupta 4

Olympics
BY Ben Peachell 6

The Gig Economy
BY Ben Dray 8

GameStop
BY Rory King 10

Globalisation
BY Cameron Wood 13

Economics Crossword 14

The Bubble Machine
BY Will Nutbrown 16

The Highstreet
BY Rory King 19

Chinese Involvement in Africa
BY Cameron Butcher 22

Lent Term Essay Competion
BY Rory King 24

With Covid-19 surviving longer than many predicted, we find ourselves in a similar position to that of a year ago when the pandemic first broke out. It is fair to say that whilst people's lives came to an abrupt halt in March 2020 after England imposed its first national lockdown, great change took place all over the world as people were forced to adapt their lifestyles. Nonetheless with large change comes great opportunity, and the impact of Covid-19 has sparked enlightening discussions and views surrounding the topic at hand.

With this in mind, we are delighted to follow in the footsteps of previous Abingdonians and bring to you the fourth issue of Griffenomics. Our range of articles look at topical issues such as what a post-pandemic world could look like along with analysing the disruptions caused along the way, as well as taking a step back and re-visiting the problem of climate change. I would also encourage you to have a go at our crossword, a new addition to the magazine which can be found on page 14 .

On behalf of the whole team, I hope that you enjoy the read and that this latest edition is able to broaden your horizons regarding some of the more recent affairs in economics.

Rory King
Managing Director of Griffenomics

Bitcoin

The Future of finance or just a Ponzi Scheme?

Above:
Bitcoin stock price fluctuations

Bitcoin was created in 2009, following the release of a mysterious whitepaper which expressed the ideas of an individual known solely through his pseudonym of "Satoshi Nakamoto". There is speculation as to whether "Satoshi Nakamoto" is an individual, or a group of people. Over the years multiple people have come forward and claimed to be "Satoshi Nakamoto", but most of these people have since been proven to have been making false claims. While it may seem arcane to be discussing the origins of Bitcoin it is actually quite important as it helps to put into context the decentralised nature of Bitcoin, and this is something that I will touch back on later.

Bitcoin is considered to be the leader or at least the most prominent cryptocurrency out of all the ones we have seen so far. This is partly due to the fact that it has the largest market capitalisation of all the cryptocurrencies. As of the 15th of February 2021, Bitcoin's market cap is just $40 billion shy of $1 trillion.

To understand what purpose Bitcoin serves in today's world we must first understand what are some of the functions of fiat money. The four basic functions that money servers are: unit of account, store of value, medium of exchange and standard of deferred payment. Most preachers of Bitcoin would argue that the US dollar is not a good store of value and neither a good standard of deferred payment. The reasoning behind this is that in fiat currencies such as the US dollar there is huge inflationary pressure, and by holding the US dollar you are essentially losing money due to the debasement that is occurring as a result of the activities of the Federal Reserve. I would strongly agree with those who make that argument as it is certainly a valid argument that can and should be made. Since the start of the 20th century the dollar has lost more than 99% of its value, which just exemplifies that the dollar is neither a good store of value nor a good standard of deferred payment. The point that is trying to be made is that the dollar has no intrinsic value.

However, this raises the question of how bitcoin is different. While one could simply just look at the price action of bitcoin, that is not enough. I do not see Bitcoin having any more intrinsic value than the US dollar. At the end of the day, it is just lines of code, something completely intangible. People do make the argument that with Bitcoin, miners actually have to put in energy to mine bitcoin, whereas the Federal reserve just has to make a few keystrokes and they can print money. This leads to the conclusion that the price of bitcoin is backed by the most natural and basic things: energy. I personally believe that this is faulty logic. Firstly, bitcoin is not convertible back into energy and secondly, of all the value of the energy going into mining bitcoin is nowhere near the value of bitcoin produced as a result.

Going back to the basics of microeconomics, why does something have value? It has value only if it is both scarce and has a use. There is no denying that bitcoin is scarce. In total there can only ever be 21 million bitcoins

"21 million bitcoins"

in circulation and given the fact that over the years many people have lost bitcoins or access to their wallets which they hold bitcoin in, the total accessible supply is estimated to be approximately 3 million less than the maximum supply of 21 million bitcoins. However, I do not see what "use" bitcoin has. I explicitly in my previous paragraph avoided comparing the medium of exchange functionality of the US dollar with bitcoin, as I do not think that bitcoin is meant to be a "currency". This belief that bitcoin is a currency is probably fed by the misnomer of "cryptocurrency". The closest comparative would be gold.

The reason for me dismissing bitcoin as a measure of exchange is due to the fact that currently the transaction fees on the network are too high, and that the network's infrastructure is limited. The Bitcoin network can only process around 5 transactions per second, whereas Visa does around 1,700 transactions per second on average. So there is clearly a scalability problem for bitcoin if it was to be used as a medium of exchange. Another issue would be the volatility of the currency which would make it very hard to settle transactions on an institutional scale, where some transactions are settled T+3. In 3 days, the bitcoin price in USD terms can make more than 40% swings.
I also think that it is important to bring up the fact that this bull run has largely been fuelled by institutional investors and hedge funds. Furthermore, recently we saw the richest man on the
planet announce that his electric vehicle company, Tesla, had acquired $1.5 billion worth of Bitcoin, with future plans to accept bitcoin as payment for their vehicles. I think my views on Tesla are not relevant, but I believe this move to be a ploy by Elon Musk to simply add to the Tesla hype. Most of the institutional money that is moving into bitcoin is speculative money looking for the kind of volatility that they can use to their advantage.

There is also the whole entire space of DeFi and other altcoins which I have not covered, but I feel like those go beyond the scope of this article and require more specific technical expertise.

Policymakers should coordinate internationally to implement the aforementioned policies to reduce these risks from all fronts and, possibly, reverse the effect of climate change.
~ Aryann Gupta

Left:
Bitcoin on 100 dollar note

The Olympics

Is hosting really as great as it seems?

With the Tokyo Olympics in peril to be a second postponement, now seems like the perfect time to evaluate whether the Japanese economy is really missing out from hosting one of the largest and most globally recognised sporting events.

It is very well known that the Olympics bring in a massive influx of tourism which hugely boosts local economies. The 2016 Olympics in Rio de Janeiro attracted 6.6 million tourists and a televised audience of over 5 billion people over the course of the events. With the huge boost in tourism, 56% of the foreign visitors were first time travellers to Brazil, showing the substantial effect that the Olympics has. From the 6.6 million foreign tourists over the course of the event, it is estimated that roughly $6.2 billion were made. There is a similar story from the 2012 London Olympics where "England welcomed more than one visitor every second in June 2013 after the 2012 London Summer Olympics". This is up a drastic 12% from 2012.

"6.6 million foreign tourists"

However, these huge numbers seem stark in comparison to the huge financial drain placed onto the city. Since the 1960 Olympics in Rome, none of the games have been under budget. Bent Flyvbjerg, PHD, and Allison Stewart, MBA, who are both based locally at the University of Oxford's Saïd Business School, said that "in the Games the budget is more like a fictitious minimum that is constantly overspent." This can be seen with the average overrun cost for host cities being a colossal 252%. Not only will this have short term implications, but also long term as demonstrated by the 2004 Athens Olympics. Here there was a 60% cost overrun which is deemed to have worsened the Greek financial crisis.

Above:
Olympic rings at Centennial Olympic Park in Atlanta

Another benefit is that the Olympics is thought to have a positive correlation with increasing the host country's global trade and prestige. Economics professors Robert A. Baade, PhD, and Victor A. Matheson, PhD, stated that "the very act of bidding [for the Games] serves as a credible signal that a country is committing itself to trade liberalization that will permanently increase trade flows." After winning the 1955 bid for the 1960 Olympics, Italy joined the UN and began the Messina negotiations that led to the formation of the well known European Economic Community (EEC). A similar thing happened to Tokyo in 1964 which led to Japan entering the International Monetary fund (IMF) and also the OECD. An economic study found that "the Olympic effect is robust; hosting the games tends to increase a country's openness substantively and permanently."

Although, post Olympics, there is often lots of expensive infrastructure with buildings that lose all usefulness after their respectives games, the high degree of specialisation that some of these buildings have means that they can be very difficult to refurbish into something more useful in the long run. Three examples of this are, firstly, Sydney's 2000 Olympic Stadium which was set to be demolished in 2019 to be replaced with a much smaller stadium with a lower upkeep cost. The second example is that of Beijing's 2008 Bird's Nest Stadium. It costs $11 million a year to maintain and it is not used the whole year round. The final example is the $700 million athlete village in Rio de Janeiro. It was turned into luxury apartments but they have now been left redundant after the park couldn't attract any buyers.

The least explicitly "economic" way in which the Olympics has a great impact on the hosting country is just by creating an immense amount of national pride. According to a global poll, a majority of people in 18 of 21 countries said that their nations performance at the Olympics was "important to their national pride". Among these countries, those with the highest percentages were Kenya with 91%, the Philippines with 86% and 84% of Turks. Roger Bannister, one of the great English sporting icons, said that GB's performance at the 2012 Olympics "seems to have reawoken in us our sense of national pride." And it seems a degree of national pride does link into the economy too. Moorad Choudhry, MBA, PHD, Treasurer of the Corporate Banking Division of the Royal Bank of Scotland, stated, "A genuine feel-good factor [of hosting the Olympics] can be very positive for the economy, not just in terms of higher spending but also in productivity at work, which in turn boosts output."

Now although this may seem all fine and well on a country scale, thousands of residents are sometimes forced to be displaced for the building of these huge buildings and infrastructure. In order to make Beijing's 2008 Olympic infrastructure, over 1.5 million people were evicted from their homes and with very little compensation too. There was a darker side to this issue for Residents near Rio's Olympic Stadium. The homes set to be demolished were removed in a "bloody confrontation between police and residents" which reportedly involved the use of rubber bullets and percussion grenades to drive out the residents.

So did the Japanese people and economy lose out in the short term? Did they dodge a bullet? The Japanese have proven how well they can cope under the global spotlight with the hugely successful 2019 Rugby World Cup. Even through horrendous storms they managed to put on a show many of us will never forget. The Rugby World Cup also highlighted to the world just what a beautiful country Japan is which could make the tourism inflows for the Olympics even bigger than usual. Will they be a metaphorical winner or loser of the Olympics? Only time will tell.

~ Ben Peachell

Left:
Lee-Valley Velo Park, London

The Gig Economy

The gig economy is a labour market characterized by the prevalence of short-term contracts or freelance workers as opposed to permanent jobs. It has become increasingly popular over the last 10 years, with Britain's booming gig economy more than doubling in size over the past three years. Britain's gig economy now accounts for 4.7 million workers, according to a report laying bare the increasingly precarious nature of employment.

Above:
Uber Eats driver
in Taiwan

Benefits of working in the Gig Economy

Flexible: Many freelance workers in the gig economy find that their status allows them great flexibility. From working the hours they desire, to working where they want, there are many options for gig economy workers.

Variety of jobs: Gig economy workers may find they have a wide
variety of jobs to complete. Instead of similar, monotonous tasks to be done each day, each project or gig may be filled with different elements that make the work interesting.

Independence: Many contract or gig economy workers find that they are given independence to complete their work. Not being in an office may aid this independence. With nobody to look over shoulders, gig economy workers may find they are given a task and then mostly left alone to complete it.

Cons of working in the Gig Economy

No benefits: Unfortunately, for most gig economy jobs, benefits aren't part of the package. Because you're not a full-time employee of the organisation, the laws regarding the benefits the company needs to give you are different.

Quarterly taxes, personal expenses: Most uber drivers and workers are classified as self-employed for tax purposes. This means that Uber will not remove taxes from workers' paychecks, meaning that the workers will have to do their tax returns themselves.

More stress: Gig economy workers have to regularly be working to find their next gig, or be prepared for changes in their current one. This can lead to stress, as most people appreciate feeling secure and steady in their employment. Gig economy workers sometimes face unexpected changes in their jobs, from being let go, to a change in their salary.

How Covid-19 has transformed the Gig Economy

Participation in the gig economy has grown rapidly over the past few years, and expanded exponentially since the onset of the coronavirus pandemic, due in part to the increased reliance on gig workers to home-deliver necessities to consumers. Furthermore, the crisis has upended the traditional 9-5 working world and caused many blue- and white-collar employees to pursue gig work for additional – or even primary – income during these unprecedented times.

Job flexibility is more appealing, and potentially more necessary than ever

One of the biggest benefits of the gig economy is the flexibility it offers, both in terms of working hours and the types of jobs that workers can take on. In fact, before the pandemic, around 70 percent of gig workers reported that they participated in the gig economy out of choice and because it provided more flexibility, and sometimes more income, than a full-time job. While this flexibility has always been appealing, since the start of COVID-19, it is likely that many full-time employees have had to reluctantly join the gig economy out of necessity.

Competition for gig work has increased

Although demand for gig workers has accelerated since the start of the pandemic, competition for gig jobs has also increased. Workers who participate in the gig economy as their sole source of income must now compete with one another, as well as previously full-time employees who have been forced into gig work. Additionally, as more and more Americans turn to the gig economy, workers face challenges in securing the benefits they once enjoyed. While this may be a cost advantage for some businesses that rely on gig talent, workers themselves will have to strengthen their personal brand and expand their skill set to secure the most viable opportunities

A strong social contract will become a requirement

The global health crisis we are living through has placed even greater emphasis on the rights, benefits and protections that businesses offer to their workers, otherwise known as the social contract. While many American gig workers choose a more flexible lifestyle and don't wish to be hired as full-time employees, debate continues around what benefits and protections businesses should offer to all workers in their organization.

~ Ben Dray

Below:
Covid-19 cases
March 2020

The Story of GameStop

Above: Trading computer set-up

January 2021 was a month where we witnessed how a Reddit group, r/WallStreetBets sent shockwaves through global markets as the world witnessed the combined strength of an online community working together to achieve a common goal. It was an event that had never happened before, retrospectively it seemed inevitable. Therefore what implications could this event have on financial markets in the future?

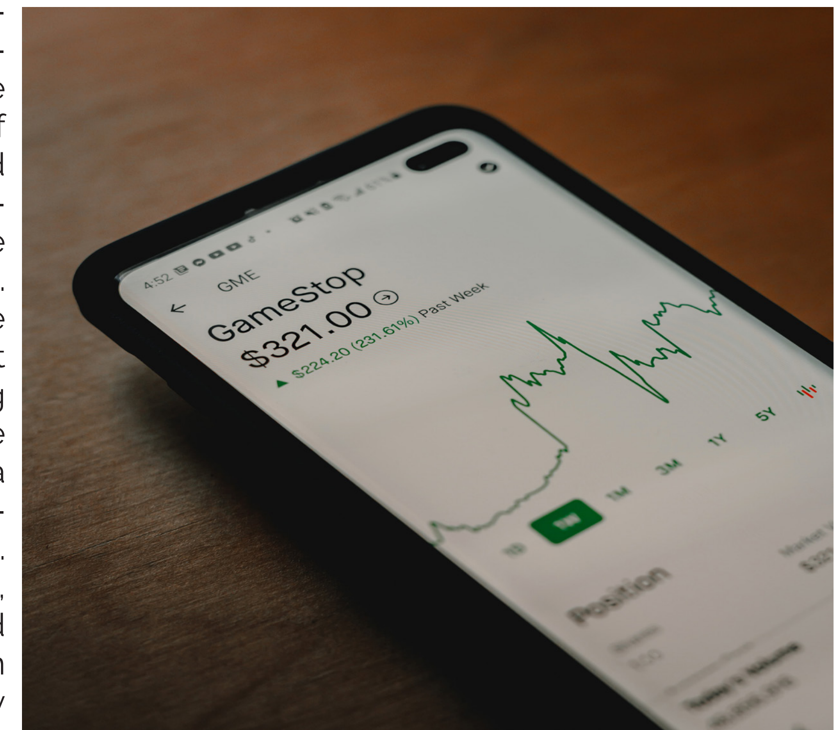
In recent years, GameStop (GME) has been a favored target for short-sellers. The company, which sells consoles, games and other electronics on the high street is finding its niche in the Retail industry shrinking as a result of the increasing number of people buying games online. With sales falling by a third between 2015 and 2019, short-sellers had been hoping to capitalize on its apparent decline, which resulted in gamestop being the most shorted stock on Wall Street.

The catalyst behind this story was Reddit, a social media platform based around communities. In 2012, A reddit community called r/WallStreetBets was formed with the idea of users being able to discuss stock and option trading. However in 2019, a user suggested that GME was undervalued, kickstarting the GameStop frenzy. But what was the logic behind this movement?

With a number of prominent hedge funds such as Citron and Melvin Capital having announced large short positions in GME, there was a high short interest in the retailer. This made a short squeeze a possibility. A short squeeze is like a chain reaction. The Reddit community suggested that due to the massive short interest, if the people in the community could buy enough stock to cause an initial upwards movement in the share price of GME, it would cause some short sellers to close their positions (through buying back the shares), resulting in the share price rising further, subsequently causing more shorts to be covered. This process would repeat itself, causing a chain reaction. This was the vision that the members of r/wallstreetbets had.

I want to focus further on the Reddit users' central task of igniting the initial upwards movement in the share price by looking at a couple of factors that were imperative to the success of this. Firstly, with many people being at home as a result of Covid19, the amount of spare time people have found themselves having has hugely increased. This has caused a major spike in interest for day trading. Due to this, the power of r/WallStreetBets has increased drastically because of a larger following resulting in a greater buying power. With this in mind it is possible that without Covid19, the GameStop rally would have not taken place due to a lack of capital. A second factor to look at is the availability of low cost trading platforms such as Robinhood and Trading212. This has further helped increase the buying power of r/WallStreetBets through making day trading more accessible to the public.

One of the biggest losers from this situation was the hedge fund Melvin Capital. Their journey to trouble began on August 14th 2020 with a routine regulatory filing (hedge funds must make these reports quarterly). The form showed 91 positions that Melvin Capital held at the end of the second quarter. Some of these holdings included Amazon, Crocs, Microsoft and of course, the bet against GameStop. However it must be said that this bet did not stand out from the filing as Melvin Capital were not the only ones with a bearish view of the company given its decline. Shortly after the filing, a reddit user noticed Melvin Capital's position and saw the opportunity of a short squeeze that their position created. At the time of Melvin Capital's subsequent quarterly filing, the growing hype and speculation surrounding GME had caused the price to rise to $10.20. There had also been supportive tweets from both Elon Musk and Chamath Palihapitiya, two people with a significant influence over stock prices. Both of their tweets in support of GME further increased prices. With big influences like these joining the rally, short sellers were left with the choice to either double down on their short positions, or to cover the shorts and accept their losses. In this latest filing, it was stated that Melvin was doubling down on their short positions. The news caused an influx in the number of reddit posts and created a feeling within the community that a 'war' was beginning between retail investors and institutional investors.



Left: Gamestop stock price fluctuations

One thing to note looking back is that the title claiming a 'war' between retail and institutional investors is not completely accurate. While retail investors on the Reddit platform began the GME rally, many institutional investors profited off it too. For example in an interview with Wall Street Journal, the New York hedge fund Senvest revealed a $700m gain on GME.

When Melvin Capital were finally forced into exiting their bet against GME, the hedge fund recorded a loss of 53% in January. To help cover these losses, both Citadel and Point72 invested a combined $2.75bn into Melvin Capital in order to give the hedge fund cash to help make it through this crisis.

However, the GameStop rally was not a smooth road for all retail investors who owned shares in GME. One notable disruption occurred on the 29th of January when Robinhood took a decision to suspend trading in GameStop shares. Robinhood allows free trading of stocks, options and ETFs meaning people don't have to pay transaction fees that a typical brokerage would charge. The decision to prevent trading of GME shares caused huge uproar, and turned out to be the end of the rally

with shares subsequently falling. To understand Robinhood's decision to stop trading, it is first important to understand how it is able to offer this. When an investor fills out a buy or sell order, Robinhood takes the order to a market maker whereby the market maker executes the trade. However instead of the market maker charging Robinhood to make the trade, it instead pays Robinhood (purchases the order flow). This allows them to take the 'other side' of the trade, which is known as front running. One of the most favored arguments explaining why Robinhood prevented trading is linked to the hedge fund, Citadel. Citadel provides executional market making services and is one of Robinhood's largest customers. However interestingly, it is an investor in Melvin Capital (Can you see the link?). This has caused speculation over the possibility that Citadel forced Robinhood to prevent customers from buying shares in GME in order to protect its own investment in Melvin Capital. Obviously both Robinhood and Citadel have denied these claims.

Looking to the future, I think that short selling will be impacted by this event. GameStop has clearly highlighted the risk of short selling, and I feel that the risk to reward for short selling has fallen as a result. That being said, there is no doubt that shorting will definitely continue to occur, although perhaps more cautiously. To conclude, "GME is not the first short-squeeze, but it is the first one of its kind, and most likely, it isn't the last one either" - Reporter from CNBC Television.*~ Rory King*

Above:
GameStop Store

Globalisation

Has it all gone nuts?

Globalisation and international free trade have been fundamental drivers of economic growth and prosperity, however the fact cannot be ignored it has also contributed to rising inequality and injustices to the people who need to develop the most. Maybe the problem is not what free trade is but actually how it is being conducted? To illustrate this idea, I'm going to use an example from the peanut industry.

When many people think of global trade they think of one of two things, either it's brilliant, or that it involves rich countries exploiting poorer countries. In truth, it's a bit of both. Rich countries enjoy stable trade among their member states, while poorer countries fight for a share in the global economy. Before there is a disparity in wealth and income, countries enjoy comparative advantages in producing certain goods or services. This could be due to a number of factors, often for farming, it is the climate.

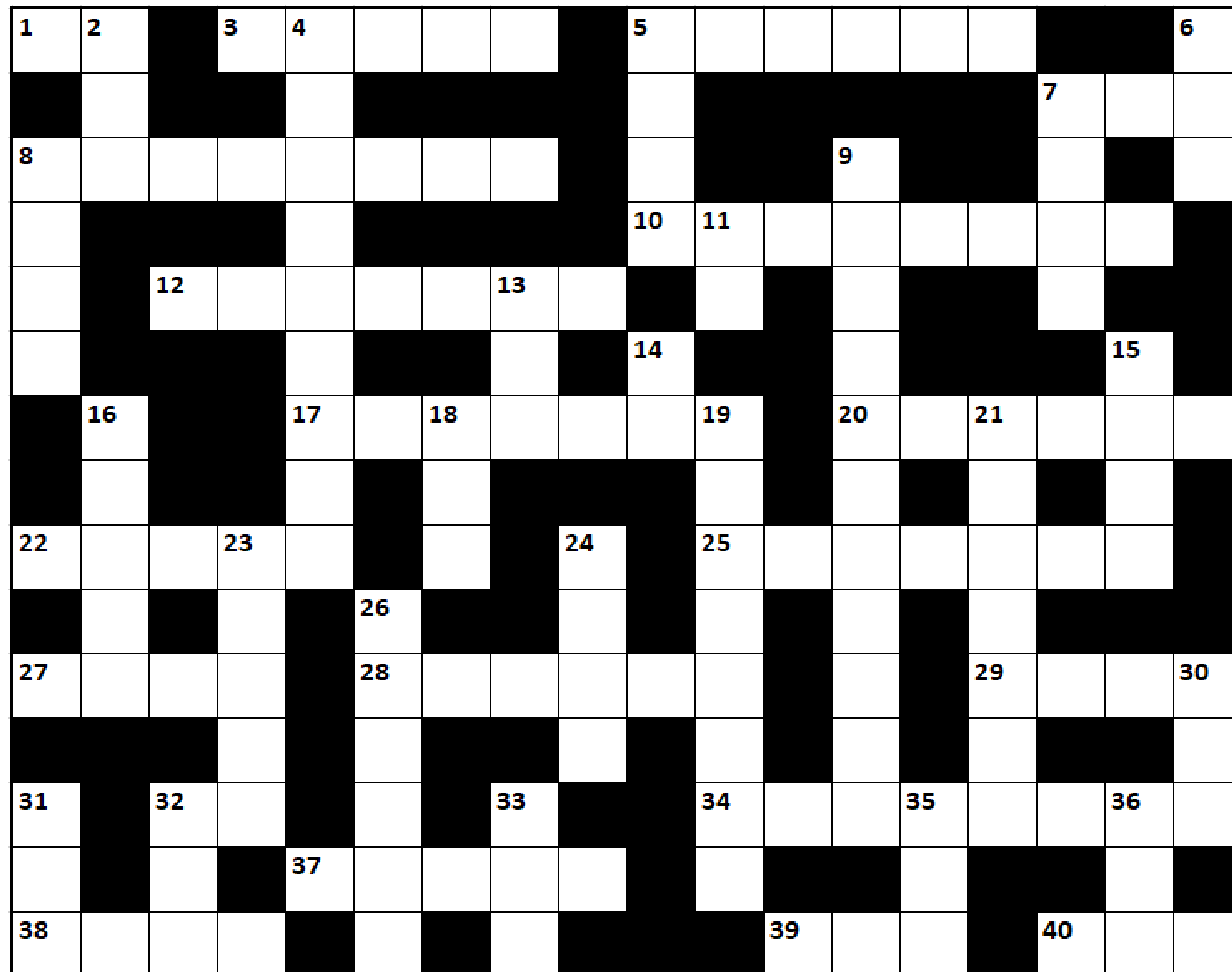
Take peanut production in Senegal, a state in Western Africa, it is their main export crop. They should be able to specialise in the production of this product and export it. Then use the revenue to import other needed goods which they do not have the means to produce. However as other nations saw the peanut appeared to be a stable and profitable source of income, they also bought into the market, including America, massively increasing the supply. As supply increases, price decreases as producers compete to shift their products. Senegal's comparative advantage diminished and it appeared to be in deep debt to the World Bank, who they had borrowed money from to provide the needed infrastructure and capital to produce peanuts.

Why is it different for America? The story however appears rather different for peanut production in America. Due to the financial capital they already possess and the steady demand for peanuts in America, it was not hard for them to pile into the market as if they were on a wrecking ball. Heavy investment and government subsidies provided the means for production. Large quotas and tariffs applied on imports deterred any other countries from sending their produce to America. As of 2019 America is the largest producer of peanuts, at around £5.5 billion worth.

While it is clear this form of 'free' trade is not optimal, and comes under the supposed notion of trade liberalisation. The question should be addressed, is it actually free trade? Answer in short, no. It is hindered by protectionist policies, and is fundamentally not actual free trade.
~ Cameron Wood

Below:
Storage containers in Singapore

Economics Crossword



ACROSS:

1 International organisation set up after WWII to encourage political and economic cooperation (2)

3 Part ownership of a company that can be bought and sold in stock markets (5)

5 Increase in goods and services production often used to define an economy's success (6)

7 Anything given from one country to another for helping people in need (3)

8 When a single business controls most of a market or supply chain (8)

10 An economy where buying and selling isn't regulated by the government (8)

12 The amount of happiness or satisfaction you receive from each economic choice you make (7)

17 Things people send abroad to sell (7)

20 To pay someone to do tasks for you (6)

22 What has to be given up in order to have something. Opportunity ... (5) ...

25 Done to British banks to try and contain the effects of the 2008 financial crisis (7)

27 Continent which contains 60% of the world's people and 18% of its wealth (4)

28 Economist-speak for work (6)

29 One of any currency (4)

34 Name given to the policies of a central bank (8)

37 Regular payments given in return for regular work (5)

38 How people participate in democracy (4)

39 Broadcaster funded by a compulsory license fee rather than ads (3)

40 Political party that wants Scottish independence (3)

DOWN:

2 Groups that work independently of any government and aren't interested in profits (3)

4 Bhutan measures this instead of GDP (9)

5 Surname of the statistician whose model is used to measure economic inequality (4)

6 The total worth of all the goods and services an economy produces in a year (3)

7 First name of the economist who came up with the 'Invisible Hand' (4)

8 Economist who developed theory of communism (4)

9 When businesses try to outdo each other to get the most customers and make the most profit (11)

11 52% of Brits said this when asked via referendum if they'd like to stay in the EU (2)

13 The number of degrees of global warming which almost all scientists agree would be catastrophic (3)

14 A British newspaper that specialises in economic and business stories (2)

15 A version of Brexit where the UK stays in the EU's Single Market or European Economic Area (4)

16 Thing of value that you can buy or sell (5)

18 To give someone money for work or stuff (3)

19 Loans to people with poor credit ratings (8)

21 Something that you can buy (7)

23 Swapping stuff; between individuals, businesses and customers, or countries (5)

24 A period of increased commercial activity within a business or economy (4)

26 The biggest economy of them all (6)

30 This billion-dollar industry is considered in trouble because of demographic changes (3)

31 Slang version of the job title given to the Bank of England's boss (3)

32 Abbreviated name for a policy where a government prints money to create full employment (3)

33 Money you pay to your bank or credit card company if you spend more than agreed (3)

35 Abbreviated name for customs union established in Europe by the Treaty of Rome (3)

36 When lots of people take their money out of a bank at once (3)

Answer can be found on page 21

The Bubble Machine

Rise of the retail investors

The news of the pandemic forced experienced retail investors to re-evaluate their positions and, with the news of a rock-bottom interest rate, awoke a whole new generation of casual investors. Paired with the germination of the fintech scene, the mobs of social-media were targeted by sprouting fintech firms through the form of excessive adverts in an effort to show the potential return consumers could get instead of the 0.1% savings accounts offered. This swelled the retail-investor wave into a storm surge with riptides pulling in the naive bystanders.

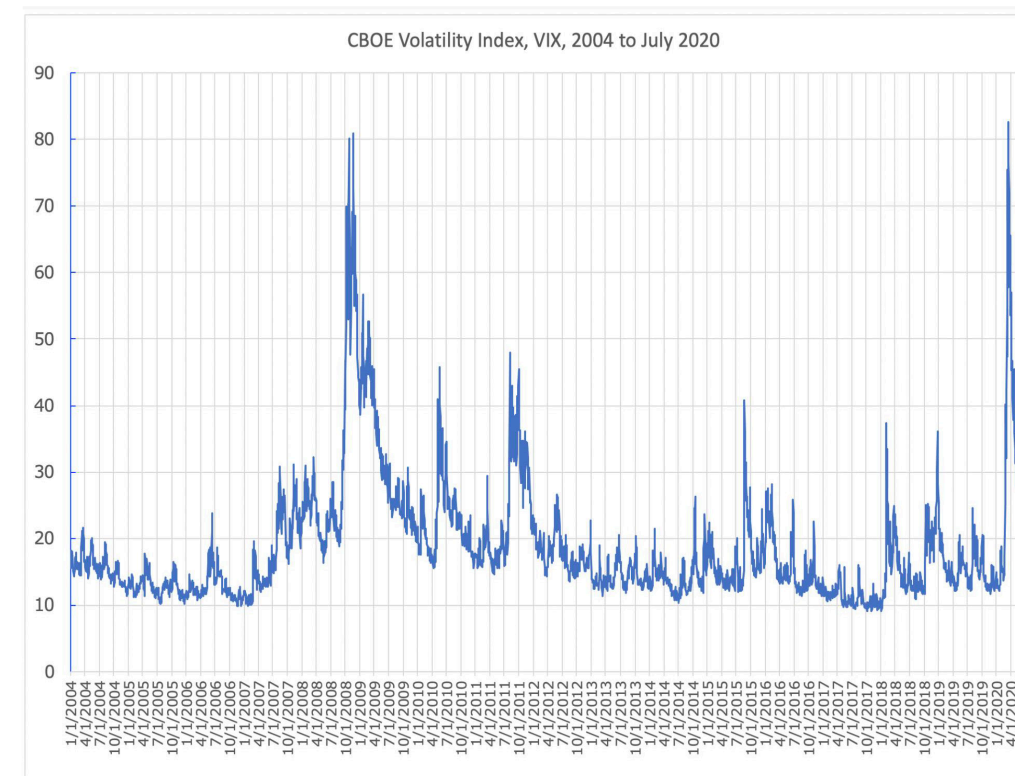
Left: The Wall Street Bull

Social media has allowed many more people to be reached, luring in people who have little to no experience in investing. Additionally, the gung-ho attitude of internet communities and youtubers have caused the reach of investment opportunities to spread like wildfire. You will have noticed it while browsing the web or watching youtube, sites are now littered with adverts claiming to give free bitcoin or how to become a millionaire by investing in only a few stocks. Unfortunately, many people don't see that these are blatantly too good to be true, causing more and more consumers to be pulled into the mercy of the stock market in the hopes of quick and easy profits.

One particular investing app - 'Robinhood' - has captivated the US retail investor market and has been the driving force of the retail wave. The American app allows its users to engage in highly leveraged options trading, something which could triple or cripple an innocent user's bank account in a matter of minutes. After trades are made, the app then sends a stream of notifications containing stock tickers with emojis (Particularly the rocket one) encouraging users to not miss out on potential moves. This subtle move by Robinhood has made investing feel and be more accessible than ever. It has essentially opened the floodgates and has allowed the retail wave to drench Wall Street (The current war is outlined later on). As Wall Street institutions realise the damage that could be done and know the sooner a dam is in place, the better, they accused Robinhood of misleading inexperienced internet users through the 'gamification' of investing. However, these criticisms didn't calm the storm as the wave seeped into the back-end of the trading system, causing server outages and breakdowns due to the unprecedented number of trades.

Robinhood has since been fined $60m after they were accused of investment gamification by masking the complex and incredibly risky trades that users perform through a game-like interface. The startup company also faced that fine as they were partially responsible for a 20 year old taking his own life after a glitch in the robinhood system showed the user that his balance was negative and that he needed to immediately pay back over $700,00. Robinhood later emailed the user's account (after he had taken his own life) to state that it was an error and that trading restrictions had been lifted on his account. This only further highlights the chaos that can arise when inexperience meets incredibly dangerous trading services. All of the chaos erupting due to the retail wave and the virus propelled the VIX index (which measures volatility) into the stratosphere, reaching a level higher than the 2007/2008 crash. The VIX is still at incredibly high levels even in early 2021 as the wall against war street and the rising power of retail investors has shaken up the market sentiment.

The germination of these commission free trading services has certainly made investing much more accessible and further exacerbated the war between retail and institutional investors causing large trading brokers to try and please both clientele. In fact, the rise of commission free trading has caused giants such as Hargreaves Lansdown or Barclays to significantly reduce their fees after being accused of exploiting consumers. Now that the voice of the retail investors has introduced commission free trading, you may be wondering how these firms actually make profit (or even a normal profit). The difference between the sale and buy price is where these firms make their money. The bid-ask spread means that the broker will receive the difference and if it is a large spread, if the stock is relatively illiquid, the firm will receive a large portion of the trade. Hot stocks such as Tesla, etc normally have very tight spreads due to the sheer volume traded on them, meaning that these firms will receive a relatively low commission so apps like Robinhood can easily increase the spread for their orders and therefore receive extortionate revenue. However, with this increase in revenue and profits, little money is being re-invested in the business so these low levels of dynamic efficiency could lead to more server outages and perhaps a decrease in productive efficiency in the long run.



Above: The CBOE Volatility Index, 2004-2020

To conclude, pairing memes with millions of people looking for a get-rich-quick scheme has left the markets well and truly distorted. 2020 saw the fastest bear market recovery ever as tech stocks bounced on March's low to spring up and close the year, in some cases, more than 100% up. The question to take away from this is whether this wave will keep pushing, fueled by memes and a gung-ho attitude or whether it will dry out, either via a wall-street dam or the inevitable bubble pop. *~ Will Nutbrown*

Above:
Duham Highstreet

Below:
Shop with closed sign

The Highstreet

Is this the end of the road?

During the early 20th century, the high street was booming. A study in the 1920s estimated that there were around 950,000 shops in the UK. However this number has decreased with time. By 1950, the number of shops was estimated to be 583,000 and just over 300,000 in 1997. While much has changed with regards to retail, one constant notion that has remained throughout is that there has always been more than one model for retailers to sell products. Some went door-to-door, others sold through catalogues and press adverts.

Looking at more recent data in 2018 regarding the top 500 high streets in Britain there was a net loss of 2,481 stores. Banks suffered the greatest closures with 291 branches closed, closely followed by fashion retailers who suffered 269 outlet closures. However, not all sectors suffered net closures. The sports sector and health clubs gained 28 units making it the sector with the largest growth. Also showing growth were bookshops and ice cream parlours which increased by 18 sites. From this data, we can clearly conclude a declining trend in the net number of retail units on the high street. However, looking at this pattern of openings and closings of stores, there appears to be a strong correlation which shows a strong performance in the sale of services. On the contrary there appears to be a weakness in the sale of goods, which will be explored further in the article.

First of all, when looking at possible reasons for the apparent decline in the number of retail units on the high street, the internet comes up as a common source of blame. However with data backing this point up, this statement is no speculative accusation. Looking at the chart by the ONS, which shows internet sales as a percentage of total retail sales, there has been a clear and gradual increase in the percentage of sales online. In November 2006, 2.8% of the total retail sales were done via the internet. Go forward 14 years to February 2020, where the percentage spikes to 19%. February 2020 is an important date and one that I want to zoom in on, with Covid-19 striking across the world and inflicting the first national lockdown in England on March 23rd 2020, online shopping showed its strength and adaptability as it became the center of all retail sales. With only essential shops being allowed to open, the internet provided the perfect platform for retailers to continue to trade. I am also confident that this spike in internet sales will not just last for the duration of the pandemic. With the reason being that over the past year, people have got into a habit of ordering goods online, and this looks certain to continue for the foreseeable future. This habitual behaviour is a behavioural concept known as the status quo bias which says that repeatedly doing something as part of a routine will lead you to doing it without thinking about doing it. Because of this, it is feasible to conclude that the influx in online shopping is a permanent increase.

Apart from online shopping being legally viable given the Covid-19 restrictions, customer convenience is also maximised because of online shopping. There are no opening or closing times, greater choice, no distance to travel and the fact that consumers can do it from their sofa at home are all factors that have made shopping online more convenient for consumers. In addition to this, an online store allows businesses to charge lower prices which helps increase their competitiveness. An online store avoids costs such as pay for premises and the costs that come with it (for example electricity) along with lower wages as the business is no longer employing staff to work in the premises. Therefore businesses are able to produce the same quantity of

Below:
Internet sales as percentage of retail sales
Source: ons.gov.uk

goods for a lower price.

So far we have seen the clear decrease in the number of shops on the high street and we have considered the internet's influence on this. However in response to referring to the high street as 'dying', I don't believe that a decrease in the number of shops on the high street alone is enough to prove this statement to be true. Could a different outlook on the situation perhaps suggest that the high street is more, transforming?

While retailers may be struggling to adapt to recent changes, the service-led offers provided by the high street are unreplicable online. It is this core element that keeps the high street functioning and still very much alive. Key cutters, dry cleaning, hair salons and restaurants are all examples of services that can't be moved online. With this in mind, the highstreet will never lose these service led examples. Cutting our own hair, as lots of us found out during the pandemic, is a job that requires the skills of others, and while it is possible to eat from home through takeaways or your own cooking, being served at a restaurant is completely unreplicatable. In terms of the future, could we see a high street that has transformed the majority of its business into the sales of services?

Taking into account all the points that have been mentioned, we can clearly see that in recent years there has been a clear decline in the number of shops on the high street. However I do believe that the high street will still remain and be part of the future as it is clear that society still requires certain shops. As a result, I believe that the common statement you hear in society which says that the 'high street is dying' is inappropriate, and that a more appropriate statement would be that 'the high street is transforming'. Therefore I would finally like to conclude by saying that we are currently seeing and experiencing in society a period of transformation into a high street that is distancing itself from the sale of tangible goods and centralising on the sale of services.

~ Rory King

Crossword Answers

U	N		S	H	A	R	E		G	R	O	W	T	H			G
	G			A					I						A	I	D
M	O	N	O	P	O	L	Y		N			C			D		P
A				P					I	N	F	O	R	M	A	L	
R		U	T	I	L	I	T	Y		O		M			M		
X				N			W		F			P				S	
	G			E	X	P	O	R	T	S		E	M	P	L	O	Y
	O			S		A				U		T		R		F	
C	O	S	T	S		Y		B		B	A	I	L	O	U	T	
	D		R		G			O		P		T		D			
A	S	I	A		L	A	B	O	U	R		I		U	N	I	T
			D		O			M		I		O		C			O
G		M	E		B		F			M	O	N	E	T	A	R	Y
U		M		W	A	G	E	S		E			E			U	
V	O	T	E		L		E				B	B	C		S	N	P

ACROSS:
1 UN
3 Share
5 Growth
7 Aid
8 Monopoly
10 Informal
12 Utility
17 Exports
20 Employ
22 Costs
25 Bailout
27 Asia
28 Labour
29 Unit
34 Monetary
37 Wages
38 Vote
39 BBC
40 SNP

DOWN:
2 NGO
4 Happiness
5 Gini
6 GDP
7 Adam
8 Marx
9 Competition
11 No
13 Two
14 FT
15 Soft
16 Goods
18 Pay
19 Subprime
21 Product
23 Trade
24 Boom
26 Global
30 Toy
31 Guv
32 MMT
33 Fee
35 EEC
36 Run

Chinese involvment in Africa

Why China might be colonising Africa

In 1971 on the voting floor in New York for the United Nations there was a vote about whether China should be ruled by the Republic of China government in Taiwan or the people's republic of China headed in mainland China. The People's republic of China narrowly won however most African Countries voted against China. However in 2007 there was another vote on which it was being decided whether the UN should take action against North Korea for human rights. As China was an ally of North Korea, this vote was essentially China and a sphere of influence against the world. In the vote most (43) of the African countries voted with China. This shows a large shift in the political views of African countries towards China. And over this 40 year period, Chinese increasing involvement in Africa can be attributed to a change in the votes.

Above:
Infrastructure project in Africa

Africa no longer bows down to the US because of the increased economic involvement of China in Africa. China has pumped vast amounts of money into African infrastructure projects. For example China built a $3.2 billion dollar railway in Kenya trekking the 300 miles between Nairobi (the capital) and Mombasa (the second largest City and primary port) in 4 hours 30 mins. China also built a $526 million dollar dam in Guinea which helped push the country from having constant power shortages to having more power then it needs so it can sell the extra power to neighbouring countries. It also built a $470 million dollar light rail system in Addis Ababa, Ethiopia, the first in Saharan Africa, designed to combat the city's crippling traffic. There are hundreds other projects each year China is funding to help boost African Economies.

However these projects are not free. Each of these loans are financed by China's export-import bank and do need to be paid back. These large infrastructure projects are considered risky by other Western countries however China doesn't mind. As long as the African country agrees it will grant low or no interest loans and not even expect all of its money back as some projects can go wrong. However China wants to receive a political goal behind all these projects.

China is running out of growth potential as it has made the shift from an industrialising state to an industrialised state. As Africa is not developed it sees it as an easy place to get fast growth. By investing in African mining and farming, China can profit off African resources and fuel business back in China. Africa also has lots of available labour. Chinese vast domestic development has made its labour uncompetitive so African labour is useful. It has been setting up companies in Africa and uses the fact that Africa has the cheapest and lowest skilled labour in the world.

The idea of setting up a structure of power over other less developed states in order to gather resources and use their labour force is very familiar to colonialism. There is increasing evidence that China has been using this vast investment to effect worldwide politics. It has been found that if an African country sees Taiwan as a country it receives on average 2.7 less infrastructure projects a year whereas if an African country votes with China in the United Nations general assembly then it receives on average 1.8 more infrastructure projects per year. Considering that in the general assembly each country has one vote if their country is big or small, China is getting a lot of influence for not that much. China says that there are not political strings attached however taking the evidence into account this is most likely not true.

Above:
Flag of the People's Repbulic of China

China now is making even larger profits from Africa as they have slowed down in the large infrastructure projects and are however setting up loads of private owned businesses. China can now make a large profit from Africa similar to when it was making its own vast economic development as most Western countries have failed to see the large profits available there. Right now African resources and free labour are being used by China and until the West pay attention, Chinese economic and political influence will continue to grow.

~ Cameron Butcher

Left:
Woman farming cassava in Sierra Leone

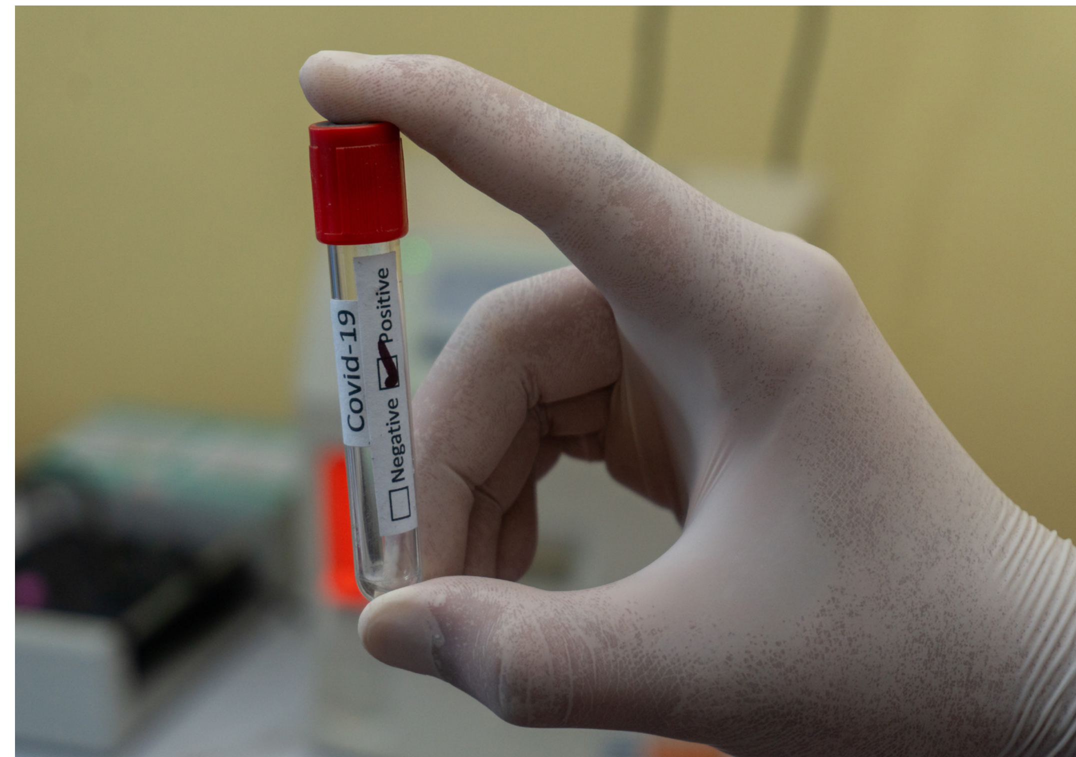
Economics Lent Term Essay Competition Winner

"Will the pandemic be inflationary or disinflationary?"

December 2019 proved to be the beginning of a global crisis, which still today continues to cause havoc throughout world economies. However, with the news of vaccinations in many countries, people are looking towards the future and what life after Covid-19 will look like. While people remain uncertain about the possibility of either an inflationary or disinflationary pandemic, there is no doubt that the coming months and years are sure to put economic policies and theories to the test. Through exploring these policies and theories, I will give my views to the statement in question.

I would like to start by looking at the expansionary monetary policy being run in the US. In November 2020 the Federal Reserve announced its decision to keep interest rates at/around zero through until 2023 in an effort to stimulate the economy. Low interest rates reduce the costs to borrow, therefore more loans are taken out, resulting in an increase in consumption and investment. Additionally, lower interest rates mean that people get less return on their savings, which increases their incentive to consume. Because of this, aggregate demand will increase, possibly suggesting a sustained increase in the general price level, also known as demand-pull inflation. In addition to near zero interest rates, reserve requirements for banks were also slashed to 0% in an effort to increase the money supply. I will further explore the idea of money supply later on when I touch upon debt.
Of course, the US also ran an expansionary fiscal policy. Stimulus packages along with unemployment benefits contributed to taking the total fiscal response to around $2.5trn, roughly 13% of US GDP. The aim of this was the same for that of above, which ultimately aims to boost the economy by increasing consumption and investment.

Another reason suggesting that the pandemic will be inflationary is because of the sizable government and central bank debt. The massive number of securities being bought by central banks through quantitative easing has resulted in a huge spike in debt. Data from the Federal Reserve shows that its balance sheet has increased by roughly 76% since its pre-pandemic levels. This spending is not only unique to the US, in November 2020 the Bank of England also announced that it has been increasing the amount of quantitative easing as a result of the pandemic. Purchases of UK government bonds have increased the stock of assets held in the asset purchase facility by roughly 101% since the pandemic began with the total value of assets now worth £895bn (Bank of England).This will lead to inflation, explained by Fisher's quantity theory of money which states that the general price level is proportional to the money supply. The equation states that (Money Supply * Velocity of money) = (Price level * Output), abbreviated to (MV=PY). However by rearranging this equation to P=(MV)/Y, it implies that if the price level has changed, there are three possible causes; Changes in M, V or Y. However, output (Y) and the velocity of money (V) are generally stable in the long run therefore neither changes in Y nor V give plausible explanations for causing a sustained change in P. This leaves us with a change in the money supply being the only variable that can cause a sustained change in the general price level. Therefore because the money supply has increased by 24.4% since the beginning of the pandemic, in the long run, more money will be chasing the same amount of goods and services causing the general price level to rise.



Above:
Posititve Covid-19 test

Following on from my previous point. I expect there to be a number of people who will argue that Covid-19 has caused both the velocity of money and real GDP to change dramatically and not stay relatively constant. However, I would argue against this because although the velocity of money fell 25.1% in early 2020, the figure rebounded soon after, and while the current figure is still only a fraction of what it was at the end of 2019, the rebound will be sure to continue into 2021. The same can also be said for GDP which proceeded to fall 10.5%, but then showed a strong rebound, with GDP currently down only 1.8% from pre-pandemic levels. This clearly highlights the possibility for the velocity of money and GDP to be volatile in the short run, however in the long run, they remain relatively stable.

The other type of inflation to consider is cost-push inflation. Many firms have struggled recently with increased costs of production as measures have been implemented all over the world in an effort to overcome this pandemic, making it difficult for firms to function efficiently. For example, social distancing has meant that some firms can not operate at full capacity as they do not have the space to legally do so. Because of this, these firms are suffering from a decrease in productivity meaning that it costs more to produce the same original quantity. Not only will the higher costs be passed onto the consumer through the increase in prices causing cost push inflation, but also the decrease in efficiency and production world wide could increase scarcity throughout the whole economy. If this was the case, the scarcity could potentially increase aggregate demand causing further demand pull inflation.

On the other hand, there are also good reasons to believe that the pandemic will be disinflationary (a sustained decrease in the rate of inflation). One example is through John Keynes' study of The Great Depression in the 1930s, where he concluded that the long run aggregate supply curve is upward sloping as the elasticity of supply is dependent on the amount of spare capacity in the economy at the different stages of the economic cycle. In the arguments pro inflation, I talked about an increase in aggregate demand causing an increase in the price level of the economy. However, Keynes would argue that because of the global recession that the pandemic has caused, an increase in aggregate demand alone is not enough

to justify inflation. Instead he would argue that a shift in aggregate demand would affect output but not the price level. This is because during a recession lots of labour and capital becomes unemployed so there is a lot of spare capacity in the economy. In the fourth quarter of 2020 the UK capacity utilization increased to 70% (Potential output being roughly 80% for advanced economies). This means that it is possible for the economy to significantly boost production without substantially increasing the costs of production. Because of this, the price level remains relatively constant therefore the rate of inflation decreases (disinflation).

Secondly, low levels of consumer confidence have a large impact on consumption which can cause disinflation. The pandemic inflicted havoc on global markets causing an increase in the degree of risk aversion to an extent like never before, with a monumental shift towards safe assets such as treasuries and cash. A shift to these safer assets suggests fear due to economic and financial uncertainty which goes hand in hand with low consumer confidence. This shift towards safer assets is also shown through the rise by roughly 30% in the price at which investors value gold since the Covid-19 outbreak in early December. Although this could be viewed as more of a short term indicator, the rise still highlights the current fear in financial markets given the low beta that gold has, in combination with the view of gold being seen as a 'safe haven' for investors. When consumer confidence is low, people will decide to save more, especially with the fear of rising unemployment and decreased job security. Because of this, demand for goods and services eases. One final thought to consider is that the representative heuristic would argue that spending would remain low into the future as well. The heuristic says that most people don't behave like forecasters because what they saw in the past is representative of the future, suggesting that people may assume that the uncertainty and fear in global economies will remain into the future, further suggesting disinflation.

A final point I would like to cover that supports disinflation is the link between housing prices and the wealth effect, a concept of behavioral economics. The idea is that consumers spend more as the value of their assets rise and vice versa. For most people, the majority of their wealth is tied down in their house or mortgage. Because of this, changes in housing prices will have a large effect on people's wealth. In 2020 housing prices did not follow the common negative trend of most assets, but instead remained strong. This meant that a large proportion of people's wealth was not affected, which is why I believe that the wealth effect has not had a major impact thus far on consumer spending. However with some forecasters predicting a fall in housing prices in the coming years, could this play a part in consumption in the long run? If the forecasters are to be correct, this would therefore suggest a decrease in consumer spending and aggregate demand in the economy. Potentially causing disinflation. So while the future of housing prices remain uncertain, we can be sure that housing prices will be an important determinant of whether the pandemic will be either inflationary or disinflationary.

To conclude, I believe that the pandemic will be inflationary, with the large money supply acting as the main contributing factor for me. During 2008, Zimbabwe experienced the second highest incidence of hyperinflation in history as a result of its government increasing the money supply through printing money in an effort to pay off the country's national debt after multiple economic shocks. The hyperinflation came about because the Government failed to understand that increasing the money supply would not increase Real GDP, but only increase the price level. This is an extreme example, but it proves what can happen when you increase the money supply in an economy. Finally, it will be interesting to closely watch consumer behavior post pandemic, and whether animal spirits like status quo bias will result in current spending patterns remaining in place into the future. ~ *Rory King*

This essay has also been entered into the IEA (institute of economic affairs) essay competition for Year 12 and 13 students.

There were lots of essays entered this year.

Highly commended essays were written by Aryann Gupta and Tom Henderson who have been named as runners up.

Congratulations to all those who took part!

Below:
Empty shelves of Sainsbury's supermarket during lockdown

30