



**MODULE:
ECONOMICS**

**ASSIGNMENT TITLE:
A CRISIS IN STEEL PRODUCTION**

DECEMBER 2009

Important Notes:

- ❖ Please refer to the Assignment Presentation Requirements for advice on how to set out your assignment. These can be found on the NCC Education *Campus*. Scroll down the left hand side of the screen until you reach Personal Support. Click on this, and then on Policies and Advice. You will find the Assignment Presentation Requirements under the Advice section.
- ❖ You must familiarise yourself with the NCC Education Academic Dishonesty and Plagiarism Policy and ensure that you acknowledge all the sources which you use in your work. The policy is available on *Campus*. Follow the instructions above, but click on Policies rather than Advice.
- ❖ You must complete the ‘**Statement and Confirmation of Own Work**’. The form is available on the Policies section of *Campus*. Scroll down the left hand side until you reach Personal Support. Click on this and then click on Policies and Advice.
- ❖ Please make a note of the recommended word count. You could lose marks if you write 10% more or less than this.
- ❖ You must submit a paper copy and digital copy (on disk or similarly acceptable medium). Media containing viruses, or media which cannot be run directly, will result in a fail grade being awarded for this module.
- ❖ All electronic media will be checked for plagiarism.

Marker's comments:

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Introduction

The introduction of free markets in nations has brought many benefits but its implementation is not without cost.

This assignment will provide you with an opportunity to demonstrate your understanding of how nations deal with the problem of scarcity. It will also help you to understand the impact of government interventions in free markets.

You are required to cover the tasks in the Task List shown below.

Scenario

The Soviet Union is a prolific producer and user of steel. Its main producer is a private sector company called *Russian Steel*. As steel prices continue to rise in Russia its Chief Executive Officer (CEO), Anatoly Keritsky, is forced to explain to the Russian parliament, the Politburo, why this is the case. Keritsky is aware that the huge profits *Russian Steel* makes - which are distributed primarily to its shareholders - are a source of embarrassment for the Politburo. Members of the Politburo have signalled their intention to redistribute this wealth among ordinary Russians and have suggested that price ceilings need to be imposed on the price of steel. Keritsky believes the real reason for this suggestion is that the Politburo simply does not want to pay a market rate for the steel it buys from *Russian Steel* because its plan to modernise the Soviet Union is coming under increasing financial pressure. He is keen to explain the benefits of the free market to the Politburo.

The specific features of economics that your government requires you to address are:

1. How demand and supply interact in free markets to determine price equilibrium.
2. The elasticity of demand and supply, and why supply is fixed in the short-run.
3. What are the effects of a price ceiling?
4. How markets work and the effects of government intervention.

Task 1 – 10 Marks

As CEO of *Russian Steel*, the Soviet Union's largest steel producer, you have decided to write a report to the Politburo, explaining in **no more than 1,000 words** what the advantages and disadvantages are of:

- a) Leaving the allocation of a country's resources to the price mechanism.
- b) Trying to plan and predict what people will demand and allocating a country's resources on that basis.

Task 2 – 15 Marks

Using demand and supply theory:

- a) Draw a diagram showing how the equilibrium price of steel being charged is determined in a free market, and provide an explanation.
- b) Identify the factors affecting the demand for, and supply of, steel. (Word count approximately **500 words**).

Task 3 – 16 Marks

In your report:

- a) Write a section for the Politburo explaining why the supply of steel available to buy in the short-run is fixed.
- b) Explain how the elasticity of supply of steel will change over time and state why this is the case. Use diagram(s) to illustrate your explanation.
- c) List any short-term measures, apart from a price ceiling, that you think the Politburo might use to help alleviate the increase in the price of steel.

Use diagrams, where possible. (Word count approximately **500 words**).

Task 4 – 24 Marks

- a) What is a price ceiling?
- b) Using diagrams, explain how a price ceiling works.
- c) Using diagrams, explain what the likely effect on the demand for steel would be if the government were to introduce a price ceiling.

(Word count approximately **500 words**).

Task 5 – 25 Marks

- a) What effect will a price ceiling imposed by the Politburo have on all companies producing steel?
- b) What unintended consequences might occur as a result of the Politburo's price ceiling?
- c) Based upon your evaluation of price ceilings, explain why you think the use of a price ceiling by the Politburo may only make the situation worse.

Use diagrams, where possible. (Word count approximately **500 words**).

Task 6 – 10 Marks

Combine Tasks 1-5 into one written report to the Politburo that is properly structured with:

- Title page
- Table of contents
- Main body of the report
- References and bibliography
- Appendices (if necessary)

Guidance

Consult your tutor if you are uncertain about any aspect of the assignment.

This assignment covers a number of topics contained within your Economics module. You should ensure that you refer to the relevant module concepts and theories to demonstrate your understanding of the relationship between theory and practice.

Submission Requirements

You must submit ONE report as indicated above in Task 6. Your report should answer Tasks 1 to 5 and should be around **3000 words** plus diagrams.

Warning: All media must be virus free!

Media containing viruses, or media which cannot be run directly, will result in a FAIL grade being awarded for this module.

**You must read and understand NCC Education's policy on 'Academic Dishonesty and Plagiarism'.
You must complete the 'Statement and Confirmation of Own Work' form and attach the completed form to
your assignment.**