The Norwich Economic Papers

- Careers and Prospects: a first-year’s account of job-hunting.
- In the digital age, do we truly need the BBC?
- First year: Work Hard or Play Hard?
- When can Ricardian Equivalence fail?

Includes a selection of the best essays so far from the 2012/3 academic year.
The Norwich Economic Papers
Volume 7 – February 2013

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Contents

• Foreword from the editor (pp. 3)

Part 1 - Exceptional Student Essays

1. “Consumption Smoothing Under Binding Borrowing Constraints: Still Observable?” by Charlie Mealings (pp. 4-9)

2. “What is ‘Ricardian Equivalence’ and when can it fail?” by Samuel Bittante (pp. 10-15)

3. “Do immigrants to the UK receive lower wage returns to education than observably similar British/Irish nationals?” by Oliver Lee (pp. 16-39)

4. “‘Now that so many commercial television channels are available to audiences, there is no longer a need for Public Service Broadcasting.’ Discuss ” by Michael Twist (pp. 40-50)

5. “Poverty can be alleviated by two alternative strategies: by providing microcredit to the poor or by undertaking industrialisation. Both strategies have their strengths and limitations. Discuss them by studying two countries of your choice.” by Minh Luu (pp. 51-74)

Part 2 – Careers and Lifestyle

• “First steps to employability” by Aaron Finlayson (pp. 75-78)

• “What can I do to improve my Employability?” by Matthew Aldrich (pp. 79-82)

• “First Year: Work Hard or Play Hard?” by Harriet Johnson (pp. 83-84)

• “Beyond the BSc.” by Tom Jordan (pp. 85-88)
Foreword from the Editor.

Dear all,

It is with great pleasure that I welcome you to the first volume of the Norwich Economic Papers for the 2012/3 academic year. It is my intention that our student run publication continues to provide the Economics community with a useful medium. One which contains guidance in all aspects of academia from coursework entries to careers, allowing for independence and ingenuity.

This issue places a large focus on showcasing recent exceptional coursework essays, with many of the below pieces far exceeding the standard required for a first class. Our hope is that these pieces, with their strong and unique approaches, will inspire even further achievements.

Volume 7 also contains advice for many different groups. From the acclimatising first-year to the budding academic, we hope that we can guide your ambitions and shape your approach to your degree in new directions.

We hope that you enjoy this year’s publications, with the next volume focusing on the increasingly popular Annual Student Essay Competition. Until then, good luck with your endeavours!

Kind Regards,

Tom Jordan,
Editor, Norwich Economic Papers.
1. Consumption Smoothing Under Binding Borrowing Constraints: Still Observable?

Explain the concept of consumption smoothing and how intertemporal models of consumption can explain it. Will consumption smoothing happen if households face binding borrowing constraints?

Principles of Macroeconomics (ECO-2A05)

By CHARLIE MEALINGS*

The first section of this essay will be dedicated to the explanation of consumption smoothing within the strict context of key intertemporal models, in particular Life Cycle Hypothesis and the Permanent Income Hypothesis, with short reference to the Irving Fisher model (1930) from which both are derived. The second section shall assess the plausibility of consumption smoothing under binding borrowing constraints, with the express conclusion that not only is smoothing viable, but it also frequently observable within much empirical research. Whilst it may not always be accurately represented by prevailing Permanent Income and Life Cycle models, and is not necessarily intertemporal in nature, consumption smoothing can still be recognized even when credit constraints are at their tightest.

Consumption smoothing is the preference of individuals to tread a relatively stable path of consumption over the course of their lifetimes, even if they experience volatile changes in their incomes. Today, the prevalence of some consumption smoothing in individual behaviour is very widely accepted, but prior to developed theories of intertemporal choice, it was generally assumed that consumption could be simply understood as a function of present disposable income (Y), and that marginal propensity to consume is a fixed variable between 0 and 1 for a given consumer:

\[ C = \bar{C} + cY \quad \text{where} \quad c = MPC \]

The simple Keynesian consumption function failed to explain why historical data indicated that whilst Y had risen dramatically in the long-term, C had remained relatively constant over the same period. Irving Fisher was the first to assert, in contrast to Keynes, that present disposable income is a highly one-dimensional conception of what consumers perceive to be
their actual budget constraint. His model assumes instead that there are two time periods, present and future, each with their own separately estimable values for consumption ($C_1$, $C_2$) and income ($Y_1$, $Y_2$). Income is exogenously fixed in both periods, thus consumers must obey an intertemporal budget constraint, but have the luxury of substituting consumption in one period for consumption in another – put simply, they may borrow out of future income or lend (save) out of current income, subject to transaction costs (the real interest rate):

\[
\text{Fisher's Intertemporal Budget Constraint} \rightarrow C_1 + \frac{C_2}{1 + r} = Y_1 + \frac{Y_2}{1 + r}
\]

In Fisher’s model, consumers attempt to maximize utility by choosing the highest feasible indifference curve subject to the budget constraint. By modelling the trade-off between immediate and future consumption, we can observe how increases in income in either period will affect consumption in both periods:

Under this model consumption is incredibly smooth, how much $C_1$ and $C_2$ will increase relative to one another is dependent on the individual utility function, but a smooth consumption path will always be observable. Unfortunately, though Fisher’s incorporation of intertemporal choice demonstrates a consumption smoothing motive, like Keynes’ function it is still too primitive to explain why there is a positive correlation between income and consumption in short-term data series, but consumption remains merely constant in the long-run. The primary limitation of both Keynes’ and Fisher’s model is that they still suppose consumption to be purely a function of income. Franco Modigliani’s Life Cycle Hypothesis builds on Fisher’s model, but includes two new assumptions: 1) that individuals consume out of both income and wealth; 2) the present discounted value of lifetime consumption is equal to the present discounted value of lifetime wealth:

\[
C = aW + bY \quad \text{therefore} \quad \frac{APC}{Y} = \frac{C}{Y} = a \frac{W}{T} + b
\]

Where $(a)$ is the marginal propensity to consume out of wealth, $(b)$ is the marginal propensity to consume out of income, and $(T)$ is the number of years the individual expects to live.
The LCH consumption function resembles a Keynesian function, but because wealth is a function of consumption, as individuals accumulate wealth over time the function shifts upwards – the intercept \((aW)\) increases, but the slope of the function \((bY)\) is unchanged. It explains consumption in such a way that over the short term (left), the Keynesian function is satisfied; \(W\) does not correlate proportionately with \(Y\), therefore higher \(Y\) causes higher \(C\) but with lower \(APC\) (Keynes asserted that higher earners have a higher MPS). In the long run (right), \(W\) and \(Y\) do shift proportionally, thus as the function shifts upward and \(APC\) remains constant. With respect to consumption smoothing, when \(Y\) is rising and \(APC\) is falling the short run, \(C_1\) is being substituted for \(C_2\) – consumption is smoothed through individual saving. As for the long term, it is implicit in the concept of a smooth path of \textit{lifetime} consumption that if \textit{lifetime} wealth = \textit{lifetime} consumption, \(APC\) remains constant.

Modigliani’s LCH offers us a neat conception of consumption smoothing in which any shift in either wealth or income, today or tomorrow will affect consumption in \(C_1\) and \(C_2\). It is often felt that this model is perhaps implausibly smooth, and not every stochastic fluctuation in income or wealth will change consumption over the course of a lifetime. Friedman’s Permanent Income Hypothesis, by contrast, supposes that consumers view their measurable income as formed of two component parts – permanent \((Y_p)\) and transitory \((Y_t)\) income:

\[ Y = Y_p + Y_t \]

Households consume primarily out of the portion of their incomes that they expect to endure in the future \((Y_p)\). Thus consumption is given as a function of permanent income, and the marginal propensity to consume from it:

\[ C = aY_p \]
Nonetheless, individuals and households still experience random, stochastic fluctuations in their incomes, but are unlikely to consume out of such temporary phenomena, due to future uncertainty and what Friedman perceives to be a risk-averse nature\(^1\). Instead, consumption smoothing铁ons these transitory shocks; spikes in \(Y_T\) are carried over to \(C_2\) as precautionary savings, buffer-stocks against unexpected necessary expenditure.

The role of consumption smoothing under PIH is thus quite different to that of the LCH. The PIH explains consumption smoothing as a specific response to unanticipated phenomena, the direct product of risk-averse behaviour intended as insurance against an uncertain future. Transitory spikes in income are offset by precautionary savings that add to buffer-stocks in the form of pensions, insurance and other set-asides. Stocks such as these fund the opposite aspect of consumption smoothing, by allowing the individual to keep consuming at the desired rate when they experience transitory slumps in income. It could be said that for Friedman, these two smoothing effects work in much the same way as automatic fiscal stabilisers, only at a micro-level. Angus Deaton elaborates such reasoning beyond just transitory income, to include wealth and assets as well, reasoning that “precautionary motives interact with liquidity constraints because the inability to borrow when times are bad provides an additional motive for accumulating assets when times are good”\(^2\). Though his essay on the whole is not an explicit endorsement of the PIH, it is highly critical of various LCH models and their suppositions about consumption behaviour.

Whilst this essay stresses the importance of the precautionary motive’s relationship with the hypothesis, PIH has often found itself at odds with other theories with a more explicit emphasis on precautionary saving. James Morley claims strong empirical evidence that PIH cannot adequately explain why consumption is so smooth, and that other models of precautionary saving and habit formation are more persuasive. He contends that permanent income is in fact quite volatile, and consumption only adjusts to match it very slowly over the long term\(^3\). Under PIH, because consumption is a function of permanent income, if permanent income is volatile and not smooth, it follows that consumption would be likewise. Whilst Morley views this as part of a strong case against the PIH, Meghir accepts that “A key restriction of the model [...] is that income appears to be more volatile than consumption”, but is optimistic about the potential of forms of the PIH to overcome this limitation\(^4\).

It goes without saying that during periods of downturn or crisis, borrowing constraints at the micro level are likely to be at their worst. Yet even in scenarios as dire as the recent crash (2008-present), Dutt and Padmanabhan have managed to observe “rich patterns of consumption smoothing”\(^5\) in household data, it merely manifests as intercategorical or

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1. (MEGHIR, Costas, 2004, p.15)
2. (DEATON, Angus, 1991, p.1222)
3. (MORLEY, James C., 2007, p.626)
4. (MEGHIR, Costas, 2004, p.20)
5. (DUTT, Pushan and Padmanabhan, V, 2011, p.492)
intracategorical smoothing, more commonly than it does intertemporal. When credit constraints make it difficult to borrow out of future consumption, households exhibit a tendency to consume less durable goods and more services and nondurables. Their analysis unearths strong evidence that in developed countries, crises cause agents to consume comparatively more semidurables and services, whilst in developing countries nondurables are substituted in at the expense of durables and semidurables. Consumption smoothing, it seems, is not by necessity an intertemporal process, and is therefore possible even in the tightest of financial conditions.

Divergent from the arguments observed thus far, Parker and Preston make the intriguing contention that far from consumption smoothing occurring in spite of binding borrowing constraints, they actually suppose that in specific instances, household consumption is increased by the introduction of a constraint, and as such consumption smoothing becomes more feasible than before. They ask us to consider a household with relatively low-income:

A liquidity constraint comes into effect, rendering the current optimal consumption bundle (a) unachievable. However in response, the household increases the supply of labour (i.e. picks up extra work), and thus increases overall Y. As can be observed in the diagram above, not only does this make the previous consumption bundle (a) possible, but even makes feasible one on a formerly unreachable indifference curve (d), instead having to regress to point (c) or (d). This is not an isolated proposition, Costas Meghir also records how the findings of some PIH models “become insignificant when we allow for demographics and labour supply”. Parker and Preston’s example is heavily reliant on a strongly flexible labour market, but nonetheless demonstrates how a binding constraint can in fact increase income and consumption, and thus make conditions more conducive to consumption smoothing.

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6 (DUTT, Pushan and Padmanabhan, V, 2011, p.502)
7 (PARKER, Jonathan A. and Preston, Bruce, 2005, pp.1134-1135)
8 (MEGHIR, Costas, 2004, p.21)
The cross-examination of different models of intertemporal models of consumption sheds much light on the potential for consumption smoothing to transcend the boundaries of binding liquidity constraints. Even in deep recession or crisis, consumption smoothing continues to be observed in an intercategorical capacity, and when one considers the variable nature of household labour supply in response to constraints, there is even evidence that consumption smoothing actually increases. Whilst one has to concede that no single model of PIH or LCH fully justifies all smoothing patterns, we can at least find ourselves optimistic about the successes of certain models to explain or account for tricky factors such as precautionary saving and permanent income volatility.

**Bibliography**


2. What is “Ricardian Equivalence” and when can it fail?

Principles of Macroeconomics (ECO-2A05)

By SAMUEL BITTANTE*

Introduction

This essay will explain the economic theory of Ricardian Equivalence as speculated by David Ricardo (Essay on the Funding System, 1820) and further theorised by Robert J. Barro (Are Government Bonds Net Wealth?, 1974), in addition to analysing three potential failings of the theory; the issue of intergenerational linkages, the presence of imperfect capital markets and the rationality of consumers.

Ricardian Equivalence

The Ricardian view proposes that the substitution of a budget deficit for current taxes, or an alternative temporal arrangement, has an equal effect on aggregate demand. Thus, the two are ‘equivalent’. (Barro, 1989: 4). A decrease in taxation by the government incurs a budget deficit with a future tax implication. Rational consumers recognise that these future taxes ‘have a present value equal to the incurred debt’ (Seater, 1993: 142). They therefore see through the ‘intertemporal veil’ (Bernheim, 1987: 265), saving additional disposable income to pay the future taxes rather than raising their consumption – an action equivalent to paying current taxes. The rise in private saving exactly offsets the fall in public saving (Mankiw 2012), and therefore aggregate demand remains unchanged. Summarily, government debt is not perceived as net wealth by rational and forward looking households (Barro, 1974).

Ricardian Equivalence implies debt-financed fiscal policy would not raise aggregate demand, therefore having no short run effects on employment and output. However where policy is appropriately financed consumers will perceive no future tax implications and experience a net wealth effect. (Bernheim, 1987) (Mankiw, 2012).

For Ricardian Equivalence to hold, Bernheim (1988) cites various underlying assumptions. Three of the most criticised include altruistically motivated intergenerational linkages, the presence of perfect capital markets (no borrowing constraints) and the rationality and far-
sightedness of consumers. The plausibility and ‘failure’ of each assumption will be considered in turn.

**Intergenerational Linkages**

In an overlapping generations two-period lifespan model of the economy, as presented by Samuelson (1958), agents would experience a net wealth effect from a deficit-financed tax decrease. Agents would be aware that the future tax liability would be borne by future generations, allowing individuals to utilise the additional disposable income without redemption (caring only about their own utility). Therefore Ricardian Equivalence is necessitated by intergenerational altruism, where ‘households act as though infinitely lived’ (Barro, 1974: 1116). This indicates that individuals would save the additional disposable income and bequeath it to their children in order to cover the future tax liability of the current debt. (Seater, 1993). However, the implausibility of this assumption highlights it as a potential failure of Ricardian Equivalence.

Firstly, Feldstein (1976) discusses the nature of intergenerational transfers, summarising that they are not only represented by bequests. The next generation has consumption as children and investment in human capital (i.e education) supported by the current generation; this represents a transfer of the deficit-financed disposable income. Feldstein states that this does not however represent a real capital transfer. While such transfers may better prepare the next generation for paying the tax liability that they will bear, it clearly does not induce an exact offsetting. Further to this, we can consider if altruism is the motive behind the bequest transfer; where parents may attempt to influence the decisions and behaviour of their children using the executable threat of disinheritance; potentially reducing the offset (Berheim, Shleifer and Summers, 1985). Indeed, realistically a substantial minority of the population will receive no bequeaths at all; while Tobin (1980) suggested that childless families will also transfer none of their additional disposable income to the next generation, meaning the intergenerational offset proposed by Barro (1974) would be significantly unbalanced.

Barro (1989) counters some criticisms, listing them as second order effects which are also unsupportive of standard theory. He states that intergenerational transfers are best described by altruism as they show parents care about their children’s welfare, simply on different levels. He also argues the quantitative insignificance of increased consumption from childless families. Nevertheless, akin to the majority of evidence, Barro concedes

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9 Pertaining to an effect yielded by an original effect – a by product of the models’ original implications. In this instance it is argued that they the make Ricardian Equivalence no less of a good approximation. In the opinion of the author, an effect being second order does not invalidate its implications for the accuracy of a model, more so when a number exist.
eventualities whereby the assumption of intergenerational altruism causes Ricardian Equivalence to fail.

**Perfect Capital Markets**

The Ricardian Equivalence model initially assumes ‘no elements of capital market imperfections’ (Barro, 1974: 1097). Therefore agents will face no borrowing constraints and will base current consumption on lifetime expected income. Buiter and Tobin (1981) state that realistically, financial markets do not offer unlimited opportunities for constrained households to consume future income through borrowing. Some proportion of individuals will be liquidity constrained. One example of a constraint is ‘credit rationing’; where borrowers are withheld loans even when willing pay above the market rate (Stiglitz and Weiss, 1981).

For individuals with binding borrowing constraints, consumption depends only on current income rather than the present value of lifetime income (Mankiw, 2012). In turn, both Heller and Starr (1979) and Buiter and Tobin (1981) find that for constrained households, a deficit-financed tax cut represents an advantageous opportunity to borrow against future income; something previously not offered by private capital markets. The government is granting them a loan at its borrowing rate of interest, increasing the liquidity of their lifetime income. These households would raise consumption (no longer just based on current income) with the additional disposable income, which would then be reduced by an equivalent amount in the next period. Therefore fiscal policy has a net wealth effect ‘even when the future tax implications are perfectly foreseen’ (Heller and Starr, 1979: 462). King (1983) summarises that across various data twenty to twenty five per cent of people may not be consuming or saving optimally due to borrowing constraints, indicating the wealth effect would be significant. They would raise consumption despite a future tax burden. This is compelling and represents a failure of Ricardian Equivalence.

**Consumer Rationality**

Ricardian Equivalence assumes consumer rationality as in line with the rational expectations hypothesis (hereafter REH), outlined under a macroeconomic setting by Lucas (1972). Agents’ expectations surrounding future economically related variables are on average correct, with errors random and not systematic. This indicates that the consumer has an ability to fully anticipate the future tax implication of a deficit financed tax cut. The controversy over rational expectations raises questions over its plausibility as an assumption.

Ricardo (1820) criticised his own theory by stating that ‘the people who pay the taxes never so estimate them, and therefore do not manage their private affairs accordingly’, signalling his doubt that consumers could act in a far sighted, predictive nature as REH suggests.
Feldstein (1976) further labels the needed anticipations as too complex. He argues households would need to understand the effect of reduced saving on taxes and future wages, alongside the financing needs of the future social security program and the deficit. With these, accurate bequest adjustments would be necessary eliminate fluctuations in future tax liabilities. Overall, this seems unlikely. Boskin (1998) deems REH to be a very strong assumption, intuitively not reflective of at least some of the population. Households may instead suffer from myopia and see a deficit-financed tax cut as an increase in lifetime income (Mankiw, 2012). Mankiw and Campbell (1991) found significant evidence that a proportion of consumers have ‘static’ expectations (myopic and consuming from ‘hand to mouth’, dissimilar to REH); a figure of roughly ‘25 and 40 percent in Western nations’ (Sorensen and Whitta-Jacobsen, 2010: 651). This supports the idea that not all consumers act in a rational and far sighted way. It seems a rise in disposable income from a deficit-financed tax cut would have a net wealth effect for some at least; leading to the failure of Ricardian Equivalence.

Counter criticisms exist surrounding the rational expectations assumption within Ricardian Equivalence. Barro (1976) points out that it is difficult to find a substitute for REH on which to form a basis for creating economic models. Seater (1993) further questions the type of ‘intellectually satisfying’ theory exists to explain exhibited behaviour. However criticisms of an arguably flawed assumption will still reflect on Ricardian Equivalence itself, even if other neo-classical models utilise it. Chow (2011) illustrates this, arguing that imposing REH as an incorrect assumption on otherwise correct models produces unreasonable conclusions. He suggests the traditional adaptive expectations hypothesis is a viable alternative; where consumers make future predictions based on past experiences. Clearly, without a unified set of behavioural assumptions existing among economists, models will always be subject to such criticisms. However there are convincing arguments which see Ricardian Equivalence fail if consumers do not behave as under REH.

**Conclusion**

Ricardian equivalence is the concept that a deficit-financed tax cut are treated as equivalent to current taxes by rational consumers – the additional disposable income simply saved to pay the created future tax implication.

This is based on several implausible assumptions, which realistically lead to failures of the equivalence. Intergenerational linkages do not always see real capital transfers between generations, due to the costs of human capital for instance. Observed also is that some individuals have no children, and some parents leave no bequests – seeing a net wealth effect for those individuals as the tax cut is spent. Perfect capital markets do not exist in real life, and consumers may see a net wealth effect is they can borrow against future income with a tax cut, where previously constrained to only current income by private capital.
markets. Lastly, the rational expectations hypothesis provides a controversial basis for the Ricardian Equivalence model as a whole, being by no means an unchallenged theory of consumer behaviour. While several counter arguments exist, the weight of evidence means all three assumptions represent situations of total or specific failure.

References


3. Do immigrants to the UK receive lower wage returns to education than observably similar British/Irish nationals?

Labour Economics (ECO-3A15C)

By OLLIE LEE*
1. **ABSTRACT**

This essay examines the hypothesis that immigrants to the UK receive lower wage returns to education than observably similar British/Irish nationals. I discuss how this may be attributable to discrimination, or to immigrants lacking UK-specific human capital.

This essay begins with a short description of the theories of Human Capital and Statistical Discrimination. This is followed by a review of the literature on immigrant assimilation into the labour market, and the international transferability of human capital. Following this I present my econometric analysis using data from the quarterly UK Labour Force Survey (LFS). This data is used to estimate an earnings regression that includes a dummy variable for non-British/Irish nationals (immigrants). Holding gender, ethnicity, age, location and education constant, I find strong evidence that immigrants earn less than natives in the UK labour market; if this does not reflect productivity differences, it can be interpreted as discrimination. I find evidence that there is a wage differential at each level of education, which I interpret as evidence for UK-specific human capital. I do not find evidence of convergence with native wages.

2. **INTRODUCTION**

Human capital is a determinant of worker productivity. Assuming a well-functioning labour market, labour is paid equal to its marginal product, and human capital thereby determines wages. If immigrants possess the same human capital as natives, then one would predict that they earn the same wage. This is not observed in the LFS data, and it is this observation that has prompted my research on this topic.

If wages differ, there are two possible interpretations: either immigrants have lower productivity and lower wages reflect this; or immigrants have equal (or higher) productivity, but the labour market does not price this correctly. The heterogeneity of immigrants presents a challenge in assessing which interpretation is correct. Given that immigrants are over-represented in low skill and high skill occupations (CFEP, 2012) it is likely that both interpretations have validity.

The economic progress of immigrants is an important topic given the increased levels of immigration to the UK (the UK has had positive net-migration every year since 1993). If there
is an observable immigrant-native wage gap, this has implications for tax revenue. Additionally, if migrants earn very low wages they may enrol on public assistance programmes and add to government expenditure (Borjas, 2011). Finally, if productive immigrants return to their origin country because of lower-than expected wage returns in the UK, this undermines any government motive for attracting immigrants in the first place.

3. THEORY
3.1 HUMAN CAPITAL

Human capital has many components, but two measurable and significant ones are education and experience. Human capital theory predicts that wages will increase with labour market experience and education. An explanation for the labour market not correctly pricing immigrant productivity is that human capital (or its components) is location-specific. Put differently: human capital cannot be perfectly transferred from origin to host country.

Relating this to education and experience, firms may discount education and experience gained in immigrants’ origin country. If this is true, then one would expect immigrants’ wages to be lower than natives on their entry to the UK. As immigrants gain more of the UK experience and education that UK employers’ value, one would expect immigrants to increase their UK human capital stock. Several authors have observed immigrants’ human capital increasing at a faster rate than natives, implying a catch-up in wages, and possibly convergence or over-taking. This ‘Convergence effect’ is discussed below in the literature review.

In looking for evidence of location-specific human capital, I try to establish two features in the data: an immigrant-native wage gap, and the respective age/earnings profiles for the two groups.

3.2 DISCRIMINATION

It is possible to interpret the immigrant-native wage differential as not being a function of productivity differences. If we control for human capital differences (education and experience, in the case of my regression analysis), and still observe a wage differential, this could be interpreted (partly, at least) as signifying discrimination against immigrants. This
interpretation is especially robust if we can also control for two common features of discrimination: ethnicity and gender.

Education level is not a perfect measure of productivity. But we can assume that immigrants with no qualifications are likely to have similar productivity to natives with no qualifications. If we detect a wage differential in this situation, this is strong evidence for taste-discrimination.

If we detect a wage differential between immigrants and natives with the same level of education, this may reflect differences in educational quality between countries. In this case, there may be an element of rational/statistical discrimination.

4. LITERATURE REVIEW
The landmark paper on UK immigrant labour market outcomes is Chiswick (1980). Using data from the 1972 General Household Survey, Chiswick showed white foreign-born workers as having similar wages to white native-born workers, but observed larger wage differences between non-white immigrants and other groups. Particularly relevant to this essay is Chiswick’s evidence that returns to schooling are lower for non-white immigrants than white immigrants and white natives; this can be interpreted as evidence for UK-specific human capital.

Chiswick uses the variables “years since migration (YSM)” and “YSM squared” to judge whether labour market experience gained in Britain has a different effect to that gained in the origin country. When these variables are added to the regression, Chiswick finds that they provide no additional explanatory power, suggesting that there is no difference in the productivity of labour market experience in origin country or Britain (Chiswick 1980). This results contrasts to Chiswick (1978, 1979), which found that in the US and Canada immigrants receive lower returns for their origin country labour market experience than they do for their host country experience. Computing a similar variable, YSM, in my regression did not produce statistically significant results.

Chiswick attributes the irrelevance of YSM partly to post-war immigrants to Britain being “well anglicised” (Chiswick, 1980) on arrival, with the majority of immigrants having
come from Commonwealth countries. While the LFS data does not specify every respondent’s country of origin, other data show that fewer UK immigrants are from Commonwealth countries than in 1971 (CfEP, 2012).

Chiswick (1978) uses US Census data to provide evidence that in the US immigrants’ wages start lower than similar natives’, but then rise at a faster rate, overtaking natives after several years. I do not find evidence of such an effect in the LFS data. Borjas (1994) uses Chiswick’s data to plot the graph in Figure 1 using the regression coefficients and mean values for immigrants. Repeating this exercise with the LFS data does not yield a similar graph. (shown later in Section 8 – Interpreting the Results).

Chiswick (1978) suggests that immigrants will invest proportionately more in human capital, and increase their stock at a faster rate relative to natives, but observes that this investment by itself does not suggest an ‘over-taking point’, as seen in Figure 1. Borjas (1994) interprets this as evidence for two types of selection bias. The first is that immigrants are “more able and more highly motivated” than natives, since they have the ambition and
wherewithal to move countries in search of better opportunities. The second form of selection bias can be termed ‘survivor bias’, which reflects that immigrants who do not experience high wage returns in the host country simply return to their origin country, and the remaining immigrants are the successful ones with high wages. If Borjas’ interpretation holds in the current UK data, one would expect to see a comparatively steep age-earnings profile for immigrants, but this is not the case (Section 8).

Borjas (1985) makes a criticism of interpreting too much from cross-sectional data, arguing for what he terms “cohort effects”. Over time the characteristics of typical immigrants change, one cohort may be observably different from another. Newly arrived immigrants may be inherently different from those who migrated decades ago. Borjas (1994) presents the graph shown in Figure 2, demonstrating how changes in the skill level of migrant cohorts could produce the effect shown earlier in Figure 1.

Figure 2 shows the effect of variation in human capital between cohorts. Say the 1970 Cohort has more human capital than the 1990 Cohort, and therefore has proportionately higher wages. And say the same is true of the 1950 Cohort relative to the 1970 Cohort. Even with the same slope for their respective age-earnings profiles \((P, Q, R)\), observing the three cohorts in one cross-sectional dataset would give the impression that the population’s age-earnings profile is much steeper, the line \(C\).
In light of this, I make an attempt to distinguish between immigrant cohorts in the LFS data. However, this is used only descriptively, since the sub-samples of immigrants grouped by age are not large enough to provide significant results for the age-earnings profile.

Lemos (2011) is more effective in looking at the Cohort effect in recent UK data; using the UK Lifetime Labour Market Database (LLMDB), which contains longitudinal data from anonymised National Insurance records. Using a random of sample of 647,000 individuals between 1978 and 2006, Lemos finds evidence that those immigrants from recent cohorts fare better than earlier ones at entry. I find some evidence to support this when I ran regressions for separate age groups, which are rough proxies for immigrant cohorts.

Lemos finds evidence for convergence and over-taking amongst all Cohorts (Figure 3). I do not find evidence for any over-taking in my main regression analysis. The cross-sectional nature of the LFS dataset means I would observe convergence if immigrant returns to labour

Figure 3. Immigrant-Native Earnings Gap

Source: Borjas (1994)
market experience were higher than native returns; this is not the case.

Lemos asserts that because immigrants vary so much in their characteristics, “such as English proficiency, work ethics, skills (formal education) transferability, etc.” (Lemos, 2011), this means that not all immigrants are perfect labour substitutes. Lemos observes that the immigrant-native wage gap is greater for cohorts with proportionately more non-white immigrants. While the LFS dataset does not allow this level of Cohort distinction, there is an observably larger wage discount for non-white immigrants than there is for non-white natives (results, column X and Y), holding all else constant. Therefore Lemos’ ethnicity/Cohort insight has some validity in interpreting the LFS results.

In summary, the existing literature provides examples of a Convergence effect, but the UK evidence of this is mixed. Any results from my regression need to be viewed with the restriction that cross-sectional data may not give the best measure of assimilation, due to Cohort effect.

Source: Lemos (2011)
5. SAMPLE CHARACTERISTICS

Figure 4 describes how manipulating the LFS dataset for the desired variables had an effect on the characteristics of the sample.

Figure 4. Changes to the original LFS sample

<table>
<thead>
<tr>
<th>Sample description</th>
<th>n</th>
<th>Mean Age</th>
<th>That are male</th>
<th>That are female</th>
<th>That are British/Irish nationals</th>
<th>That have a degree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whole LFS dataset</td>
<td>106,201</td>
<td>38.1</td>
<td></td>
<td></td>
<td></td>
<td>13.99%</td>
</tr>
<tr>
<td>Observations with values for 'Nationality'</td>
<td>101,614</td>
<td>38.3</td>
<td></td>
<td>48.54%</td>
<td>51.46%</td>
<td>14.61%</td>
</tr>
<tr>
<td>Observations with non-zero values for 'Hourly Wage'</td>
<td>11,047</td>
<td>41.8</td>
<td>47.80%</td>
<td>52.20%</td>
<td>90.20%</td>
<td>28.27%</td>
</tr>
<tr>
<td>Observations that are 'Prime Working Age' (25-64)</td>
<td>9,617</td>
<td>43.6</td>
<td>47.81%</td>
<td>52.19%</td>
<td>90.06%</td>
<td>30.38%</td>
</tr>
</tbody>
</table>

On the basis of Figure 3, it is possible to say the working sample (comprised of prime-age workers who report hourly wage and nationality) has a slight female-bias, an older-worker bias and a large degree-bias.

The largest of these is the degree bias, and there is reason to believe that this affects some of the regression models. 13.99% of all LFS respondents have degrees, whereas the figure is 30.38% of the prime-age sample with values for nationality and hourly wage. The size of the sample means the results for non-degree respondents are still robust, with high significance. But it should be noted that the regression results may attribute more wage variation to education than is the case. When the sample is split into smaller groups (such as ‘non-white immigrants’), the coefficients for secondary education are not significant. This may be attributable to the degree-bias in the sample.
Migrants are younger and more highly educated than natives. The median migrant has a lower wage than the median native, but has studied to a higher level. The mean age of migrants in the sample is 39.68 years, compared 44.03 for natives.

A larger proportion of migrants report having no qualifications, or qualifications other than the options offered (Figure 6). But taken as a group, more migrants are educated to a post-secondary level (51.4%) than the population as a whole (41.8%).

If one ranked the samples by level of education, the median native would be educated to A Level, where the median immigrant would be educated to Higher Education level. An immigrant at the 25th percentile for that group would have no qualifications; a native at the same point in the native ranking would have GCSE qualifications.
Figure 6. Levels of education for Immigrants and the population

Figure 7: Percentile values for wage distributions

<table>
<thead>
<tr>
<th>Percentile</th>
<th>Natives</th>
<th>Immigrants</th>
</tr>
</thead>
<tbody>
<tr>
<td>10th</td>
<td>6.10</td>
<td>5.75</td>
</tr>
<tr>
<td>20th</td>
<td>7.34</td>
<td>6.49</td>
</tr>
<tr>
<td>30th</td>
<td>8.61</td>
<td>7.43</td>
</tr>
<tr>
<td>40th</td>
<td>9.86</td>
<td>8.44</td>
</tr>
<tr>
<td>50th</td>
<td>11.36</td>
<td>9.78</td>
</tr>
<tr>
<td>60th</td>
<td>13.20</td>
<td>11.78</td>
</tr>
<tr>
<td>70th</td>
<td>15.49</td>
<td>14.13</td>
</tr>
<tr>
<td>80th</td>
<td>18.70</td>
<td>17.50</td>
</tr>
<tr>
<td>90th</td>
<td>23.51</td>
<td>22.63</td>
</tr>
<tr>
<td>95th</td>
<td>29.87</td>
<td>26.71</td>
</tr>
<tr>
<td>99th</td>
<td>50.00</td>
<td>48.31</td>
</tr>
</tbody>
</table>
Figure 7 shows that at all levels on the income scale, immigrants earn less than natives. That difference is greatest in the middle of each group’s distribution, as shown in Figure 8.

**Figure 8. Wage distributions; immigrant percentile values as a proportion of native percentile values**

The data shown in Figure 8 offers some support for the idea that immigrants compete with natives principally at the bottom and top of the skills distribution. At the bottom of the skill distribution, education and experience components of human capital are less relevant to productivity. At the top of the skills distribution, education and experience may be more perfectly transferable between countries, reducing the effect of UK-specific human-capital on wages.

### 6. METHODOLOGY
To establish the wage returns to education for natives and immigrants, I regressed an earnings function (Section 7) for British/Irish and non-British nationalities.

I used the Nationality variable to code LFS respondents as 0 if they were of British or Irish nationality and as 1 if they had any other nationality.

I restricted the sample to those of prime-working age, 25-64. This removed the potential for the data to be affected by those in the later stages of their education.
For level of education, I experimented with the variable Years of Schooling; calculated as the age when observations left full-time education, minus 6). However, this had less explanatory power than creating dummies for each observation’s highest level of qualification. Another advantage of the dummy variables is that they capture the fact that people may return to education later in life. The base case consists of observations that have ‘no qualifications’, qualifications different to the presented options, and observations that have no recorded answer.

I experimented with using the variable ‘Years Since Migration’ to try and capture UK labour market experience. When this was entered into the regression it had less explanatory power than ‘Age’. Moreover, when ‘Age’ and ‘YSM’ were both included, the coefficient on YSM was highly insignificant. This mirrors the result from Chiswick (1980). There is an additional problem in using ‘YSM’, in that only 70% of immigrants gave a response for this question in the LFS; to include this variable is to reduce the sample size further. Finally, the average age for immigrants in the sample is 37, and the average number of years since migration is 10, implying that the average age of entry is 27. Since the sample is restricted to those over 25, using YSM means colinearity with AGE.

I find that the AGE variable is the best proxy for experience, especially when the prime-age restriction means there are few students in the working sample. The variable AGE SQUARED is significant beyond the 0.001 level, and adds explanatory power to the model. It captures the quadratic relationship between age and earnings that is present in Chiswick (1978, 1980) and Borjas (1994).

For earnings I used the HOURLY PAY variable to allow inclusion of both full and part time workers.

7. ESTIMATING THE EARNINGS FUNCTION
Taking the log of hourly wages, I estimated the following regression equation.

\[
\ln (\text{Hourly Wage}) = \\
\beta_0 + \beta_1 \text{AGE} + \beta_2 \text{AGE SQUARED} + \beta_3 \text{FOREIGN NATIONALITY} + \beta_4 \text{FEMALE} + \\
\beta_5 \text{NON-WHITE} + \beta_6 \text{LONDON} + \beta_7 \text{GCSE} + \beta_8 \text{A LEVEL} + \\
\beta_9 \text{HIGHER EDUCATION} + \beta_{10} \text{DEGREE} + \beta_{11} \text{POSTGRADUATE} + \beta_{12} \text{DOCTORATE}
\]
where the variables are as shown in Figure 9.

**Figure 9. List of variables used in regression analysis**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGE</td>
<td>Age in years</td>
</tr>
<tr>
<td>AGE SQUARED</td>
<td>Age in years, squared</td>
</tr>
<tr>
<td>FOREIGN NATIONALITY</td>
<td>Nationality of respondents</td>
</tr>
<tr>
<td></td>
<td>(by coding British and Irish nationals as 0 and all other nationalities as 1)</td>
</tr>
<tr>
<td>FEMALE</td>
<td>Gender of respondents</td>
</tr>
<tr>
<td></td>
<td>(by coding Males as 0 and Females as 1)</td>
</tr>
<tr>
<td>NON-WHITE</td>
<td>Ethnicity of respondents</td>
</tr>
<tr>
<td></td>
<td>(by coding White and White Other as 0, and all other ethnicities as 1)</td>
</tr>
<tr>
<td>LONDON</td>
<td>Location of respondents</td>
</tr>
<tr>
<td></td>
<td>(by coding non-London residents as 0, and London residents as 1)</td>
</tr>
<tr>
<td>GCSE</td>
<td>Highest level of education is GCSE A*-C, or equivalent</td>
</tr>
<tr>
<td></td>
<td>(by coding those with this attainment as 1, and all others as 0)</td>
</tr>
<tr>
<td>A LEVEL</td>
<td>Highest level of education is A Level, or equivalent</td>
</tr>
<tr>
<td></td>
<td>(by coding those with this attainment as 1, and all others as 0)</td>
</tr>
<tr>
<td>HIGHER EDUCATION</td>
<td>Highest level of education is Higher Education</td>
</tr>
<tr>
<td></td>
<td>(by coding those with this attainment as 1, and all others as 0)</td>
</tr>
<tr>
<td>DEGREE</td>
<td>Highest level of education is an Undergraduate Degree</td>
</tr>
<tr>
<td></td>
<td>(by coding those with this attainment as 1, and all others as 0)</td>
</tr>
<tr>
<td>POSTGRADUATE</td>
<td>Highest level of education is Masters or other Postgraduate Degree</td>
</tr>
<tr>
<td></td>
<td>(by coding those with this attainment as 1, and all others as 0)</td>
</tr>
<tr>
<td>DOCTORATE</td>
<td>Highest level of education is Doctorate</td>
</tr>
<tr>
<td></td>
<td>(by coding those with this attainment as 1, and all others as 0)</td>
</tr>
</tbody>
</table>
The base-case scenario is a white male living outside of London, with British or Irish nationality and no educational qualifications.

8. REGRESSION RESULTS

The results for this regression are shown in Figure 10. For the full specification (one sample, consisting of immigrants and natives) the $R^2$ value is 0.29, and all variables are significant beyond the 0.001 level.

Three characteristics are predicted to reduce an individual’s hourly wage: FOREIGN NATIONALITY (-9.9%); FEMALE (-22.0%); NON-WHITE (-18.4%). We will focus mainly on the findings for nationality.

All education dummies are predicted to increase hourly wage, and each by a greater amount that the level of education that precedes it: GCSE (13.9%); A LEVEL (28.1%); HIGHER EDUCATION (45.0%); DEGREE (68.0%); POSTGRADUATE (82.3%); DOCTORATE (83.5%). The presence of the LONDON dummy is also predicted to increase hourly wage (22.7%)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Working Sample</th>
<th>Foreign Nationals</th>
<th>British Nationals</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGE</td>
<td>0.057</td>
<td>0.049</td>
<td>0.058</td>
</tr>
<tr>
<td></td>
<td>(0.004)*****</td>
<td>(0.013)*****</td>
<td>(0.004)*****</td>
</tr>
<tr>
<td>AGE SQUARED</td>
<td>-0.001</td>
<td>-0.001 (.001)</td>
<td>-0.001</td>
</tr>
<tr>
<td></td>
<td>(0.000)*****</td>
<td>(0.000)*****</td>
<td>(0.000)*****</td>
</tr>
<tr>
<td>FOREIGN NATIONALITY</td>
<td>-0.099</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(0.017)*****</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FEMALE</td>
<td>-0.22</td>
<td>-0.169</td>
<td>-0.225</td>
</tr>
<tr>
<td></td>
<td>(0.010)*****</td>
<td>(0.033)*****</td>
<td>(0.010)*****</td>
</tr>
<tr>
<td>NON-WHITE</td>
<td>-0.184</td>
<td>-0.187</td>
<td>-0.179</td>
</tr>
<tr>
<td></td>
<td>(0.023)*****</td>
<td>(0.041)*****</td>
<td>(0.028)*****</td>
</tr>
<tr>
<td>LONDON</td>
<td>0.227</td>
<td>0.184</td>
<td>0.235</td>
</tr>
<tr>
<td></td>
<td>(0.017)*****</td>
<td>(0.041)*****</td>
<td>(0.019)*****</td>
</tr>
</tbody>
</table>
GCSE | 0.139 | 0.057 | 0.162  
    | (0.017)** | (0.056) | (0.019)**
A LEVEL | 0.281 | 0.160 | 0.307  
        | (0.018)** | (0.059) | (0.019)**
HIGHER EDUCATION | 0.45 | 0.259 | 0.485  
                 | (0.020)** | (0.058)** | (0.022)**
DEGREE | 0.68 | 0.537 | 0.712  
        | (0.018)** | (0.045)** | (0.020)**
POSTRAGRADEDEATE | 0.823 | 0.709 | 0.849  
                  | (0.022)** | (0.068)** | (0.023)**
DOCTORATE | 0.835 | 0.693 | 0.865  
           | (0.044)** | (0.130)** | (0.047)**
CONSTANT | 0.907 | 1.073 | 0.856  
         | (0.086)** | (0.271)** | (0.090)**

R² | 0.296 | 0.249 | 0.301  
N  | 9617  | 956   | 8661

**Notes:** - The dependent variable is log of Hourly Wage. The base groups are: British, for nationality; Male, for gender; White, for ethnicity; Outside London, for location; No Education, for level of education.  
- Standard errors are in parentheses.  
- Asterisks denote level of significance: *** 0.001, ** 0.01, * 0.05

9. INTERPRETING THE RESULTS

MODEL 1 – Single regression for working sample (natives and immigrants)

Regressing the earnings function for the whole sample gives a coefficient for non-British nationality of -0.099, meaning an immigrant is predicted on average to earn 9.9% less than a native, holding gender, education, location, age and ethnicity constant. This is consistent with the literature, which generally records migrants as earning less than natives on entry. However, to establish the age/earnings profile of migrants as a distinct group, Model 2 is required.

MODEL 2 – Separate regressions for natives and immigrants

When running separate regressions for natives and non-natives, the AGE coefficient is higher for natives (0.058) than non-natives (0.049). The implication of this is that immigrant age/earnings profile is not as steep as natives (immigrants’ wages rise more slowly). This
matches the UK findings for Chiswick (1980), but contrasts with the US finding in Chiswick (1978). It also contrasts with Lemos (2011).

The CONSTANT term is higher for non-natives (1.073) than natives (0.856); under the base case scenario of white, uneducated male living outside of London, the difference in constant terms is such that immigrant wages are predicted to exceed native wages at age 25, and remain higher until age 41 (Figure 11). At ages 41 and 64, the wage are equal, with native wages higher than immigrant between 41 and 64. Both groups are predicted to maximise their hourly wage between the age of 48 and 49. For the base-case scenario, the average native-immigrant wage gap between ages 25 and 64 is predicted to be -0.5% (which is to say, across prime-age working years, immigrant Hourly Pay is predicted on average to be 0.5% higher than native Hourly Pay). The mean of absolute variance over the lifecycle is 1.4%.
The addition of the NON-WHITE coefficient to the base-case produces a similar result (Figure 12). But the addition of any other combination of coefficients (LONDON residency, or
any level of education) is predicted to see natives earn significantly more than immigrants.

(Figures 13 and 14, for example).

For each positive coefficient, the native figure is higher than the immigrant figure. The negative, NON-WHITE coefficient is lower for migrants (-18.7%) than for natives (-17.9%). However, the negative female coefficient is lower for natives (-22.5%) than it is for migrants (-18.7%).

The difference in FEMALE has the effect that for white women with no qualifications, outside of London, the average immigrant is predicted to earn more than the average native (Figure 15). However, the higher returns to education for natives mean that the addition of other variables (such as GCSE education, Figure 16) means natives are predicted on average to maintain a positive wage gap with immigrants.
With three exceptions, each combination of variables predicts hourly wages are higher for natives than immigrants, for all ages. For two of those exceptions (‘base case’, and ‘base case plus NON-WHITE), the regression predicts that within the lifecycle natives and immigrants each have a period of higher Hourly Pay (Figure 8 and Figure 9). Only one
combination of variables (base case plus FEMALE) produces an age-earnings profile that is predicted to be higher for migrants than natives through the lifecycle (Figure 12)

10. CONCLUSION
This essay examined the hypothesis that immigrants to the UK receive lower wage returns to education than observably similar British nationals. The regression results support this hypothesis.

I offered two ways of interpreting this result: either immigrants have lower productivity and lower wages reflect this; or immigrants have equal (or higher productivity), but the labour market does not price this correctly. There is some evidence for both, but on the basis of the LFS data and my regression it is not possible to assert which is more valid. Given the heterogeneity of immigrants, both may be true. The argument for lower productivity is supported by the evidence for location-specific human capital.

The interpretation rests on the extent to which the education dummies are sufficient for identifying ‘observably similar’ workers. If, for example, a British degree increases productivity more than a foreign degree, then immigrants and natives with degrees are not ‘observably similar’. In that case, the conclusion from the results must be that immigrants experience lower returns because they have lower human capital stocks, as a result of lower investments than the native group they are being compared to.

If, however, immigrants have the same productivity as natives, then the results showing lower wage returns may indicate discrimination or imperfect transferability of human capital. These are overlapping effects: human capital cannot be transferred if host-country firms engage in discrimination.

The age-earnings profiles of skilled migrants provide evidence for these two effects. First, the age-earnings profiles of unskilled workers appear to rule out significant taste-discrimination amongst UK firms. Observations with no qualifications serve as a control group: the lack of qualifications means worker productivity cannot vary according to education. With unskilled productivity assumed to be the same, employers are predicted to pay natives and immigrants similar wages, suggesting that firms have a low propensity for taste-discrimination against immigrants, holding other characteristics constant.
Second, we can assert that the lower age-earnings profiles for skilled migrants are attributable to firms engaging in statistical discrimination. Firms will do this if they think the costs are too high for acquiring information on different countries’ education systems. The implication is that immigrants cannot fully transfer their human capital to the UK.

Elsewhere in the results I find some evidence to support the idea of internationally transferable human capital. The fact that ‘YSM’ and ‘YSM squared’ were insignificant, and reduced explanatory power, was interpreted as evidence that origin-country labour market experience is not significantly different to UK labour market experience.

In summary: immigrants are predicted to earn similar wages to natives when the workers have no qualifications; and are predicted to earn less when compared to natives with the same level of education. This is attributable to statistical discrimination and differences in the quality of education. Human capital is not fully transferable between origin countries and the UK, but there is evidence to suggest some transfer takes place.

11. BIBLIOGRAPHY


4. “‘Now that so many commercial television channels are available to audiences there is no longer a need for Public service broadcasting’. Discuss”

Economics of the Mass Media (ECO-M015)

By MICHAEL TWIST*

"The BBC is the world’s leading public service broadcaster. Its mission is to enrich people’s lives with programmes that inform, educate and entertain" (Inside the BBC, About the BBC)¹⁰

"The licence fee is already an anachronism, and opposition will grow as technological advances and changing viewing preferences make it even more outdated." (Scrap the TV Licence Fee and reform the BBC, Adam Smith Institute)¹¹

With an estimated 60 million televisions in the UK and a population watching an average of 242 minutes of television a day¹², the television industry is thriving! Since the creation of digital TV, the restrictions of how many channels could exist, has ceased to exist. Hundreds of channels are now available in one format or another. An ever-changing landscape means

* MA International Business Economics

¹⁰ http://www.bbc.co.uk/aboutthebbc/insidethebbc/whoweare/ataglance/ (Inside the BBC, About the BBC, Accessed 15/11/12)

¹¹ http://www.adamsmith.org/blog/media-and-culture/scrap-the-tv-licence-fee-and-reform-the-bbc (Scrap the TV Licence Fee and reform the BBC, Adam Smith Institute, a free market think-tank, August 2010, Accessed 15/11/12)

the amount on offer is difficult to quantify but the UK’s leading broadcaster for quantity of channels, SKY, claims over 600 channels\(^\text{13}\).

Public Service Broadcasting is designed to air programmes that are made for public interest as opposed to a commercial aim of profit maximisation. Therefore a public service broadcaster (PSB) makes and shows a wide range of programmes, designed to cater for all tastes and always serve the public’s best interests. In this essay I will be primarily be looking at the UK market and therefore the British Broadcasting Company (BBC), the UK’s main PSB, although I will also reference PSB’s around the world. A PSB is given a remit which is a set of tasks officially assigned by government (in most cases). In the UK the BBC is funded by a licence fee, which is essentially a tax paid by all owners of televisions. The current fee is £145.50 per year\(^\text{14}\). The amount each year is set by the government and has been frozen for 3 years:

<table>
<thead>
<tr>
<th>Date from</th>
<th>Colour licence</th>
<th>Black and white licence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 April 2007</td>
<td>£135.50</td>
<td>£45.50</td>
</tr>
<tr>
<td>1 April 2008</td>
<td>£139.50</td>
<td>£47</td>
</tr>
<tr>
<td>1 April 2009</td>
<td>£142.50</td>
<td>£48</td>
</tr>
<tr>
<td>1 April 2010</td>
<td>£145.50</td>
<td>£49</td>
</tr>
<tr>
<td>1 April 2011</td>
<td>£145.50</td>
<td>£49</td>
</tr>
<tr>
<td>1 April 2012</td>
<td>£145.50</td>
<td>£49</td>
</tr>
</tbody>
</table>

Fig 1: Cost of License fee. Source: [http://www.bbc.co.uk/aboutthebbc/insidethebbc/whoweare/licencefee/](http://www.bbc.co.uk/aboutthebbc/insidethebbc/whoweare/licencefee/) Accessed 9/12/12

The BBC’s remit is delivered by the BBC Trust whose mission is to get the most out of the licence fee and to make sure the BBC acts in the best interest of the public. How it spends its fee is shown below:

\(^{13}\) "View TV listings from 600+ channels" [http://www.sky.com/findandwatch](http://www.sky.com/findandwatch) (Sky.com, Accessed 15/11/12). Includes Catch-up channels and +1 channels which broadcast the exact same programmes as another channel only an hour later.

\(^{14}\) TV Licensing, [http://www.tvlicensing.co.uk/pay-for-your-tv-licence/payment-methods/how-would-you-like-to-pay-for-your-tv-licence-pay8/?WT.ac=banner_wtp1_pay](http://www.tvlicensing.co.uk/pay-for-your-tv-licence/payment-methods/how-would-you-like-to-pay-for-your-tv-licence-pay8/?WT.ac=banner_wtp1_pay), Accessed 9/12/12.
As shown in the trusts “Public Purpose Remit” it hopes to achieve 6 aims. These include focusing on different nations/communities, providing output in minority languages (for example BBC Alba, broadcast in Gaelic) and to reflect different cultures/religious beliefs.

Channel 4 (C4) is also a public service broadcaster. It is publicly owned but commercially-funded. Indeed many PSB’s around the world from Italy’s RAI, France2 and German PSB ARD all have various combinations of licence fees and commercial funding via advertisements.

Channel 4 has a different remit to BBC of being experimental and taking more risks, but still has the popular PSB aim of being innovative.

Commercial stations meanwhile have very different aims. They aim for profit maximisation, which often means trying to achieve the biggest audiences possible as they are mainly funded by advertisements. It follows a simple model of the more people watching; the higher the revenue received for those advertisement slots. Example costs of adverts shown on ITV, the largest commercial television network are shown below:

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15 BBC Public Purpose Remit
http://www.bbc.co.uk/bbctrust/assets/files/pdf/about/how_we_govern/purpose_remits/nations.pdf BBC Trust, Accessed 9/12/12
As you can see in the table, advert space, particularly for peak programmes, can be very lucrative. This different strategy leads to a change in approach, creating shows that are safe, guaranteeing large audiences at the expense of innovation rather than those that might seem desirable but only attract a minority of people.

Certain aspects of television are often seen to have positive externalities and importance. Programmes with these values are said to be merit goods. Merit goods have two important characteristics; the net benefit of the good is not fully realised at time of consumption. Programmes are experience goods, where the good must be consumed for the attributes of the product to be known. You can therefore not tell how good the programme is and what utility you will receive from it until after you have watched it. The second characteristic of a merit good is it provides external benefits to others within a society, creating an overall gain that is not accounted in the individual’s choice to consume. Merit goods are often underprovided by the free market leading to market failure.
“Television in a digital age” (Hargreaves-Heap’s)\textsuperscript{16} provides a list of broadcasting specific market failures that are identified as not diminishing as competition increases. These include lack of innovation and creation of newer more experimental television. There is also the under provision of information based programmes such as current affairs and the overproduction of programmes which feature adult content deemed to produce negative externalities. These are seen as encouraging others to commit violence or standardising and making negative behaviour acceptable within society. Therefore there is a case for intervention to provide programmes with positive externalities and cut back on those with negative externalities that the market by itself would not do. Both sides of the argument for and against PSB’s agree that this is needed; it is whether a PSB is the solution to the problem which is debated.

To evaluate whether there is a need for a PSB in today’s multi-channel broadcasting world we need to weigh the positive and negatives of both the PSB and its commercial counterpart and assess whether the strengths of the PSB could be provided by other means. As discussed, commercial channels can sometimes lack innovation. Being the first to try something new often leads to expensive research and development. Programmes can have large sunk costs, costs which have to be made to produce the programme but cannot be recovered, which accompanied by the “nobody knows” phenomenon where producers will not know if their show will be a hit or failure makes the industry very high risk. Commercial broadcasters therefore often choose to reduce innovation in favour of tried and tested formats, an example of which would be ITV’s reliance on popular reality programmes. These provide consistently high audiences and include highly profitable advert slots but represent very little innovation. The BBC has a much higher culture of trying out new formats and providing a great range and proof of its innovation is everywhere, from its links with Open University to provide educational programs and advances in creating 24hr news broadcasts.

to opening up new experiences and products such as Ceefax (information service) and the BBC-iplayer (one of the first to create an on demand service).

The BBC is also universally available, without the need for any extra equipment (such as set up boxes) or subscription (like SKY). This is one of its requirements as a PSB. It is also a leader in catering for disabled people, such as its extensive late night signing zones for the deaf, dedicated blogs for disability and accessible websites. Its lack of commercial appeal with little in the way of profits means commercial stations often underprovide this. Culture is also an important part of a PSB’s remit, making sure the culture of its country is coming across in programming, indeed many commercial stations buy in programmes (usually from America) which have little risk as they are already hits in their origin country, but this is at the opportunity cost of programmes from the home country which often have much greater cultural aspects.

There is, however, much opposition to public service broadcasters particularly from their rivals. While advertising revenues are generally increasing (See graph below), many of the big commercial channels are seeing decreasing revenue, such as ITV’s drop of 34million shown in the graph. James Murdoch, son of SKY owner and key shareholder, described the BBC as “chilling” arguing that as the BBC’s income is guaranteed, it does not offer fair competition and made it harder for other broadcasters to survive\(^\text{17}\).

\(^{17}\) “Murdoch Attack on ‘dominant’ BBC” http://news.bbc.co.uk/1/hi/business/8227915.stm 29/08/09, BBC NEWS, Accessed 10/12/12
One of the biggest arguments against the need for a public service broadcaster is that there is no longer an issue about variety and provision. For example for much of the BBC’s life, it had only 2 rivals (ITV and C4) and therefore it played a very important part in broadcasting. Now in the digital age there are hundreds of different channels offering a huge variety of programmes that critics of PSB’s argue means the PSB is no longer important. A complete list of channels is hard to come by but a glance through the leading congregator of channels, Sky, came up with at least 342 original channels (excluding +1, HD and regional channels) that provide a large variety of programme types:
While many might argue that entertainment was dominating the market and commercial stations had a lack of variety, we can see from this graph that the variety is high and programme types such as religion and arts, which are deemed to be underprovided without a PSB, are significant in number and in many cases have their own dedicated channels. Critics of PSB’s would argue the viewpoint of commercial stations not providing key programming of importance is firmly outdated.

Public service broadcasters all around the world are under pressure as budgets are tightened and more than ever citizens question the need for and price paid for them. Commercial competitors are fighting back, actively criticising their anti-competitiveness and even fans of the PSB’s argue that they have become too focussed on competing on audience numbers and less of fulfilling their remits. It is true that many programmes with positive externalities are now being provided such as Sky Arts and Religion specific channels, yet the sheer innovation that have come from PSB’s like the BBC are extremely high, as is there provision for minorities such as local community and language channels. Hargreaves Heap 18

Fig 5: Variety of Channels Source: Created for this essay using information from Sky TV Guide http://tv.sky.com/tv-guide

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points out the focus of conformism, encouraging broadcasters to not stray too far from what others are doing and the reliance on the water cooler effect to get people watching programs by talking about them meaning satisfaction must be instant rather than taking risky approaches for longer term audiences. The paper concludes that PSB’s should have new measures of competition to judge whether they are succeeding rather than audience figures to make them distinctive from commercial channels. Indeed the trend of PSB’s of competing on market share has led to failures in the system and a demise in the need for public service broadcasting, however the reasons for the existence of PSB’s are still very valid, there is a need for public service broadcasting but they must make sure they are fulfilling their aims and not being distracted by trying to be in competition with the commercial sector.

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APPENDIX

DATA COLLECTION OF CHANNELS

This essay included an original graph showing the number of channels and variety of type. An extensive search was done to find an exact list of channels; however with the absence of reliable statistics, I decided to create my own. The original data and graph is shown below. Using SKY, which has the broadest range of channels for its subscribers, I collected the data from its television guide and information from its packages. The data excludes time-cast channels (+1 etc.) which broadcast the same channel an hour or more later, high definition versions of existing channels, regional channels such as the many variations of BBC1 and data channels which do not broadcast video. The key term used in the essay “at least” was to reflect there are almost certainly many other channels available in some format or another.

<table>
<thead>
<tr>
<th>Genre</th>
<th>Number of Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entertainment</td>
<td>64</td>
</tr>
<tr>
<td>Lifestyle/Arts/Religion</td>
<td>40</td>
</tr>
<tr>
<td>Children</td>
<td>33</td>
</tr>
<tr>
<td>Documentaries</td>
<td>33</td>
</tr>
<tr>
<td>News</td>
<td>33</td>
</tr>
<tr>
<td>Movies</td>
<td>33</td>
</tr>
<tr>
<td>Sports</td>
<td>33</td>
</tr>
<tr>
<td>World</td>
<td>33</td>
</tr>
<tr>
<td>Specialist inc Gambling and Dating</td>
<td>33</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>342</strong></td>
</tr>
</tbody>
</table>

![Types of Channels Image]
5. Poverty can be alleviated by two alternative strategies: by providing microcredit to the poor or by undertaking industrialisation. Both strategies have their strengths and limitations. Discuss them by studying two countries of your choice.

Development Economics (ECO-3A09C)

By MINH LUU*

Introduction:

Poverty has been always one of the problems to the human development history and for that reason poverty reduction became one of the Millennium Goals set by the UN in order to guide countries to lift as many people out of poverty as possible. Industrialization takes place as the main approach for increasing gross domestic production (GDP) and microcredit is believed to be one of the most efficient ways to help the poorest in the meantime.

The aim of this essay is to prove if industrialization and microcredit really alleviated poverty in two countries, Bangladesh and Vietnam. The reasons of these selections come from the homogenous characteristics of both countries. Their economies have the same starting point (they both became independent in 1970s), high population density, similar agriculture situation as the result of similar weather condition, and starting to adopt microcredit and industrialization at the same time (1980s and 1990s respectively). We then will analyse the impact of these tools on the economies, state out existing policies and comment on their effectiveness on the next stages.

* BSc. Business Economics
Microcredit:

1) Theory:
Microcredit is a concept that is used to describe the process of making loans to people, who are traditionally excluded from formal financial services, through programmes designed to meet their circumstances. Typical characteristic features of microcredit are:

- Short term (any period between 1 to 12 months) and relatively small loans initially but increase with each cycle.
- Physical collateral are replaced by a system of collective guarantee groups whose take responsible for ensuring scheduled repaid.
- Less bureaucracy, quickly accessible and simple.

According to Gate Foundation, just 10% of the global population has access to traditional banking and the rest offers a great opportunity for microcredit to take place. Economists, who support the idea of microcredit, believe it could help low income people reduce risk, improve management, raise productivity, achieve higher returns on investments, increase their income, and improve the quality of their lives and dependents. 

http://www.lendwithcare.org/info/microfinance_microcredit

2) Strengths and limitations of microcredit:

2.1 Microcredit as a tool to alleviate poverty:

Poverty is usually the result of low economic growth, high population growth and unequal distribution of resources. As the consequences of unemployment and low productivity, reducing poverty requires creating jobs and developing human capital. Microcredit can solve this problem by providing the poor the chance to be self employed, so they can take themselves out of unemployment pool and also have incentives to generate their skills thus improve their productivity.

Because this concept is run for the poor, most of its money comes from donors with expectation of low interest rate. This reduction in cost of lending can have large effect on...
access to credit and interest rates through the multiplier effect. Thus when a close-to-zero interest rate loan is given to the right people, it is a powerful tool to drag them out of poverty and help them to achieve income level that they never imagined before.

2.2 Limitation:

Despite all the great results from microcredit, the empirical evidence on the impact of it on poverty is very mixed. Some impact studies have found that access to credit by the poor has a large positive effect on living standards. In contrast, other studies have found that poverty is not reduced through micro-credit.

Bateman, M (2010: 28-60), with his evidences, also stated that most of the features of microcredit such as supporting income generating activities; empowering the poor; helping the poorest; creating win-win situations; creating enormous demand from society; and low interest rates are just myths that microcredit has created to take advantage of the poor and the economy.

3) Empirical cases in Bangladesh and Vietnam:
A. Bangladesh:

Perhaps the best known microcredit institution is the pioneering Grameen Bank in Bangladesh, which is found by Muhammad Yunus, who won Peace Nobel Prize in 2006. As one of the world’s most densely populated countries, the average size of farms per person continuously decreased and it raised the number of landless households (defined as those owning less than half an acre of land- Khandker, (1999:20) and this led to more collateral free debtors in this country. In addition to Grameen’s effort, the Bangladesh Rural Advancement Committee (BRAC) and accordingly the Association of Social Advancement (ASA) were established in order to provide skills and other organizational inputs to the poor, as well as credit service, so they could take better advantages from the loans. Table 1 presents some comparative information relating to the activities of these three main microcredit providers in Bangladesh.
The lowest repayment rate is 88.7% and modest profits while serving around 7.4 million borrowers in total as recorded in 2000 somehow proved that those collateral-free debtors are trustworthy. However, Morduch, J stated out the problem about the calculation of this rate, in which he believed it was not appropriate. In addition, he also pointed out that this rate did not rise along with the increase in disbursement, as shown in Figure 1, and increase in average loan sizes might lead to increase of overdue loans.
The effectiveness of micro-credit as a real poverty alleviation tool does not depend on its short-run impacts, as for micro-credit to permanently reduce poverty it must have a long-run impact. Graph 1 shows that population below poverty line fluctuated in the last 15 years, as it was not really alleviated, and this suggests that micro-credit organisations should reconsider and adapt their microcredit philosophies to improve the longer-run poverty reduction capacity of micro-credit in Bangladesh.
Graph 1: Population below poverty line in Bangladesh.
(Source: indexmundi.com)

B. Vietnam:
As one of the fastest growing developing economies in the world, Vietnam also uses microcredit to fill the gap that left by formal finance institutions. In 2004, Vietnam promulgated Microfinance Decree (MD) regulating all microfinance institutions (MFIs). While this relatively new system creates a predictable and stable environment, it has not achieved many goals, and it threatens the existing of many MFIs already operating in Vietnam.

Historically, Vietnam’s first experiments with microfinance came with the Doi Moi reforms of the 1980s, eventually led to private ownership of land. As the consequence of realizing the important of individual’s need of finance, the State Bank of Vietnam set up the Vietnam Bank for Agriculture (VBA) specifically in providing credit in rural areas at subsidized interest rate. Other associations were also launched in order to support the concept of microfinance such as People’s Credit Funds (PCFs) in 1994 and Vietnam Bank for the Poor (VBP) in 1995. By 1996, VBP had dispersed loans to approximately 1.3 million families, VBA had over 1800 branches providing credit to 7 million families and PCFs were operating with 275,000 members. In 1997, the Capital Aid Fund for the Employment of the Poor (CEP Fund) joined
in as the very first foreign microcredit institution and became the leading one not so long after (graph 2). Graph 3 shows the client poverty extent of this fund.

Graph 2: Number of active borrowers.

(Source: mixmarket.org)

Graph 3: CEP Client poverty

(Source: grameen.org)
Graph 4 shows a decreasing trend of number of the poor in Vietnam during the period of 12 years, from nearly 40% to below 16%. In addition, graph 5 shows the unemployment rate in the same period, which also has decreasing trend. From the historical statistics, microcredit helped around 10 millions families to improve their lives, this account about 1/3 of the population (90million in 2010) if taking the assumption of a standard family has 3 members. Therefore, microcredit undoubtedly has been playing an important role and contributing to the development of Vietnam.
4) Regulations and government initiatives in both countries:

Before the MD was promulgated in Vietnam, there were no comprehensive legal frameworks covering microfinance activities in Vietnam. Thus, it means that the transition from projects to independent microfinance institutions was limited. Also, the dominant role of State Bank in the microfinance sector distorts the financial market and prevent the development of sustainable microfinance in Vietnam, and most of the MFIs, which is believed to be more efficient, could not compete with the subsidized rate and this prevented them from reaching the bottom of the pyramid.

After the MD was approved, although it helps to provide more predictability and stability, it also contains provisions which place burden on small MFIs and limit the participation of foreign and domestic entities unnecessarily, and this led to very little systemic benefit. 

Suggestion for Vietnam, in order for microfinance to achieve its maximum potential, is adjusting the law to protect grassroots level MFIs, reinforce this industry best practice and encourage the participation of foreign players.
Meanwhile Vietnam showed very little connections between formal and microfinance financial sector under the law, this relationship in Bangladesh is tighter and dependent as shown in figure 2. The understanding could be that a success or failure in formal banking sector may affect microfinance sector but not vice versa.

![Figure 2: Annual % growth in outstanding credit (Source: Rashid, 2010)](image)

In 2006, the Microcredit Regulatory Authority (MRA), which is the latest Act, was established in Bangladesh regarding the microcredit ground. Accordingly MRA is authorized to monitor and supervise microcredit sector under a regulatory framework. In term of quantity, Bangladesh issued 503 licenses out of 4000 application by February 2010 (Rashid, 2010). However, having a large number of MFIs, and very few of them have a solid institutional arrangement in real sense, might led to a situation where it is lack of: supervision, solid justification and moral decision making. These experiences indicate that there are other important issues which need to be noticed, such as sustainability of the sector, problem of overlapping borrowers, securitization and foreign investment.
Industrialisation:

1) Theory:

Industrialization is a process of economic and social change from an economy, where the amount of capital accumulated per capita is low, to an industrial state, where development of large-scale energy production takes place. This transition takes different forms in different places at different times. Typical characteristic features of industrialization include:

- Having division of labour
- Increasing in geographically and socially mobility of the labour force
- Mechanization and application of factory system
- Apply of scientific methods to solving problems

The industrialization first causes the changes in economic structures and changes in the GDP contributions by three economic sectors: primary (physical works), secondary (processing of raw materials), tertiary (providing services). The labour force supposed to move toward to the sectors where it requires less physical work but higher marginal productivity. Consequently, the structure of employment will change, and at the end of industrialization stage, the industrial and service sector will become dominant in GDP and absorb most labour force of the economy.

2) Strengths and limitations of industrialisation:

2.1 Industrialization as a tool to alleviate poverty:

Industrialization is the process being created in order to achieve development and the primary goal of development is poverty reduction. The reason why it is considered as a tool to reduce poverty is it expands the shares of non-primary sectors and results in increase in employment in more productive sectors and lead to higher returns. In addition, moving out of primary sector, where poverty rates are often much higher than other sectors, may also relieve the pressure put on agricultural productivity and raising agricultural incomes, thus enable people to escape from poverty traps.

To strengthen the idea, Lewis (Todaro, 2011) proposed a dual economic model that includes primary and secondary sector, and showed that the persistent capital accumulation in the
secondary sectors would gradually absorb redundant workers from the primary sector. He stated that the industrialization brought plenty of non-farm employment opportunities with higher incomes compared to that in the agricultural sector, and it leads to a decrease in aggregate unemployment rate of the country if all redundant employment absorbed.

Beside improving employment rate, there are other consequences of industrialization that could indirectly lead to poverty reduction at the end, such as economic growth (evidence shown in figure 3), gaining in exchange rate, preventing high inflation, generating externalities in technology development, skill creation and having a pull effect on other sides of society.

![Figure 3: Relationship between manufacturing values added growth and GDP growth of 134 countries, 2000-2005](source)

The way that many Asian countries approached industrialisation was through labour intensive and low tech industries, and then proceeded to capital intensive and high tech industries after. As economies develop, places become specialized in certain forms of production and this is the concept of comparative advantage. By specialising producing, poor countries can earn more foreign exchange by exporting manufactured products and the foreign exchange can be used to invest in human capital and poverty reducing programmes in order to move up the technology ladder later. This approach also allows its labour force enough time to familiarize them with industrialization concept. Fukunishi,
T(2006), concluded that labour intensive industrialisation must be used by other undeveloped countries in order to “sustainably alleviate poverty”.

### 2.3 Limitation:

Studies show that limited absorption of labour in high productivity activities can lead to a residual absorption of labour in low productivity activities, which perpetuates a high incidence of urban poverty (Todaro, 2011). He also believes that unemployment rates in the urban areas are relatively high in developing countries during their early industrialization stage as the inability of employment absorption, like the case in some African countries (Tran, 2010). Thus the phenomenon of over-urbanisation may enhance poverty in the development process.

Other evidence from many developing countries shows that during the industrialization, many countries failed to create sufficient employment and improve income distribution because the majority of capital resources were allocated to large-scaled capital-intensive industries. Therefore, it is believed that non-agricultural employment opportunities should be created by sufficient financing to develop labour-intensive industries other than capital-intensive ones. Nonetheless, it is suggested that people have been able to escape poverty even when they do not move to the formal sectors. This suggests that over spending on other sectors while showing lack of attention on primary sector could lead to inefficient results.

In addition, industrialization can generate highly unequal income and wealth distribution effects in the short run. This does not just entail a highly unequal growth process, but also can lead to unsustainable growth, political and economics instability, credit market failure, where the poor are unable to use growth-promoting investment opportunities. Moreover, in term of health, industrialisation is believed to be the source of number of problems such as noise-water-air pollution, poor nutrition, substance abuse and reducing happiness index.
3) Empirical cases in Bangladesh and Vietnam

A. Bangladesh:

Bangladesh has not experienced industrialisation result for long time, since the role of agriculture in this country is still important while it accounts for 19.5% of GDP. The industry sector, including small to large scale subsectors manufacturing, account for 28% GDP in 2010, according to the Bangladesh Economic Review. The contribution to GDP from industry and service sectors have been gradually increasing and showing a potential trend. (Bakshi, 2005)

Looking at historical statistics, Bangladesh has been successful in achieving rapid secondary sector’s growth compared to her rivals (graph 6). The challenge for this country is to maintain this rate and develop new sectors that can follow this footprint. However, the significant decline in the share of agriculture in GDP is in contrast to the growth in the services sector rather than the industrial sector until 2004 (table 2). Although showing an improvement in contribution to GDP, industry sector still remained behind compared to other two sectors (table 3)
Graph 6: Comparative industrial growth rates 1980-1997
(Source: Bangladesh studies)

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Service</th>
<th>Total GDP</th>
<th>Per Capita GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-2004</td>
<td>2.77</td>
<td>6.51</td>
<td>4.33</td>
<td>4.41</td>
<td>2.54</td>
</tr>
<tr>
<td>1981-85</td>
<td>2.68</td>
<td>5.70</td>
<td>3.83</td>
<td>3.72</td>
<td>1.54</td>
</tr>
<tr>
<td>1986-90</td>
<td>2.40</td>
<td>5.86</td>
<td>3.58</td>
<td>3.74</td>
<td>1.50</td>
</tr>
<tr>
<td>1991-95</td>
<td>1.55</td>
<td>7.47</td>
<td>4.15</td>
<td>4.39</td>
<td>2.36</td>
</tr>
<tr>
<td>2001-2004</td>
<td>2.23</td>
<td>7.24</td>
<td>5.51</td>
<td>5.12</td>
<td>3.70</td>
</tr>
</tbody>
</table>

Table 2: GDP growth trend of individual sectors (1981-2004) in %
(Source: Nahar,K)

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Service (Tertiary)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949/50</td>
<td>70</td>
<td>4</td>
<td>26</td>
<td>100</td>
</tr>
<tr>
<td>1959/60</td>
<td>62</td>
<td>5</td>
<td>33</td>
<td>100</td>
</tr>
<tr>
<td>1965/66</td>
<td>57</td>
<td>8</td>
<td>35</td>
<td>100</td>
</tr>
<tr>
<td>1969/70</td>
<td>55</td>
<td>10</td>
<td>35</td>
<td>100</td>
</tr>
<tr>
<td>1973/74</td>
<td>49</td>
<td>11</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>1974/75</td>
<td>49</td>
<td>10</td>
<td>41</td>
<td>100</td>
</tr>
<tr>
<td>1980/81</td>
<td>44</td>
<td>11</td>
<td>45</td>
<td>100</td>
</tr>
<tr>
<td>1984/85</td>
<td>41</td>
<td>10</td>
<td>49</td>
<td>100</td>
</tr>
<tr>
<td>1990/91</td>
<td>32</td>
<td>12</td>
<td>56</td>
<td>100</td>
</tr>
<tr>
<td>1994/95</td>
<td>26</td>
<td>15</td>
<td>59</td>
<td>100</td>
</tr>
<tr>
<td>1999/2000</td>
<td>25</td>
<td>15</td>
<td>60</td>
<td>100</td>
</tr>
<tr>
<td>2001/2002</td>
<td>24</td>
<td>16</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 3: Changing structure of GDP in Bangladesh (1949-2002) in %
(Source: Nahar,K)
Table 4 suggests that during the industrialization stage, Bangladesh could be characterised as a low inflation and a low deficit economy. The foreign exchange reserve and budget deficit situation suggests that Bangladesh used most of its imports to re-manufactured and export them back.

Table 5: Structural change in merchandise trade

Bangladesh also enabled itself to trade with other countries at greater volume by having industrialization evolution. The share of imported manufactured items increased 40% during period (table 5). However, the export of manufactures, such as readymade garments, is characterised by high import intensity. While the real extent is not known, the value added
in this segment is no more than one third of the total value of the industry output. This somehow strengthens the point we made at table 4.

Overall, the structural transition may have led to a more rational allocation of resources in the agricultural sector. However, the distributional consequences of these changes in this sector have not been seen. The manufacturing sector has shown few signs of increases in productivity. In addition, there are evidences that industrialization reduced poverty but little evidences of improvement in human development and related indices.

Reasons for Bangladesh could not taking further advantages of industrialization might include: robust population growth, failures of government policies, corruption and lawlessness, failure to fill the gap between domestic and private investors (Akanda, 2012).

**B. Vietnam:**

Since 1986 - under the Doi Moi slogan of the Sixth Party Congress, Vietnam has carried out the most profound and comprehensive renovation in its history. In agriculture, Vietnam tried to improve its productivity by collectivism but failed. After that, the restoration of small-scale family farming took place and smoothened this industry development. However, table 6 suggests that agricultural production increase itself by the increase of population, rather than because of increasing in marginal productivity.

<table>
<thead>
<tr>
<th>Year</th>
<th>Staple Output (m t)</th>
<th>Sown area (m ha)</th>
<th>Yield (t/ha)</th>
<th>Total Output (kgs)</th>
<th>Rice Exports (mt)</th>
<th>Total Population (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>13.5</td>
<td>6.2</td>
<td>2.2</td>
<td>274</td>
<td></td>
<td>49.2</td>
</tr>
<tr>
<td>1980</td>
<td>14.4</td>
<td>7.0</td>
<td>2.1</td>
<td>268</td>
<td></td>
<td>53.7</td>
</tr>
<tr>
<td>1983</td>
<td>16.9</td>
<td>6.8</td>
<td>2.5</td>
<td>296</td>
<td></td>
<td>57.3</td>
</tr>
<tr>
<td>1985</td>
<td>18.2</td>
<td>6.8</td>
<td>2.7</td>
<td>304</td>
<td></td>
<td>59.9</td>
</tr>
<tr>
<td>1988</td>
<td>19.6</td>
<td>7.0</td>
<td>2.8</td>
<td>307</td>
<td></td>
<td>63.7</td>
</tr>
<tr>
<td>1990</td>
<td>21.5</td>
<td>7.1</td>
<td>3.0</td>
<td>324</td>
<td>1.6</td>
<td>66.2</td>
</tr>
<tr>
<td>1992</td>
<td>24.2</td>
<td>7.7</td>
<td>3.1</td>
<td>349</td>
<td>1.9</td>
<td>69.4</td>
</tr>
<tr>
<td>1993</td>
<td>25.5</td>
<td>7.8</td>
<td>3.3</td>
<td>359</td>
<td>1.7</td>
<td>71.0</td>
</tr>
<tr>
<td>1994</td>
<td>26.2</td>
<td>7.8</td>
<td>3.4</td>
<td>361</td>
<td>2.0</td>
<td>72.5</td>
</tr>
<tr>
<td>1995</td>
<td>27.6</td>
<td>8.0</td>
<td>3.5</td>
<td>373</td>
<td>2.3</td>
<td>74.0</td>
</tr>
</tbody>
</table>
Table 6: Population in different sectors in Vietnam 1976-2005

(Source: Kisimoto,T)

In addition, despite the fact that Vietnam has made a significant progress in changing economic structure in which the share of agricultural contribution in GDP has dramatically decreased (figure 4), the employment contribution of the agricultural sector in the total employment was still very high (54% in 2009-figure 5), and severely disproportionate to its contribution in GDP in 2009. As the majority of labour force is still in the agricultural sector, this indicates that the withdrawal of agricultural employment have been much slow in comparison to the changes in the economic structure over the last two decades.

Figure 4: Share of GDP by sector 1990-2009 (at 1994 price index)

(Source: gso.gov.vn)
In industries sector, Vietnam’s strategy for its development is no different from other Asian countries as it introduces capital and technology from developed countries for preliminary scale of industrialization, uses those resources to make products, and reinvests the money from selling those products to gradually build up high-level industries. Following that, Vietnam economy has been experiencing a rapid structural transformation, which is reflected in the shifting sectorial composition of employment from primary sector to secondary and tertiary sectors (figure 5). The proportion of total GDP accounted for also changed positively towards these two sectors from agriculture sectors (figure 4). As the consequences, trade in manufactures as a share of total trade in Viet Nam has also increased significantly as showed in figure 6, and it contributed enormously to GDP growth.
Possible reasons for these inefficient results of industrialisation in Vietnam, according to Tran T (2010), are expanding of low employment elasticity of State Owned Enterprises and foreign direct investment projects (table 7), limitation of the ability of private enterprises due to distorted strategies and spreading out of adverse effects of industrialization on rural workers.

4) Regulations and government initiatives in both countries:
According to the Bangladesh Institute of Development Studies, Bangladesh needs policy implications such as substantial reduction on the prevailing over regulation and price distortions in the economy, stop subsidizing malady firms and encouraging labour intensive
industry (The Bangladesh Development Studies). Although it has a number of achievements in term of reducing poverty, such as decline in poverty headcount index and rise in Gini coefficient (Rahman, N), the result is still not strong enough to lift the poorest of the society. Therefore the role of policies makers is influencing both quantity and quality of laws and it should be aimed simultaneously to improve income distribution and growth performance in favour of the poor.

According to recent studies, Viet Nam has elaborated around 80 development strategies, master plans and plans for individual industries (Kim & Nguyen, 2011). Viet Nam hence does not lack policies for industrial development, but rather lacks effective enforcement plans to incorporate a harmonized approach. Like Bangladesh, Vietnam’s economic reform has failed to shift redundant workers away from agricultural sector since most of her new investments have been allocated to capital intensive industries. Thus, policy adjustments are needed to not just improve living standards for rural households, but to absorb more redundant workers from agricultural sector as well.

**Conclusion:**

Poverty reduction can be achieved either through economic growth or an improvement in income distribution, or both. By having industrialization and finance service aiming to the poor like microcredit, this ultimate aim could be achieved by any country. Meanwhile industrialization is a must for any developing countries to move forward to higher stage of development, microcredit is a complementary approach being created on the purpose of not leaving out agriculture sector during the process.

In order to gain highest advantages that microcredit could bring to the economy, policies such as accommodation of small MFIs, encouraging formal financial institutions to provide microcredit and making sure that the provisions is always support the concept, are recommended. If developing countries can move towards a truly enabling environment like that, they will be able to build from a solid foundation and help their poorest citizens become full participants in their growing economy, and ultimately alleviate poverty.
Industrialization should also be considered to have similar enforcement. It will be associated with a rise in poverty unless it is matched by a desired structural change in employment. Displaced workers, as the result of inability to absorb redundant employment from primary sector, can have a negative impact on poverty in terms of both absolute and relative poverty. Government policy in both countries will need to address the poor quality of existing employment and insufficiency of labour demand, and it is crucial that the development path allows for employment-intensive growth.

Lastly, the government policy is critical for generating a pattern of industrialization that reduces poverty and unemployment. However, it is not simply the matter of designing appropriate policy regimes and supporting institutional development, but it’s the matter of politics. In fact, where the politics are not equal to the task it is, design and implement the institutional arrangements will deliver pro-poor growth and social provision. Thus both industrialization and microcredit cannot run by themselves but always need monitory and enforcement from the Governments.

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First Steps to Employability

By Aaron Finlayson
(1st Year BSc Economics)

Through this document, I aim to provide a written account of some of my endeavours as first-year Economics student at UEA, whilst attempting to provide a degree of insight of such efforts to other first-year students in the ECO School.

Amongst a few of my cohorts, I have noticed that the term “Employability” often connotes quite a daunting transition for former sixth-form students to make. In actual fact, it can be as fun, or boring, rigorous, or light as you’re willing to make it. In my opinion, many students in contemporary society see a degree as a commodity. A commodity in the sense that the degree is an object with some use value in the long-run – Perhaps an investment in time and money to maximise ones future income. This rational approach to ones studies, from my experience, may not necessarily guide a student towards developing the important life skills that make a person “Employable”.

Becoming “Employable”

In this section I aim to provide some useful information with regard to “standing out” in the application process for an
internship. It’s no surprise that a vast proportion of students who apply for internships at Banks and Accountancy firms for example, struggle to provide their application with the gleam and velour that’s required to get them noticed. The beauty of this is that there’s no right or wrong answer. My endeavours, however, may be of use to you as a reader. Upon arriving at UEA, my first stumbling block was the lack of an effectively conveyed CV. I made this first on my list of priorities, and made two appointments in total at the UEA careers and employability building (adjacent to the library). The advisers were extremely useful, and I had an acceptable-looking CV within a fortnight.

My second priority, was investing my natural interest of things “Economics related” into a tangible, long-term project that looks good on a CV or Cover Letter. Given that I love to discuss (and moan) about Economic and Political issues, I thought it would be good to channel such discussion into a Blog. Similar useful investments in time may be setting up a Pressure Group, starting a Vlog, or applying for a post for some of the organisations that manage relations between students and the university (e.g. Student Unions). Most importantly, these activities have to reflect what you actually enjoy to get any long-term benefit from them, and can be as big, or little, as you choose.

As I started to get into the swing of the semester, I decided to set my sights on a University-related activity; perhaps in the form of a Staff-Student Liaison Officer or a Student Ambassador. I
always viewed a post at the Norwich Economic Papers to be something entirely out of reach for a first-year undergraduate. On the contrary, I decided to invest a lot of time in my application and try my luck. I think to be daring, or at least, have belief in oneself in attaining a particular goal is a trait common to many employable students.

My final endeavour was the desire to become proficient in at least one or two other languages, as I chose not to pursue language at A-level. Through basic demand and supply of labour, one can see that particular jobs in geographical regions are “competitive” because there is a large demand to possess that particular job in that area, for instance, an Investment Banking analyst post in London. In present day, language isn’t a barrier. People of different nationalities pass freely into different job markets in different countries; made possible by the fact that they possess more than one language. Whilst this isn’t an imperative, picking up a few languages over your time at university may broaden your career horizons beyond the UK. This is something that should be considered if you wish to apply for jobs in the Banking profession as an example, whilst it may involve working in a completely different country. This also looks great on your CV.

After putting all of these priorities together, I managed to formulate a fairly sound application for the “Talent Academy” at PriceWaterhouseCoopers. It’s essentially a Spring Insight week. I made it to the third stage which is essentially a phone interview, having had passed the online reasoning tests and application submission. Whilst I didn’t get onto the internship, my application was considered, suggesting that the ideas outlined above may be of use to you when preparing an application for an internship, or a similar post. Ultimately, your CV acts as a formalised, professional portrayal of yourself to
employers, and thus the ideas that encompass it must be organic, and from yourself.

**Getting the most out of your course.**

In the ECO School, the very structure of courses provides willing students with transferrable, professional, and inter-personal skills that are highly sought after in the job market. No matter how accrued one's mathematical skill or analytical skill, I believe that a lack of the skills above will prevent a student from even getting his/her foot in the door during an application process for a highly competitive post. Gaining these employability enhancing skills is fairly straightforward, if you’re dedicated to achieving them. I recommend trying to use Assessed Presentations, and Seminars to enhance your ability to formulate a well-balanced, coherent argument, or to build confidence in conveying your knowledge on a subject area to others. This may sound daunting, but putting the extra time into preparing for a presentation or seminar can be highly rewarding, not only in the form of high grades!

By Aaron Finlayson
The graduate labour market is competitive, particularly in the current economic climate, so it’s important to do as much as you can to improve your attractiveness to employers – your employability – whilst studying. This article will give an overview of the careers support structure both at university level and school level, and give hints and tips on what you can do to improve your chances of obtaining graduate employment.

Despite the tough conditions in the labour market, there is some good news for economics students; because of the nature of an economics degree, students are in demand by employers in a wide range of jobs. The analytical background coupled with an ability to apply theoretical concepts to real world issues means that economics graduates are highly valued in the labour market. The latest available data shows that over 85% of ECO students were employed or in postgraduate education 6 months after graduation, and less than 5%
were unemployed (2010-11 cohort). Of those in employment, almost 7 out of 10 were in graduate-level jobs.

However, having a degree (or even a good degree) is not enough to walk into a good job; you must prove that you hold other skills required by the employer to support your academic abilities. Being able to demonstrate that you have these skills is what sets you apart from other job candidates. This is a developmental process that occurs throughout your studies – the earlier you consider employability, the better. Importantly, stating on your CV that you have a particular skill is not enough – you must prove that you have it through the extra-curricular activities that you do. Below is a list of examples of things you can do to improve employability:

- Taking a part-time job, joining a club or society – and becoming involved at an organisational level – or volunteering for local organisations is a great way to start. University life gives you the opportunity to get involved in a wide variety of activities, so search out some that interest you and get involved.

- Apply for internships or work experience in sectors you are interested in. This is becoming increasingly competitive but the Careers Centre can support you on this (and in developing your own internship placements where they aren’t advertised by firms), and remember that the university runs its own internships programme – see http://www.uea.ac.uk/internships. The school is developing some placements specifically for ECO students.
• Attend careers workshops, talks and employer events, including the CEI lecture series. This gives you an insight into the job application process and what employers are looking for in applicants.

• Attend alumni talks. Each year, the School invites alumni to come back and talk to students about their current roles, how they secured their job, and what it is like working in these sectors. It’s also a useful way to generate contacts in sectors you might want to work in. The university also runs a mentoring scheme, which will match you with a mentor to demystify the job application process, and help you with career planning [http://www.uea.ac.uk/careers/mentors](http://www.uea.ac.uk/careers/mentors).

• Use the Careers Centre and the resources and support that it offers. Get feedback on your CV; find out how and where to search for jobs; understand, prepare for and practice each part of the assessment process; use the coaching sessions to build your confidence and understand what you offer employers and how to express it in the way they want, and much more [www.uea.ac.uk/careers](http://www.uea.ac.uk/careers).

• Focus on quality rather than quantity of job/internship applications – a good application takes time, so be organised and understand how to tailor your application to the job criteria.

Importantly, you must be proactive in developing your employability through any of the channels above. For further guidance and support, the Careers Centre runs quick query sessions and guidance appointments ([http://www.uea.ac.uk/careers/students/advice](http://www.uea.ac.uk/careers/students/advice)).
There is also an employability brochure ‘Professional Life Begins Now’ which includes further advice and guidance as well as careers profiles of recent graduates, available in the ECO corridor. Further ECO-specific information is available at http://www.uea.ac.uk/economics/careers-and-employability.

If you have any specific questions, you can contact us at the addresses below:

**Antony Cotterill** – Career Centre ECO contact: A.Cotterill@uea.ac.uk

**Matthew Aldrich** – Employability Officer: Matthew.Aldrich@uea.ac.uk

**Georgios Papadopoulos** – Employability Officer: G.Papadopoulos@uea.ac.uk
First year: To work hard or play hard: that is the question.

By Harriet Johnson (2nd Year BA PPE)

Coming to University, after stressing and worrying their way through 6th form, UCAS, and the dreaded Clearing, many students see being a fresher as a chance to relax. After all, these students will tell you, you only need 40% to pass, and that’s all that counts, right? Whilst technically being correct, I feel there’s more to this story.

Earlier this month applications opened for the Government Economic Stream, or GES, summer internship. Part of the application was a section to fill in your grades from relevant modules and whilst my grades were good, there was nothing exceptional about them. Similarly I was recently asked to provide an academic transcript of my first year results for a position and couldn’t help but wish I’d revised a little bit harder last summer. Whilst this explicit detailing of results is not a common or frequent practice that I have experienced with internship applications, it is true that the slate is not wiped entirely clean once first year is over: your results do stick around.

Furthermore, many second year modules build explicitly on the foundations of first year and failure to grasp important topics in first year can only mean falling further behind as the
difficulty progresses. Essentially working hard in first year makes life easier down the road and is the perfect opportunity to set your self up for a less demanding second year. Many of us come from an A-level and GCSE culture where we have been trained to learn something simply for an exam and can subsequently forget it, but arguably first year cannot be seen as such a year: it’s not about jumping through hoops, but about providing yourself with a solid base.

On the other hand, I recently attended a one to one appointment at UEA’s careers centre where they reminded me that often employers aren’t looking solely for stellar academic results, but for how you fill your time, whether you take risks, or whether you seem to be an interesting person. This is not to say that strong academics aren’t important, but perhaps I ought not to be too annoyed that I didn’t get a 1st in my first year because I did other things that made me interesting, individual and above all, employable. Is this why 1st year is so important? In this way first year is a chance to try new things or join new clubs without the burden of consequential exams; it is a year to breath and find your feet at university safe in the knowledge that what you do will not directly affect your degree classification.

First year is short, fast and finite. Questioning the best use this time perhaps boils down to questioning the opportunity cost of it; “if I’d have worked harder and gotten a 1st, what would I have had to sacrifice, and was it worth it?” Personally, I believe it was because I had fun, I learnt a lot and I still achieved reasonable grades. I like to think I found a balance that reflects the fact that first year is so important for laying the groundwork, but also for finding your feet and exploring your new life at university. Good luck in finding your balance too.
Beyond the BSc.
A brief, personal experience of Postgraduate Applications.

By Tom Jordan

Having completed a round of postgraduate applications prior to Christmas and (fortunately!) gaining a number of offers, and with many more students braving the idea of applying to masters schemes now, a personal account of sorts can shed some light on what is a daunting process!

Is Postgraduate study right for me?

There is no shortness in the array of career paths that an Economics degree can provide. These range from public sector positions to the City, anything in between, and perhaps work in a different area altogether.

As I see it, no route is right or wrong so long as the means meet the ends: a well-deserved career, a fulfilment of lifetime interests, a healthy environment for future work and so on. My personal preferences never fitted in with accounting or work in the city, for many others it of course does. I thoroughly enjoyed the BSc, and so looked towards further study and the doors it could open.

If you’re someone who can see an economist career requiring more in-depth knowledge, or indeed in academic research and teaching, and a keenness to learn more, then this is certainly a path looking at. But to weigh everything up, be aware that such courses are expensive and, if your aspirations lie elsewhere, over-qualifying. Make sure you consider the choices carefully. Many companies may value soft skills (leadership, responsibility etc.) just as much or more than whether or not you have a masters. When applying, I made sure to consider that the masters course had returns for the fields I wanted to enter. For some grad schemes, they may not be necessary be needed.

What to study, where to apply?

Courses can teach a straight overview of Economics, or specialise in particular disciplines where strength exists in research – UEA’s School of Economics for example offers courses in Industrial and
Experimental Economics. Another distinction between courses is whether they’re MA or MSc. To tackle these differences, I conducted good research of different courses and universities before applying.

The variety in courses is very distinct. An MSc is more technical and mathematically rigorous (so make sure you are a fan of maths!). MA courses provide a more qualitative study, this isn’t necessarily a disadvantage: for example, joint honours MA’s may focus on other areas of interest such as International Relations.

Where to apply depends on your specific interests, abilities and where you see yourself going. Industrial Economics would match you up perfectly with competition authorities. My choice to enter into Health Economics was combination of preference – I have worked as a research intern in the field – and career ambitions, with the field being a niche in the jobs market.

The application process.

So you have researched where to apply and probably have clear picture of top choices. As a first pointer, which is true of all applications, go crazy applying. Universities run masters applications separately, hence the number of applications you can make is endless. The more you apply, the more you keep doors open. It’s literally as simple as filling out web forms.

Most universities application processes will be the same, or with superficial differences. In my own experience of applying, most economics application processes require a transcript of current grades, a personal statement, and references. They will generally also require a CV. Some of the higher up or specialist universities may also interview, though most do not and this isn’t something I experienced. For help on interviews, contact UEA careers.

Let’s start with the grades, the point is blatant: keep up the good work! Lecturers have said to me in the past that the marks speak more than all else, so the higher the better. These after all are the most accurate forecast for your predicted grade, so aim for a good 2:1 or first.

There are obviously other measurements. A compelling personal statement is important. Firstly, I made sure that each statement wasn’t generic, i.e. it addresses the specific university in question. A copy/paste job looks incredibly lazy. This is the main opportunity to provide the university with a couple of major, and specific, points.

1. Why you feel the university specifically is ideal for you?
2. Why you feel the course is ideal for you (why would you choose it there over all others?)
3. Why you’re the best match for the course, what makes you stand out?

For the most part, I was academically driven in the statement. Some required me to talk about further aspects of university life e.g. societies. But again, the academic contributions speak miles. The statement is generally around 500 to 1000 words. Addressing points 1 and 2, what about the university can you say: Does it possess a particularly prestigious department, research area of interest, and specialist course? Is the course particularly focussed on a specific aspect of economics that you enjoy? I applied to the UEA Industrial Economics course, making sure to outline my interest in learning from key “Centre for Competition Policy” researchers.

When it comes to talking about why you’re the ideal candidate for the course, I outlined my greatest academic contributions, or those to the university in general. I was able to refer to specific assessments which related to my interest in the course. A good example of this was a presentation I gave on obesity policy in second year which applied to Health Economics. I referred to my past internship. For those who have done one, there will most likely be linkages towards the course to bring up.

I also mentioned the fact that I had previously appeared in the NEP, and modules in which I had particularly performed. I also briefly mentioned contributions elsewhere, in the department and again through clubs and societies. A good example for some, which is relevant to the School of Economics, may be tour guiding or student ambassador schemes.

As for the references, all the UEA lecturers want you to do well. It is best to ask for the help of post-doctorates who know you quite well and who can talk about more than just what the network allows them to see of your grades (e.g. Past seminar tutors can talk about your keenness and contributions). No doubt, most individuals will still provide a promising reference. If you are friends with a particularly senior lecturer in a certain field, their prestige may make an impact on admissions tutors.

For further help with writing personal statements, practicing interviews, CVs, and general inquiries towards postgraduate study, I highly recommend again that you capitalise on the UEA Careers service – contact details are above.

Financing the course

There are numerous sources for financing an economics course, though less accessible than the undergraduate student loan. Of course, you can acquire a loan from the Bank (such as a Graduate Loan), however these aren’t guaranteed and hold a generally high rate of interest. Other routes remain, such as research council (e.g. ESRC) and charity grants, though these may not cover the full fees or are contingent on certain conditions (e.g. having to do a PhD or having a low household income). If you don’t feel you can personally finance a masters, you can also look to scholarships and studentships at specific universities. Many specialist courses offer them, and I have been lucky to
have been offered one in this respect. If you want to be considered, make you sure you stand out as a candidate to be considered.

Many financing schemes will only fund an incomplete amount of student living, so make sure you’re financially aware even before applying. Also, by no means do you have to enter into this instantly. The option is there to work for a few years and amass the costs to later qualify for an MSc and enter your preferred profession.

I recommend that you check https://www.gov.uk/funding-for-postgraduate-study for more comprehensive funding suggestions.

Then Where?

Further study can springboard you into an economics-specific job otherwise unavailable, or further into academia. My intention is to use the masters course to enter into an area specific to the course. So long as you have thought clearly about the future, the masters can be a very rewarding opportunity. The path I’ve chosen to take is but one of many, after all, everyone is different!

Thanks for reading, and I hope you have gained from this article.