

# Understanding core concepts in local economic growth

## Core concepts quiz

This quiz is based on our blog series, *Understanding key concepts in local economic growth*. The first blog [Understanding local economic growth](#) kicked off the series.

## Answers

- 1) Holby City Council wants to compare the productivity of its economy to the wider Wyvern County Council area. Which GVA measure should be used?
- Total GVA
  - GVA per capita
  - GVA per hour worked
  - GVA by sector

**Answer: c) GVA per hour worked**

Productivity is about the efficiency with which goods and services are produced. Working harder can increase total GVA or GVA by sector. Working smarter increases GVA per hour worked (productivity). Dividing by population (per capita) is a common mistake – remember lots of people don't work.

- 2) Which of these might improve area productivity?
- Numeracy programme for adults who didn't pass GCSEs
  - Grants to help businesses purchase digital technology
  - Business advice to SMEs around leadership and management
  - New road investment to deal with local congestion
  - All of the above

**Answer: e) all of the above**

Productivity is improved by anything that makes it more efficient to produce goods and services—this can include transport infrastructure, better run businesses, and more innovation, skills and investment.

- 3) Pencaster LEP has low apprenticeship rates. Research shows businesses are reluctant to invest in training, in part because employers don't understand the benefits of apprenticeships. Those that do offer apprenticeships have plenty of applicants. From a labour market perspective, does this suggest a supply-side or demand-side issue?
- Supply-side
  - Demand-side
  - Neither

**Answer: b) demand-side**

In the labour market, it's businesses that demand workers, and individuals who supply their time and labour. And the problem here is businesses not demanding enough apprenticeships.

- 4) St Mary Mead has a new factory making jigsaw puzzles. It's hoped the factory will have a wider 'multiplier' impact on local employment. Which of the following is NOT an example of indirect employment generated through the multiplier effect?
- New staff hired by a local courier to help the factory ship puzzles
  - New staff hired by the puzzle factory
  - New staff hired by the cardboard factory in the next town over to help make puzzle boxes
  - New staff at the surrounding cafes to cover morning and evening rush from factory workers

**Answer: b) new staff hired by the puzzle factory**

The multiplier effect is the knock-on, indirect, impact of the puzzle factory on area employment. This can come from increased employment in the supply chain, such as at the cardboard factory and courier, but also from factory staff spending money at local businesses. New staff hired at the factory is the direct effect that generates these indirect, multiplier effects.

- 5) Which of these is NOT an example of market failure?
- An entrepreneur doesn't know what finance is available to new businesses or how to apply.
  - A clothing store closes because of lack of customers
  - A town centre has broken benches and overgrown planting. Local businesses won't invest money to fix these problems because other businesses will benefit without paying for the improvements
  - Most of a town's residents work at a large manufacturing plant. There are few other local employers, and the plant exploits this to drive down pay.
  - A local company is offering low-cost training for businesses to improve their social media, but businesses are put off by a pointlessly complex application process.

**Answer: b) A clothing store closes because of lack of customers**

Business closures are one way the market operates to make sure resources are used to serve the needs of consumers. While a business closing might be bad news for owners, employees and loyal customers it's not a market failure (in the way economists use the term).

For the other possible options:

- The entrepreneur who doesn't know what finance is available faces an **information asymmetry**.
- The unwillingness of one firm to pay to fix a rundown town centre is an example where **externalities** matter. Many businesses benefit if the town centre was maintained, but the gain to any one business is less than the cost. The market can't provide the coordination that is needed.
- One factory being the source of employment is a monopsony – an example of **market control**
- A pointlessly complex application process is a transaction cost that stops businesses from entering the market. That's a form of **market friction**.

- 6) The line between tradable and non-tradable sectors can be blurry. Which one of these is example of a good or service that is usually non-tradable?
- a) A phone app
  - b) An online yoga class
  - c) A haircut
  - d) Clotted cream
  - e) Cough medicine

**Answer: c) A haircut**

Even a haircut can be tradable if people are willing to travel to meet with a particular stylist. But most haircuts are non-tradable— people don't travel outside their local area for one. Clotted cream can now be found UK-wide thanks to refrigeration and supply chains. And as 'Yoga with Adriene' demonstrates, online yoga classes can be marketed globally (so, too, can phone apps).

- 7) A business advice project in Market Blandings offered energy efficiency audits to help businesses deal with high electricity prices. However, the economic development team thinks many of these businesses would have made changes anyway. What are the team worried about?
- a) displacement
  - b) leakage
  - c) agglomeration
  - d) capitalisation
  - e) additionality and deadweight

**Answer: e) additionality and deadweight**

Money spent on businesses who would have made energy efficiency changes regardless of the audits, would be **deadweight**. Improvements made because of the audits, additional to those that would have happened anyway, is **additionality**. Business making more changes, or making them earlier, can also be a form of additionality (depending on what the team hoped to achieve)

- 8) Weatherfield struggles with low wages for many residents. After regenerating a brownfield site, firms move in bringing new skilled jobs. However, the firms struggle to recruit and many of the higher paid jobs go to workers outside the area. What economic concept is at play?
- a) displacement
  - b) leakage
  - c) agglomeration
  - d) capitalisation
  - e) additionality and deadweight

**Answer: b) leakage**

Residents outside Weatherfield benefitted from the regeneration scheme, rather than the residents within the city who were the intended beneficiaries. In other words, the benefits 'leaked out' from the local area.

- 9) Beckton District Council offers grants to businesses taking on vacant premises in the town centre. Kirrin Parish Council complains that as a result several shops from their village have relocated to Beckton. What economic concept is at play?
- a) displacement
  - b) leakage
  - c) agglomeration
  - d) capitalisation
  - e) additionality and deadweight

**Answer: a) displacement**

Activity moving from one place (Kirrin village) to another (Beckton town centre) is referred to as displacement (in this case from Kirrin to Beckton town centre). This could be part of an intentional focus on the town centre, but often displacement is unintentional and jobs or businesses are assumed to be 'new'.

- 10) Borsetshire County Council spent Towns Fund money to improve the public realm in Ambridge town centre. Businesses enjoyed a footfall boost, but over time complained that their landlords raised rents. What economic concept is at play?
- a) displacement
  - b) leakage
  - c) agglomeration
  - d) capitalisation
  - e) additionality and deadweight

**Answer: d) capitalisation**

The tendency for improvements to drive up prices of capital assets – in this case business properties - is referred to as **capitalisation**. Capitalisation can change who benefits from an improvement – in this case landlords at the expense of tenants.

- 11) Rummidge City Council's Investment Zone hopes to build on Rummidge University's biotech research to create a cluster. A new incubator space on campus supports spinouts and graduate start-ups, and a nearby co-working space offers subsidised offices. What economic concept are council officers hoping will drive local growth?
- a) displacement
  - b) leakage
  - c) agglomeration
  - d) capitalisation
  - e) additionality and deadweight

**Answer: c) agglomeration**

Agglomeration benefits occur when the clustering of economic activity makes firms more productive – notice that the incubator and co-working space are both close to the university.