

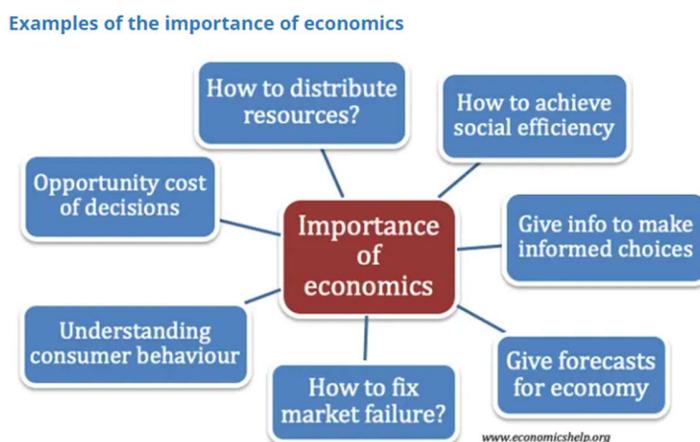
How relevant is economics during a pandemic and in what way might economists make things better?

Economics is more relevant than ever amid the COVID-19 pandemic. Imagine the COVID pandemic embodies an unprecedented and unforeseen storm that has taken the whole world and the entire human race into uncharted waters. We are now all sitting on lifeboats, drifting in the rough sea while mists of uncertainty blind us: the hope for a vaccination narrowly keeping us afloat. In this difficult and uncertain time, economic principles and theories are all that is left to keep us united, to give us directions and to guide us back to calm water.

- *Macroeconomics is the beacon, from a distance, which helps us see through the mist*
- *Microeconomics is the survival handbook which keeps individuals and firms behaving rationally*
- *Other specialised economics branches are the compasses and dashboards on the boat that ensure we can withstand the storm and subsequent run-off.*

Economics is the glue that connects the components of our everyday lives. In simple terms, economics is the study of how humans make decisions in the face of scarcity. In a broader sense, economics is a discipline that helps us to better understand historical events, to make sensible decisions in our current lives and to plan for the future. To put it differently, the concepts that economics entail are timeless, borderless and universal, where its applications and implications are applicable to every inch of our lives. The mind map below illustrates just a few of the countless examples of the importance of economics.

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The COVID-19 pandemic triggered a massive healthcare tsunami, creating global negative economic disruptions in both demand and supply. At a more micro-level, these policies and their ripple effects have propagated through the economy, influencing the livelihood of households and firms. Although prompt and bold policy responses have helped to mitigate the economic impacts, large negative output gaps still loom¹. In addition to the direct and indirect effects, the COVID pandemic has carved much larger and deeper wounds to society and the economy, leaving permanent scars and hysteresis². Even after we recover from the long-COVID symptoms, we will face a new norm where economic and social interactions have been forever changed.

To better understand how economics is not only relevant but crucial in containing and ultimately defeating the pandemic, I will dissect the “economic machine” into its three core cogs. I will explain how these three cogs have played essential roles in combatting COVID-19 and how economists have turned these cogs to make life better during the pandemic.

¹ In its latest *World Economy Outlook*, the IMF estimated the output gap in developed economies to be at -4.2%, and that it will not be closed until 2025. The OECD estimated the output gap for its member countries to be around -6.5%, and that they will not close within the forecast horizons.

² For example, structural unemployment, rising debt and widening inequality

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The first and largest cog of the economic machine is the “macro” schools and theories of economic thought. Macroeconomics is a branch of economics that studies overall economy phenomena, such as growth, inflation and unemployment. The different schools of economic thought ranging from Keynesian to Austrian to Neo-classical economics have all played significant roles in the interplay of macroeconomic development. As economies collapsed amid the COVID-19 pandemic, bold and prompt macroeconomic intervention, including fiscal and monetary policies, have helped prevent the global economy from sliding into a depression and deflationary cycle. Here are two examples of how macroeconomics policies have mitigated the negative COVID impacts globally:

- A global pandemic requires global economic responses and coordination. The International Monetary Fund (IMF) has responded to the coronavirus crisis with unprecedented speed and magnitude of financial assistance to help impacted countries, notably to protect the most vulnerable and to set a stage for economic recovery³. Specifically, the IMF provided emergency financing to over 80 countries, granted debt relief to 29 of its poorest and most vulnerable member countries and called for bilateral debt relief and debt service suspension initiatives with the support of G20 nations. The IMF has also published numerous reports, including the World Economic Outlook⁴, to give economic forecasts and policy guidance.
- At a country level, policymakers have responded without hesitation to safeguard the economic, social and financial stability of the country, as well as to support livelihoods of millions. In the UK, the Bank of England⁵ cut the bank rate from 0.75% to a record low of 0.1%; they restarted £450bn worth of quantitative easing on government and corporate

³ IMF website: [Questions and Answers: The IMF's response to COVID-19](#)

⁴ IMF World Economic Outlook (Oct 2020) [World Economic Outlook, October 2020: A Long and Difficult Ascent \(imf.org\)](#)

⁵ BOE website: [Our response to coronavirus \(Covid\) | Bank of England](#)

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bonds; they launched credit easing schemes and corporate financing facilities; and the Chancellor of the Exchequer unveiled several rounds of massive fiscal packages⁶ to support households and businesses during the health emergency, pushing the deficit to a forecasted £394bn⁷ (19% of GDP).

The second essential system consists of millions of “micro” cogs that represent the economic agents – individuals, households and firms. Microeconomics analyses the behaviour and rationale of agents in order to understand their decision-making on consumption, labour demand/supply, whether to keep their businesses open or closed during the pandemic, etc. Here are two examples of how microeconomics has helped firms and individuals to respond to COVID-19.

- Economic theory states that firms seek to maximise profit and smooth out business cycles; however, the pandemic has caused insurmountable challenges for the traditional business models. The World Economic Forum (2000) noted that firms are restructuring – by shortening planning cycles⁸ and changing cost structures to be less fixed and more variable⁹ – to improve flexibility alongside cutting capacity and costs.
- Individuals seek utility maximisation and risk reduction amid the COVID-19 pandemic. The risk of COVID-19 has presented negative implications as social distancing rules constrain our everyday decision-making. Over time, individuals and households will adjust and adapt to new ways to work, travel and interact. While it might take years before the

⁶ The measures include (i) additional funding for the NHS, (ii) various funding and credit schemes to support businesses, (iii) strengthening the social safety net to support vulnerable people, (iv) VAT cuts and payments deferral, (v) Job Support Scheme and wage subsidies for furloughed workers, and many more...

⁷ Office for Budget Responsibility: [Economic and fiscal outlook – November 2020 \(obr.uk\)](https://obr.uk/economic-and-fiscal-outlook-november-2020/)

⁸ Airlines now schedule flights every 3-4 weeks instead of 12 months ahead to accommodate fleeting spikes and slumps in demand. Banks have started to update loan losses more frequently in response to varying economic trajectories.

⁹ For example, manufacturers adjust their shifts and production levels to remain efficient at lower volumes while retaining the option to ramp up output again.

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post-COVID environment imposes a new norm, we can look back and draw conclusions on how microeconomics has prevailed during previous pandemics. A perfect example would be how Asian countries have fared better than the rest of the world during COVID, thanks to the lessons learnt from SARS in 2003. Lifestyles perceptibly changed in many Asian countries after SARS with the use of masks and hygienic practices in public places becoming the norm.

The third and final system consists of a number of “specialised” economics cogs¹⁰, which are auxiliary to the first two cogs. These specialised cogs have their very own crucial roles and functions in determining how economic agents act during times of crisis. Here, I use two examples to illustrate how these sub-branches of economics have helped the economy to pacify the COVID-19 pandemic.

- Behavioural economics has featured heavily in the advice provided to policymakers. The premises of rationality have been heavily scrutinised and challenged during the COVID-19 pandemic when “animal spirits” often dominate decision-making processes. There are countless examples of irrationalities from the irrational exuberance of hoarding toilet papers to the absurdity of conspiracy theories. Nudge theory (Thaler and Sunstein, 2008) is another simplistic yet effective form of behavioural economics that capitalises on positive reinforcement and minute prompts, reducing individual cognitive limitations for the greater social wellbeing. It has been implemented in multitudes throughout the COVID-19 pandemic to maintain hygiene and social distancing: varying from parks in Denmark

¹⁰ Some examples – development economics, environmental economics, energy economics, industrial economics, agricultural economics, international economics, geo-economics, labour economics, transport economics, political economics, financial economics, behavioural economics and health economics.

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creating markings in the grass thus signalling distances from other groups to simply installing mirrors over the handwashing stations, which led to a 62% increase in handwashing behaviour.

- Health economics is at the centre of this pandemic, particularly in guiding healthcare and economics policies, by making difficult trade-offs between lives and livelihoods. Donaldson and Mitton (2020) presented a framework to optimise the balance between reducing the reproductive rate (R) of the virus and further opening of the economy. Depending on where we are within the marginal analysis framework, health issues are either allowed to dominate or, below some threshold of R , health and economic considerations can be traded off against each other.

The table below summarises our above discussion, underscoring the interconnectedness of all the economic cogs. The economics machine is an essential design – while closely tied with other disciplines such as philosophy, politics, psychology, sociology, anthropology and ecology – that places economics at the core of social science studies and other research¹¹.

	Importance of Economics	Cogs	Relevance to COVID pandemic and examples
1	How to distribute resources	All 3	Macro resources (p.3-4), HH and firm resources (p.4-5), and healthcare (p.6)
2	How to achieve social efficiency	Macro and behavioural	Macro resources (p.3-4), behavioural economics (p.6)
3	Give information to make informed decision	All 3	Macro decisions (p.3-4), HH and firm decisions (p.4-5), and healthcare (p.6)
4	Opportunities cost of decisions	All 3	Macro decisions (p.3-4), HH and firm decisions (p.4-5), and healthcare (p.6)
5	How to fix market failure	Macro and behavioural	Government policy / regulation (p.3-4) and nudge theory (p.6)
6	Understanding consumer behavior	Micro and behavioural	Firm and individual decisions (p.4-5), and behavioral economics (p.6)
7	Give forecasts to economy	Macro	IMF, government and central banks (p.3-4)

¹¹ The MIT Technology Review (2020) argued that the pandemic has seen a flowering of interdisciplinary research between economists and academics/practitioners that would not typically have been considered compatible – epidemiologists on health economics, technologists on blockchain to trace supply chain and data scientists on building higher frequency and more accurate measures to complement traditional economic data, such as GDP and inflation.

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Caveating my arguments above, economics is still an evolving social science discipline. We acknowledge that not only does economic theory not always work, it can also fail spectacularly sometimes if we follow invalid assumptions, irrational behaviour or incentives in a negative way. One notable example, from March to July of 2020, was when the US government handed out an additional \$600 per week federal unemployment benefits on top of the state unemployment benefits. For roughly 40% of workers – especially the ones in retail, accommodation and food services sectors – they stand to make more money being voluntarily unemployed than going back to work, even when it is safe to do so.

To conclude, there are countless lessons we can both reflect and learn from the COVID pandemic. We ought to rethink and recalibrate economics in a broader sense as the COVID-19 pandemic has shown that the current economic environment puts social welfare, recovery and future resilience at stake. The COVID-19 pandemic presents more questions than economics theories can answer. Should economic agents optimise to maximise return on capital or to ensure resilience in the face of crisis? Should we prioritise to protect lives (healthcare) or livelihood (economy)? More importantly, how can we shape the post-COVID economy to be more productive and equitable? We will not get simple answers because economics is not about differentiating right from wrong; it is about making better decisions for the greater social good.

It has been over a year of drifting in the rough and misty sea - people are tired and sick. Whilst vaccines news are positive, we are currently experiencing the 3rd wave of the COVID storm. Hopefully, we will get out of this storm safely, but the trauma and scarring will take years or decades to heal. While we have learnt an important lesson in fighting the pandemic, we are utterly unprepared for many other shocks – climate change, inequality backlash, technology disruption.

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No matter what happens next, I shall hold on tight to my beacon (macroeconomics), survival handbook (microeconomics) and compasses/dashboards (other economics fields) for my journey ahead...

*Word Count: 1643**

**Body text only (excluding titles, references, tables and pictures)*

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