

GCE A and AS LEVEL

GCE AS / A LEVEL ECONOMICS

Course Outline



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Course Outline



The following two course outlines intend to help teachers in their planning. However, we must stress that there are many other ways of organising the specification content, and these suggestions should not be seen as prescriptive. This outline assumes learners will be taught for 4 hours per week. There may be slight differences with the timings due to the different term dates in the UK.

Plan 1 assumes that learners will be entered for the AS examinations at the end of the one year AS course. Component 1 and 2 of the AS specification is the same as Component 1 of the A Level specification. Plan 2 assumes that there will be no AS examination at the end of the first year.

PLAN 1

TERM ONE			
Week	Specification Content	Specification Amplification	Further guidance notes
1	Scarcity, choice and opportunity cost	Define and illustrate the concepts of scarcity, choice and opportunity cost for society, individuals and the government.	Introducing learners to the idea that resources (land, labour and capital) are scarce, but there are unlimited wants; all societies have to make choices – use of command versus free market systems to illustrate the way in which choices are made and the different outcomes that may result.
2	Production possibility	Use production possibility frontier diagrams to depict choice,	Show that scarcity can be illustrated graphically using PPFs, giving an explanation that they represent the limit to an economy's output at a given

	frontiers (PPFs)	<p>opportunity cost, short and long term economic growth and efficiency.</p> <p>Understand movements along and shifts in PPFs.</p> <p>Understand why the PPF is usually drawn concave to the origin because of imperfect factor substitution and why a straight line PPF is an indication of perfect factor substitutability of resources.</p> <p>Explain factors which may shift the PPF inwards or outwards.</p> <p>Relate long-term economic growth and changes in productivity to outward or skewed shifts in an economy's PPFs.</p>	<p>point in time with existing resources at existing factor productivity.</p> <p>Outward shifts and possible causes. Also, use as a link to specialisation and division of labour and increasing efficiency of the production process. Link to skewed shifts i.e. greater improvements in one industry than the other.</p> <p>Relate PPFs back to the discussions of market systems, to show that the different choices systems made can be represented two dimensionally (e.g. capital vs. consumer goods balance – UK vs. USSR), and then show that over time, these changes may have implications for shifting the PPF. Also, use this as a link to economic growth (actual and potential), unemployment and trade, and use this to discuss how short term decisions on resource utilisation may have longer term implications.</p> <p>Link to opportunity cost, as a concept and diagrammatically.</p> <p>Inward shifts reflecting depletion of resources e.g. Ebola in West Africa, War in Syria.</p>
	Specialisation, division of labour and exchange	<p>Understand the advantages and disadvantages of specialisation.</p> <p>Define productivity and explain how it may be increased by the use of specialisation and other factors.</p>	<p>Refer to specialisation by countries, by regions and individuals in the workplace.</p> <p>Examine why exchange is an important consequence of specialisation/division of labour i.e. countries/people cannot be entirely self-sufficient. Link to money being used as a medium of exchange, rather than relying on barter.</p>

3	<p>Factors influencing demand and supply in product markets</p>	<p>Define a product market.</p> <p>Explain the objectives of economic agents; that firms seek to maximise profits and consumers seek to maximise satisfaction/utility.</p> <p>Understand the importance of marginal utility in the derivation of demand curves.</p> <p>Identify the main influences on demand and supply in product markets.</p> <p>Understand why demand curves normally slope downward from left to right.</p> <p>Understand why supply curves will normally slope upward from left to right, for example producers will be able to make higher profits at higher prices and that higher levels of output mean increased marginal costs in the short run.</p>	<p>Demand: Recap on how markets allocate resources, and the notion of supply and demand. Explain that all this can be illustrated graphically.</p> <p>Concept of demand as effective demand (desire for a product supported by the ability and willingness to pay). Factors affecting demand (income, price, tastes, prices of substitutes and complements – anything the learners can come up with).</p> <p>Look at the principle of diminishing marginal utility as a good way of explaining why demand curves slope down, and a useful tool to explain consumer surplus.</p> <p>Understand the substitution and income effect of a price change. Big effort on shifts vs. extensions in demand, looking at the importance of the ceteris paribus principle.</p> <p>Supply: Introduction (usually via an activity) of the Law of Diminishing Marginal Returns. Then linking this to increasing marginal costs and the upwards sloping supply curve.</p> <p>Make it completely clear that if supply curve has a positive gradient, then suppliers will not increase supply without an increase in price due to inability to cover costs, even if demand is present.</p> <p>Factors affecting supply (costs, technology, natural factors, etc.).</p> <p>At this stage, it might be useful to look at vertical and horizontal supply curves to reinforce the idea of demand not creating supply. (Music</p>
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			<p>downloads and fixed capacity events such as concerts can be used as clear examples).</p> <p>Big effort on shifts vs. extensions in supply.</p>
4	The determination of equilibrium price and output in a freely competitive market	<p>Illustrate, using diagrams, equilibrium price and output situations in product markets.</p> <p>Explain effects on price and output of shifts in demand and supply curves</p>	<p>Equilibrium: Concept of equilibrium as a situation with no tendency to change. Reason why market prices will tend towards equilibrium. Refer to concepts of excess demand (shortages) and excess supply (gluts).</p> <p>Detailed discussion of each possible disruption to equilibrium (shift left/right in D/S) and exactly how a new equilibrium arises, again emphasising that prices will not start to change until excess demand or supply has arisen. Use of real world case studies as exercises.</p> <p>Link back to market economies and the invisible hand – show that markets are efficient, and then link into consumer, producer and community surplus.</p>
5	Consumer and producer surplus	Define, explain and illustrate, using diagrams, consumer surplus and producer surplus.	Demonstrate that in principle those who are prepared to pay the most are those who get supplied, and that the most efficient firms are the ones who do the supplying. Calculations to illustrate the concepts.
6 - 7	Price, income and cross price elasticities of demand, price elasticity of supply	<p>Understand the meaning of the terms price, income and cross price elasticities of demand and price elasticity of supply.</p> <p>Explain the relationship between price elasticity of demand and total revenue.</p> <p>Use the concept of income elasticity</p>	<p>General introduction to the idea of Elasticity (the responsiveness of one variable due to a change in another variable) – ensuring that learners understand that it is %-based and therefore it will change for given relationships and it is not the gradient.</p> <p>All elasticities to be covered in much the same way:</p> <ul style="list-style-type: none"> - Definition - Formula - Simple calculations - Explanation of the significance of both the negative sign and the

		<p>to distinguish between normal and inferior goods.</p> <p>Apply the concept of elasticity to economic contexts for instance in the incidence of taxation and the incidence of subsidies.</p>	<p>absolute value in predicting change</p> <ul style="list-style-type: none"> - Graphical representation (e.g. Engel's curve for YED) - Factors that affects the value - Considering the extremes (e.g. perfectly inelastic PED, PES) - Considering real-life case studies that illustrate the various elasticities - Explain why knowledge of that particular elasticity is important to decision making in firms (e.g. XED can signal the use of loss leaders as an example of how firms might use XED for complements, and discuss advertising and product differentiation as ways to decrease XED between substitutes). <p>In addition, there must be some reinforced explanation that PED varies along a straight line downward sloping demand curve, with $PED = -1$ at the midpoint. Use this to illustrate the use of PED for firms – when demand is price elastic, firms can increase revenue by cutting price – show on diagram. Learners should to conduct calculations of revenue with simple numbers.</p>
8	<p>How resources are allocated in a free market economy</p>	<p>Understand the role of profit and the function of prices in allocating resources to different uses.</p> <p>Understand that changes in one market affect other markets, for instance interrelationships between factor and product markets.</p>	<p>Revisiting the topic of how markets allocate resources, and the notion of supply and demand.</p> <p>Look at the rewards to different factors of production – profit as the reward for entrepreneurship.</p> <p>Concept of derived demand to be used again – demand for a particular product will lead to demand for factors to produce that product.</p> <p>In particular, some recap of why markets in theory should allocate resources efficiently (community surplus maximised, competition holding down prices and costs, raising quality, consumer sovereignty/choice, invisible hand).</p>

	Understanding market failure	Define market failure and have an understanding of efficiency i.e. the maximisation of consumer/producer surplus at the free market equilibrium output.	Situation in which the free market does not allocate resources optimally. Optional: Diagrammatic approach – focussing on over-allocation or under-allocation of resources to a market and the welfare loss that occurs as a result.
9 - 12	Why and how governments intervene in markets AND also the effects of government intervention	<p>Understand that market failure may take many forms, including:</p> <ul style="list-style-type: none"> • public goods • merit and demerit goods • externalities • information asymmetries and gaps • an absence of private property rights • income inequality • volatile prices <p>Appreciate the reasons for, and the consequences of each source of market failure for economic agents.</p> <p>Explain why and how governments intervene in markets, for instance to correct market failure and reduce income inequality.</p>	<p>Public goods: Non-excludable and non-diminishable i.e. non-rival. Free rider problem means that they would not be supplied in a free market leading to a welfare loss. Touch on cost-benefit analysis and the difficulty of putting economic values on concepts such as human life.</p> <p>Inequalities: Explanation that whilst in theory the market will deliver goods to those who want them the most as long as incomes are equal, income inequalities mean that resources will instead go to those with the most money, therefore reducing total welfare. Causes of inequality – possible link to labour market diagram, labour immobility (geographical/occupational). Link here to Maximum Price as a means of ensuring low-income households are not priced out of the market. Evaluative discussion to follow including problems such as excess demand, possibility of black/unregulated markets emerging, the impact on producer revenue and also on producer and consumer surplus.</p> <p>Externalities: Cost or benefits to third parties arising from production or consumption that are not taken into account by the free market, meaning that equilibrium output will be either too high or too low – thus a misallocation of resources due to the divergence between social cost and private cost. $SC = PC + EC$. <i>Production externalities:</i> (pollution from production and so on). <i>Consumption externalities:</i> merit and demerit goods. Case studies on health, education, tobacco, alcohol and cars/roads, using social</p>

		<p>Evaluate government intervention policies.</p> <p>Explain that in certain cases government intervention can create distortions in markets, for example in agriculture, housing and labour markets</p> <p>Understand the reasons for government failure and be able to evaluate its effects.</p>	<p>cost/benefit analysis and simple supply and demand diagrams where appropriate to illustrate over/under consumption.</p> <p>Link to Minimum Price as a means of solving the demerit good problem. Link to indirect taxes (including the burden of tax diagram) as a means of solving negative externality problems.</p> <p>Link to subsidies as a means of solving positive externalities/merit good problems.</p> <p>Information asymmetries: Lop-sided information can damage markets and in extreme case render them unable to operate at all. Use of used cars (lemons) and private health insurance as examples.</p> <p>Common goods: Absence of property rights – where assets do not have clearly defined owners then a price cannot be established and they will be over-used. Tragedy of the Commons, overfishing of cod as case studies.</p> <p>Price volatility: Volatile markets are inherently risky and therefore dissuade entrepreneurs from entering the market. Primarily taught via agricultural goods (needs an explanation of why agricultural products are more likely to exhibit volatile behaviour). Refer to price inelastic demand and supply. Then, link to CAP and Guaranteed Minimum Price Scheme (including diagram). Disadvantages of intervention in this fashion – opportunity cost of funds, cost of storage, impact on consumer surplus, dumping of surplus produce on world markets (e.g. impact of US powdered milk production on Jamaican dairy industry), drive towards intensive farming methods and the environmental and health side effects that these create.</p>
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			<p>Government failure: The risk of government failure (such as inadequate information, administrative costs and market distortions) should be considered throughout.</p>
13	Labour Market: Wage determination	<p>Identify the main influences on demand and supply in labour markets.</p> <p>Understand determinants of the elasticity of the demand and supply of labour.</p> <p>Understand the causes and implications of wage differentials.</p>	<p>Explanation of wages as the price of labour and that in a free market wages are therefore determined by supply and demand.</p> <p>Look at the demand for labour, discussing why firms need workers, and what will determine their demand – link to technology, productivity, the demand for products and thus the state of the economy. Labour is therefore a derived demand and will be negatively correlated with wage rates.</p> <p>Identify the main influences on demand and supply in labour markets.</p> <p><i>Optional:</i> Marginal revenue product theory is not required at AS but learners should understand that the demand for labour is derived from the contribution that labour makes to the profit of the firm.</p>
14	Labour Market Issues:	<p>Understand the factors which affect flexibility in labour markets, for example trade union power, regulation, welfare payments and income tax rates.</p> <p>Evaluate the effects of the statutory national minimum wage on labour markets.</p>	<p>Make clear that labour supply consists of those actively looking for work (not the supply of jobs). Again discuss the factors that will be likely to affect this – wage levels, benefit levels, societal attitudes towards gender roles (participation rates), migration, tax levels, education and so on. Hence supply will be positively correlated with wages, but strongly influenced by a range of other factors.</p> <p>Look at factors that may cause wage levels to shift such as trade union power, immigration following EU expansion, changes in the structure of industry, globalisation and so on.</p>

		Explain the impact of migration on labour markets.	Then look at Government intervention in labour markets – the minimum wage. Recent history, advantages and disadvantages from the point of view of individual firms and workers as well as for the economy as a whole (possible unemployment, may deter FDI/increase relocation abroad, may increase participation rate, may force firms to invest, may reduce income inequalities).
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TERM TWO			
Week	Specification Content	Specification Amplification	Further guidance notes
15	Government policy objectives	Explain the main macroeconomic objectives and possible conflicts between policy objectives.	Introduction to policy objectives (unemployment, inflation, growth (actual/potential), current account) and policy instruments (fiscal, monetary, supply side). Explanation of why each policy objective might be important and an overview of some of the factors that might affect them. Opportunity to look at some recent economic stories and get learners looking at current data.
16	The circular flow of income model	<p>Explain the flows in the circular flow model and understand that they should be equal (income = output = expenditure).</p> <p>Explain injections into and withdrawals from the circular flow.</p> <p>Use the model to explain the concept of national income equilibrium and to explain how changes in injections and withdrawals might lead to changes in the equilibrium level of national income, and hence explain the multiplier process.</p>	<p>Circular flow model introduced through an activity.</p> <p>Focus on the assumptions of the model and $Y=O=E$ formula. Then, introduce concepts of injections and withdrawals, and the impact of a change in these on policy objectives.</p> <p>Show how the multiplier is derived from circular flow.</p> <p>GDP/GNP</p>
17 - 18	The components of aggregate demand (AD) and the AD function	Define the components of aggregate demand: consumption, investment, government spending and net exports (exports minus imports).	Using circular flow model, build idea that the economy will be in equilibrium if $AD = AS$, followed by components of AD ($C+I+G+X-M$).

		<p>Explain the factors which affect the levels of consumption and investment in the economy.</p> <p>Understand why an AD function will slope downward from left to right.</p> <p>Understand that changes in the components of AD can cause the function to shift.</p>	<p>Consumption: Definition (total expenditure by UK households). Significance of consumption as part of AD – use of actual data to show that C is over 60% of AD.</p> <p>Factors affecting consumption (national income, interest rates, tax, confidence/feel-good, house prices/equity withdrawal, availability of credit – link to contemporary examples in each case). Impact of changes on policy objectives, still at a superficial level.</p> <p>Investment: Definition of investment (public/private, gross/net, human/physical/R&D). Significance of investment in terms of impact on productivity, competitiveness and potential growth (PPF analysis).</p> <p>Lead into factors affecting investment (private sector) – Interest rates and business confidence (MEC theory – optional), taxes (esp. corporation tax), tax breaks, profits, rate of technological change, access to funds – role of stock exchange, pressures from globalisation.</p> <p>AD: Relationship between aggregate price level and AD (real balance effect). Shifts and extensions in AD – factors affecting - C and I plus role of state and X/M (introduction to exchange rates). Again, look at how changes in AD are likely to affect policy objectives.</p>
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19	The aggregate supply (AS) function	<p>Understand the shape of the Keynesian long run aggregate supply (LRAS) curve.</p> <p>Understand the factors which might result in a shift in LRAS.</p>	<p>AS: Idea of AS representing the maximum potential output of the economy – link back to PPFs.</p> <p>Determined by the quantity, quality and efficiency of use of the four key factors of production.</p> <p>Keynesian AS – elastic at low output because as AD rises there are no shortages of skilled workers/other factors of production. As the economy approaches full employment shortages of factors will appear in particular sectors of the economy, driving up costs and therefore prices. At full employment, further increases in AD are purely inflationary.</p> <p><i>Note:</i> Classical / Monetarist AS curve introduced at A level.</p> <p>Show how changes in quantity, quality and efficiency of use of factors can shift AS, pick examples in terms of all 4 factors – training, investment, relaxation of planning controls, decrease in corporation tax and so on).</p>
20	AD/AS analysis	Illustrate and explain how AD and AS interact to determine the equilibrium level of output, employment and prices in the long run.	<p>AD/AS: Equilibrium. Use of AD/AS analysis to explain policy objectives and conflicts between them. Impact of changes in C and I on equilibrium price and output in the SR and LR and hence the link to policy objectives.</p>
21	Fiscal policy: the Framework and Demand	Understand the overall purpose and structure of the budget.	Introduction to the budget – surplus, deficit, balance. Link to the national debt and government bonds/credit ratings. Current UK position on both, looking at recent budgets. Why a surplus or deficit might matter.

	side fiscal policy	Analyse the possible impact of changes in tax and spending on the economy using AD/AS diagrams and the Laffer curve. Explain how Keynesian economists believe that fiscal policy can and should be used to control the level of aggregate demand in the economy under certain circumstances.	Keynesian vs. Classical views on the role for a budget deficit. <i>Government spending:</i> Current vs. capital spending. Impact of each on AD/AS in the SR and LR. <i>Taxation:</i> Direct vs. indirect. Progressive, proportional, regressive. Advantages and disadvantages of direct (incentives, impact on AD, progressive, collection) and indirect taxes (regressive, avoids disincentives, targeting of demerit goods, inflationary impact), and their impact on the economy. Link between direct tax rates, tax revenue and incentives to work/brain drain – Laffer Curve. AD/AS.
22	Supply side fiscal policy	Explain that fiscal policy can be used to achieve policy objectives by operating on the supply side in the longer term. Examples might include influencing incentives to work and to invest, improving infrastructure.	Focus on raising productivity/creating incentives. Disadvantages of demand management – leads and lags, build-up of debt/opportunity cost – debt interest, risk of destabilisation, side effects on incentives, etc. Examples from recent budgets. Diagrammatic treatment.
23	Monetary policy: Framework <u>and</u> the operation of monetary	Understand the role of the Bank of England in creating monetary and financial stability, and its status as lender of the last resort. Understand the purpose of the Bank's inflation target, its symmetrical nature and	Role of the (independent) Central Bank and the Monetary Policy Committee. Explanation of money and the money supply, the Bank of England's inflation target and how interest rates will be set to achieve this.

	policy and monetary stability	<p>any other objectives that the Bank may be required to pursue.</p> <p>Interest rates.</p> <p>Understand how changes in interest rates may be used to achieve the Bank's objectives and the factors the Bank is likely to take into account when setting base interest rates.</p> <p>Understand how interest rate changes can impact the both real economy and inflation.</p> <p>Discuss the extent to which changes in interest rates are likely to affect the exchange rate.</p>	<p>Impact of a change in interest rates on AD/AS (via the Transmission Mechanism) and hence on policy objectives including inflation and the time horizon over which interest rates will be expected to have an impact.</p> <p>Advantages and disadvantages of interest rates as a tool for demand management (flexibility, ability to make a series of incremental changes, but effectiveness in boom/recession scenarios, side effects on investment and the exchange rate.</p>
24	Supply side policies	<p>Understand what is meant by supply side policies and understand how they can be used to try to increase trend growth/LRAS in the economy as well as the flexibility of product and factor markets.</p>	<p>Definition – improving flexibility of markets, increasing trend growth via an increase in the quantity, quality and efficiency of use of the 4 factors of production.</p> <p>Types of supply side policy divided into labour, product and capital market reforms, with examples of each.</p> <p><i>Benefits:</i> Increased productivity and efficiency leading to potential growth, downward pressure on inflation, possible jobs and improvement to current account policy. Helps to avoid short-run trade-off of policy objectives caused by demand management alone.</p> <p><i>Limitations:</i> Unemployment (possibly structural), increased</p>

			inequalities, time lags, opportunity cost, limited effectiveness in recession (Keynes), potential for government failure, less security of employment in labour markets etc.
25	Free trade and protectionism	<p>Evaluate the benefits and costs of free trade.</p> <p>Describe the main forms of protection; tariffs, quotas and other barriers.</p> <p>Evaluate the benefits and costs of protectionism.</p>	<p>Reasons for trade. Look at case studies of the impact trade has had on economic growth and living standards (main case study on China) and consuming outside PPF, liberalisation leading to increased efficiency, potential growth, downward pressure on inflation, lower prices and great choice/quality for consumers.</p> <p>Reasons against free trade/in favour of protectionism - strategic industries, infant industries, prevent dumping, cultural factors, revenue raising (tariffs), protect jobs, solve current account deficits – look at the extent to which these arguments are actually valid and whether even so they are likely to outweigh the benefits of trade.</p> <p>Forms of protectionism (tariffs, quotas, subsidies, administrative barriers, exchange controls, 'precautionary bans', voluntary export restraint etc., looking at actual cases (such the Banana Wars and the bra wars, US subsidies on Cotton).</p>
26	Exchange rates in a free market	<p>Explain that in a free-float system, the exchange rate will be determined by the forces of supply and demand.</p> <p>Use supply and demand diagrams to analyse and evaluate the factors which might cause exchange rates to appreciate or depreciate.</p>	<p>Definition of exchange rate.</p> <p><i>Demand for sterling:</i> Exports plus capital inflows (hot money +FDI). Negatively correlated with exchange rate.</p> <p><i>Supply of sterling:</i> Imports + capital outflows. Positively correlated with exchange rate.</p> <p>Equilibrium (S=D).</p> <p>Factors causing changes in equilibrium: Changes in interest rates,</p>

		<p>Evaluate the possible impacts of changes in exchange rates on the policy objectives.</p> <p>Evaluate the microeconomic effects of exchange rate changes on households and firms.</p>	<p>trade balance, confidence, expectations.</p> <p>Impact of a change in exchange rates on the economy (SR/LR). Link to policy objectives; in particular, showing that a depreciation may have mixed impact on the trade balance in the short and long run (Marshall-Lerner condition). In addition, whilst this may decrease unemployment and increase growth, it might cause inflation (if the output gap is small) and reduce living standards (if consumer goods are generally imported).</p> <p>Look at current examples of currency crisis such as collapse of Russian Rouble (Nov/Dec 2014).</p>
27	Exchange rate policy	<p>Understand how monetary authorities can influence the value of an exchange rate in a floating system (a 'managed' or 'dirty' float).</p> <p>Evaluate the advantages and disadvantages of policies which hold exchange rates artificially above or below their free market levels.</p>	<p>Look at some of ways in which Governments can control interest rates (setting i/r, buying/selling currency on FOREX, Capital controls).</p> <p>Look at why Denmark pegs its currency to the Euro. ERM II for prospective euro zone members.</p> <p>Look at why Brazil over-valued its currency in the 1970s.</p> <p>Look at why China devalues its currency (and how it does so).</p>

TERM THREE			
Week	Specification Content	Specification Amplification	Further guidance notes
28	Trade (continued) Advantages and disadvantages of free trade	Understand the advantages and disadvantages of international trade from the point of view of the economy as a whole and for households, firms and government.	Mainly revision: Look at the reasons for trade, including detailed analysis of comparative and absolute advantage. Explain with arithmetic illustration the concepts of comparative and absolute advantage and their limitations; a two country, two product model is required using a numerical and graphical approach.
	Protectionism	Understand the arguments for and against the implementation of protectionist policies. Explain and illustrate key methods of protectionism.	Then look at the problems with free trade and the main forms of protectionism. Tariffs, quotas, export restraints, non-tariff barriers. Look at the role of the WTO in trying to reduce protectionist barriers.
29	Globalisation and Trade in the UK	Evaluate the costs and benefits of globalization. Identify the UK's major export sectors. Evaluate the extent to which an increasingly integrated world economy is beneficial to the UK.	Discuss what is meant by globalisation and the positive and negative effects it has had on the UK (might include: FDI, downward pressure on inflation in the short run increased growth, but now growing pressure on resource prices as China grows, short run job losses and so on). Learners should gain an understanding of the impact of globalisation on the UK economy through an appreciation of its interdependence with other economies, linking well with discussions on UK's main trading partners.

<p>30 - 31</p>	<p>REVISION</p>		
<p>AS EXAMINATIONS</p>			
<p>32</p>	<p>Economic development: Measurement</p>	<p>Understand what is meant by the concept of economic development.</p> <p>Evaluate the extent to which changes in national income are a good indicator of changes in the level of development in a country.</p> <p>Identify and understand other possible measures of economic development, including:</p> <ul style="list-style-type: none"> • the human development index (HDI) – understand how the index is calculated and be able to discuss the extent to which the HDI can show differences in economic development • the economic structure of an economy 	<p>Look at the characteristics of some of the world’s poorest countries, and discuss what might make a country more or less developed.</p> <p>Human versus economic development.</p> <p>Move on to classification of countries (LEDC/MEDC or least developed, developing and developed). Look at possible indicators of development and their limitations such as GDP/capita, HDI, infant mortality rates, and infrastructure.</p>

		<ul style="list-style-type: none"> more indirect indicators such as access to health and education, access to the internet and mobile phone usage. 	
33	Obstacles	<p>Discuss why LEDCs may face difficulties in competing with MEDCs and in raising their level of economic development.</p> <p>Explain and evaluate relevant obstacles; including: the extent to which endowment with natural resources is beneficial or whether there is a 'resource curse', low levels of health and education, low life expectancy, the impact of MEDC trade policies, the impact of poor levels of infrastructure, capital and technology, the effect of institutional weakness and poor governance, high levels of public sector debt and rapid population growth.</p>	<p>Then discuss possible reasons for lack of development of some countries (using case studies in each case).</p> <p>Possible obstacles might include: primary product focus, second mover disadvantage (power of western multinationals), lack of infrastructure (financial, health, education and physical), corruption, rapid population growth, external debt, trade deficits, poor education and health (AIDS), Western protectionism.</p> <p>Make it clear that the reality is very different for each developing economy, and that a tangled web of interconnected problems makes development/growth difficult. Each obstacle should be linked to a clear case study which learners can research in their own time.</p>
34	Solutions	<p>Explain and evaluate possible approaches to raising the level of economic development; including: liberalisation – a move towards a</p>	<p>Discuss possible approaches to raising economic growth, with a strong emphasis on case studies throughout (again!).</p> <p>World Bank/IMF approach in terms of liberalisation/structural adjustment</p>

		<p>more free-market based system involving internal and external liberalisation, international aid, debt relief, government intervention in the form of policies such as import and export substituting industrialisation and encouraging FDI.</p>	<p>(strengths and limitations of such an approach). Other approaches including ISI, export targeting, debt relief/amnesty, aid, decrease in Western protectionism plus the limitations of each of these approaches.</p> <p>Discuss the extent to which any one policy will be sufficient to improve the performance of a developing economy, and generate an awareness that solutions are likely to be at many levels within and outside an economy.</p>
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TERM FOUR			
Week	Specification Content	Specification Amplification	Further guidance notes
1 - 2	Short-run costs, revenues and profits	<p>Explain the law of diminishing returns.</p> <p>Distinguish between fixed and variable costs and be able to distinguish between the short run and the long run.</p> <p>Define and calculate total, average and marginal values for revenue and costs.</p> <p>Explain the concept of profit maximisation (using marginal revenue and marginal cost).</p>	<p>After a very quick overview of the whole topic, move on to an explanation of the short run (given that the firm is constrained by at least one of its factors, expanding output will become increasingly difficult, and that, therefore, the cost of making an additional unit will begin to rise). Principle of diminishing returns to a factor – explain and then demonstrate using MPP and APP diagrams.</p> <p>Can then make the link to costs. Explain that there are fixed costs (remaining constant as output rises) and variable costs (rising in total as output rises).</p> <p>Explain the difference between MC and AC - explaining why each one is important.</p> <p>Following this, make the link between diminishing returns and rising marginal cost using anecdotal, diagrammatic and numerical examples. Show that total variable cost is the sum of marginal cost. Hence derive the average variable cost curve, showing diagrammatically and numerically that the MC will cut AVC at the minimum point of the AVC curve.</p> <p>Finally introduce fixed costs. Show that TFC is a horizontal line, but that AFC will fall as output rises. Explain the importance of AFC in industries such as low cost airlines. Then show that ATC/AC is made up of AVC and AFC – show on diagram, demonstrating that $ATC = AVC + AFC$ and that MC will pass through the minimum points of the AVC and ATC curves.</p> <p>Repeat for revenue curves – using the previous work on PED as a way of</p>

			building a TR curve. Then use differentiation (Optional) to build a MR curve from TR (marginal is the first differential/gradient) of Total. And show that MR will always have twice the gradient of AR.
3	Long-run Costs and growth of firms	<p>Understand how and why firms might grow (internal and external growth).</p> <p>Understand types of integration/mergers (horizontal, vertical and conglomerate).</p> <p>Explain and illustrate internal and external economies and diseconomies of scale.</p>	<p>For Long-Run Costs, one could begin with the idea that in order to escape inexorably rising costs, a firm may need to expand. Explain that growth could lead to internal economies of scale, and illustrate with examples (bulk purchase, financial, managerial, etc.). Demonstrate, showing the transition from one SRAC to another lower one, and hence derive the LRAC curve.</p> <p>Could now introduce the idea that firms may grow in different ways. Look at the difference between internal/organic growth and external growth (vertical/horizontal/ conglomerate) look at possible reasons for all in the context of case studies.</p> <p>Advantages and disadvantages of each, linking to the possibility of internal diseconomies of scale if growth is not managed effectively. Illustrate using SR/LRAC analysis, and look at possible sources of internal diseconomies (e.g. communication, co-ordination, control, motivation). Discuss whether diseconomies will truly arise in practice and look at evidence. Possibility of external economies and diseconomies of scale. Illustrate with diagrams.</p>
4	Background to market structures and idea of efficiency	<p>Explain that the structure of a market depends on the number of firms and their ability to enter and exit markets freely (contestability).</p> <p>Define the concepts of productive and allocative efficiency.</p>	<p>Introduce the idea of different market structures as a spectrum showing two extremes of highly competitive (not very concentrated) to very little/no competition (and highly concentrated). Plot PC and monopoly on the extremes.</p>

<p>5 - 6</p>	<p>Perfect competition</p>	<p>Define perfect competition and explain the importance of its underpinning assumptions.</p> <p>Explain and illustrate with diagrams the short run and long run equilibrium price and output for the firm and the industry.</p> <p>Explain and evaluate the efficiency of perfectly competitive markets – identify points of allocative and productive efficiency.</p> <p>Understand the difference between normal and abnormal profit.</p>	<p>Explain the point of perfect competition (point of reference, the most price-competitive market structure possible, hence giving an idea of how to make markets more competitive). Discuss the assumptions necessary to create such a market (including: identical products, perfect knowledge, contestability, many buyers and sellers).</p> <p>Show that for a firm in such a market, an increase in price would cause demand to fall to zero, and that, therefore, the demand curve will be perfectly elastic. Explain the concepts of MR and AR, and show that these will be horizontal at the industry equilibrium price. Dynamic analysis i.e. changes in market D/S lead to changes in AR/MR for the firm.</p> <p>Discuss briefly objectives of firms, and explain that profit maximisation will be assumed for now.</p> <p>Explain the difference between normal and abnormal (supernormal) profit. Bring MC and MR together into a diagram, and show that profits will be maximised at the output at which $MC = MR$. Then introduce AC into the diagram and illustrate SR and LR equilibrium, with reference to the industry (S + D diagram) showing that abnormal profits may be possible in the short run. Show that industry supply is the horizontal sum of the individual firms' MC curves.</p> <p>Show that in the long run, entry and exit will return profit levels to normal. Show that in the long run, perfect competition will be productively (min AC) and allocatively efficient (demonstrate allocative efficiency via the industry diagram), showing that because $S=D$, then $MC=AR$, and that therefore all units which we are prepared to pay more for than they have cost to produce have been supplied.</p>
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<p>6 - 7</p>	<p>Monopolistic competition</p>	<p>Define monopolistic competition and explain the importance of its underpinning assumptions.</p> <p>Explain and illustrate with diagrams the short run and long run equilibrium price and output for the firm.</p> <p>Explain and evaluate the efficiency of monopolistically competitive markets.</p>	<p>Explain that monopolistic competition is closely related to perfect competition, but that some of the assumptions of perfect competition have been relaxed, most importantly the assumption of identical products.</p> <p>Show that as a result of brand loyalty, the demand curve will not be horizontal and that therefore there is now a difference between AR and MR. Revisit previous teaching to show (again), both numerically and diagrammatically, that the MR line will be twice the gradient of the demand curve/AR line.</p> <p>Show short run and long run equilibrium in monopolistic competition, showing that in neither case will there be either allocative or productive efficiency. Explain that advertising and product differentiation will form an important part of competition in such markets.</p>
<p>7 - 8</p>	<p>Monopoly</p>	<p>Define monopoly and explain the importance of its underpinning assumptions.</p> <p>Compare, using diagrams, the short run and long run equilibrium positions in perfect competition with those of monopoly.</p> <p>Explain and evaluate the potential costs and benefits of monopoly, for example, price discrimination, lack of contestability, efficiency against the benefits of economies of scale and natural monopoly.</p>	<p>Explain that in theory monopoly is a market with a single firm dominating the market, but that examples of pure monopoly are rare (e.g. water firms/Network Rail). Hence in reality, we need to look at market concentration, and the broad concept of monopoly power.</p> <p>Discuss the conditions necessary for monopoly power to become established (cost structure, entry barriers), and look at the characteristics of monopoly. Show that as a result of entry barriers, abnormal profits can be earned in the short and long run.</p> <p>Barriers to entry – look at the forms of entry barrier e.g. legal – licences, patents. Trademarks, resource based – vertical integration, retained abnormal profits, cost based – economies of scale, first mover advantage and strategic – advertising, product differentiation, research and development, limit pricing.</p> <p>Recognition that some entry barriers are structural and some are</p>

			<p>strategic/behavioural.</p> <p><i>Disadvantages:</i> such as; allocative, productive, X inefficiency, reduction of choice, higher prices and loss of consumer surplus. Possible loss of dynamic efficiency. Price discrimination (although can be beneficial under certain circumstances).</p> <p><i>Advantages:</i> may include; internal economies of scale may lead to lower price than (say) perfect competition hence improving international competitiveness, natural monopoly argument, presence of abnormal profits might lead to greater innovation (but incentive to do so?), dynamic efficiency. Network advantages (benefits of the dominance of Windows/Office as industry platform), avoids some of the problems of competition such as corner cutting, nationalised monopolies free to pursue social objectives).</p> <p><i>Evaluation:</i> the extent to which monopoly might or might not be beneficial is likely to depend on the threat of competition (not necessarily the presence of competition) and that the UK competition/regulation framework is to a degree predicated on this assumption. Also most dominant firms are also plcs, so the extent to which they can remain inefficient may be constrained by the need to deliver returns to shareholders). Regional/national/ international monopolies.</p>
9	Oligopoly	<p>Explain the main features of oligopolistic markets and the concept of interdependence.</p> <p>Explain that oligopolistic markets may be characterised by price and non-price competition, price</p>	<p>Look at the characteristics of competition between real-world firms, and show that oligopolies may be characterised by different levels of competition depending to a degree on the level of concentration in the market (look at concentration ratios as a measure of the extent of monopoly power).</p> <p>Look at and explain the characteristics of oligopoly (especially</p>

		<p>leadership, collusion and price wars.</p> <p>Explain and evaluate the potential costs and benefits of oligopoly.</p> <p>Use game theory to evaluate interdependent behaviour in oligopolistic markets.</p>	<p>interdependence and uncertainty). Explain that as a result firms may be reluctant to change prices (explain using kinked demand curve and game theoretical approaches in particular Prisoners Dilemma). As a consequence, firms are likely to compete for market share through non-price competition. Look at forms of non-price competition in a range of real-world markets such as retail petrol (location, product differentiation, advertising, research and development and so on).</p> <p>Explain that as a result of interdependence and uncertainty, firms may seek to reduce uncertainty through collusion. Look at cartels that have been fined by the European Commission, look at the reasons for and the stability of collusive agreements (again using game theory) and look at the UK/EU approach to dealing with collusion. (whistle-blower approach – those confessing to collusive activity are spared fines).</p> <p>To summarise the topic, introduce learners to the idea of Game Theory and use a simple Prisoner’s Dilemma matrix to test the choice of: decreasing prices (cheat on your partner) or keep price the same (stay silent). Ensure that learners understand the term dominant strategy and can see where the Nash equilibrium will be and, therefore, the likely impact on an oligopolistic market structure.</p>
10	Business objectives	Business objectives	<p>Explain that although up to this point we have assumed profit maximisation, in reality this may not be the most realistic assumption behind firms’ actual behaviour.</p> <p>Link to nationalised industries and look at their likely objectives, then move on to look more closely at profit maximisation, in particular the weakness of a simple short run maximisation approach. Then look at the nature of plcs, and discuss the possibility of the divorce of ownership from control. Discuss the extent to which managers might be free to pursue their own objectives</p>

			<p>– shareholders as a limit to freedom of managers. Case Studies to be used throughout.</p> <p>If managers are free to follow their own objectives, what might these be? Look at sales revenue maximisation, market share and satisficing, together with the reasons for each. Illustrate revenue maximising and sales maximising levels of output on the diagram. Alternative objectives that cannot be analysed diagrammatically e.g. social responsibility. Discuss the extent to which profit max is the most likely/ desirable objective.</p>
<p>11 - 12</p>	<p>Privatisation</p>	<p>Explain the way in which privatisation may increase competition.</p> <p>Evaluate the effects of privatisation on competition, efficiency, prices and the whole economy.</p>	<p>Opportunity to look at the background to privatisation in the UK and other countries (such as post-Cold War Russia and post-2009 Greece). Use the examples to consider the key reasons for privatisation then and now (may include, increased competition to raise productivity and promote growth and international competitiveness, improve government finances through asset sales, decreases expenditure on services (via contracting out), reduced need to finance losses and raising corporation tax on profits of the privatised firms (e.g. BG/BP, etc.), reduce trade union power, wider share ownership), increase service levels and reduce prices for consumers.</p> <p>Consider the dichotomy of state owned industry - whether to be resource efficient (and make losses) or to be profitable (but not efficient).</p> <p>Evaluate the extent to which this was true in the UK and in other countries.</p> <p>Look at the limitations of privatisation (such as short run job losses (steel/mining in UK), loss of natural monopoly, impact on safety/quality, difficulties in introducing competition, loss of ability to follow social objectives) and the rise of oligarchs in Russia.</p> <p>Understand the reasons for renationalisation e.g. rail and energy as case</p>

			<p>studies. Regulation of ex-nationalised concerns – use of watchdog bodies to set prices (in some cases) and to regulate competition. Begin to look at case studies such as water, rail, telecoms and gas.</p>
13	<p>Competition policy</p>	<p>Explain the reasons why governments may be concerned with competition, monopolies and mergers in industry.</p> <p>Understand the role of competition authorities and regulators in promoting competition and contestability in markets.</p>	<p>Look at the UK/EU structure for regulation of monopoly power, in particular the changed role of the Competition and Markets Authority (CMA).</p> <p>There needs to be an emphasis on how the authorities seek to introduce competition into markets (i.e. make them more contestable) and looking at some specific case studies such as OFCOM and phone-hacking, CQC and various NHS scandals, OFGEM and the profits of gas companies.</p> <p>Explain that ex-nationalised industries have their own set of watchdog bodies, owing partly to the difficulties of introducing competition into some of these sectors such as water.</p>
14	<p>Market Failure (revisited)</p>		<p>Look back at the AS level material covered in this area, looking once again at why a free market economy should in theory be optimal (in terms of allocative, productive efficiency and so on), but that there are a number of reasons why in reality this optimal allocation of resources might not be delivered by completely unregulated markets.</p> <p>Revisit how public goods, monopoly power, uncertainty and externalities can reduce the efficiency of markets, and show how externalities may lead to welfare loss (as a result of output no longer being socially efficient), using MSC/MSB diagram.</p>

TERM FIVE			
Week	Specification Content	Specification Amplification	Further guidance notes
15	The aggregate supply (AS) function <i>and</i> Short run aggregate supply (SRAS)	<p>Understand the shape of the Keynesian long run aggregate supply (LRAS) curve.</p> <p>Understand the factors which might result in a shift in LRAS.</p> <p>Understand why the SRAS function is assumed to slope upwards from left to right.</p> <p>Understand why a SRAS function might shift.</p>	<p>Revisit AS level material on the 4 key policy objectives, looking again at how Keynesian AD/AS diagrams can be used to illustrate growth, unemployment and inflation.</p> <p>At AS level, to allow maximum accessibility for learners, a simplification is made based around the Keynesian LRAS framework. So that they can study one macro model but also deal with key macro issues, the horizontal/upward sloping section of the Keynesian AS is viewed as representing costs whereas the vertical section represents capacity. Hence supply side policies (for example) might shift AS right and down.</p> <p>Neo-Classical view of AD/AS, introducing the concept of the SRAS schedule as derived from MC analysis. Discuss the circumstances under which an economy might self-stabilise (perfect product and labour markets), and the obstacles which might exist in practice to such a process (trade union power, minimum wage, monopoly power in product markets, immobility of labour and so on). Derive the LRAS curve.</p>
16	Long run aggregate supply (LRAS)	<p>Understand that there are differences between Keynesian and Neo-Classical views on what the AS curve will look like in the long run.</p> <p>Explain the Neo-Classical view of the process through which an economy might adjust to long run equilibrium.</p>	<p>Keynesian versus Monetarist views on the appropriateness of fiscal, monetary and supply side policies under different economic circumstances. Consideration of sticky-wages and the view that markets do not always clear.</p> <p>Opportunity for learners to undertake some thorough research on the Keynes vs. Hayek debate, the appropriateness of austerity as a means of emerging from a recession, and even looking beyond the specification into other Schools of thought such as Austrian Economics and/or Marxism.</p>

		<p>Understand that Keynesian economists disagree with this process of adjustment because of issues such as inflexible factor markets ('sticky wage', etc.) and that, consequently, the LRAS function may not be vertical at the equilibrium level of output.</p>	
17	<p>Unemployment (revisited): Measurement, types, costs, causes and solutions</p>	<p>Understand that unemployment can be measured in different ways and be aware of the current major approaches and the problems with measuring unemployment accurately.</p> <p>Examine the costs of unemployment; these may be both economic and social and may apply to households, governments, firms and the economy.</p> <p>Understand demand side causes, such as cyclical unemployment, driven by a fall in the level of GDP (different schools of thought have different views about how temporary this is likely to be).</p> <p>Understand supply side causes are driven by problems in factor</p>	<p>Discuss what unemployment actually means, and how it might be measured, e.g. Claimant Count, ILO's Labour Force survey.</p> <p>Compare the Claimant Count and LFS measures – pros and cons of each, and reasons for differences in their measurement.</p> <p>Look at trends within the UK over the last 25 years or so and also in other countries (such as Southern Europe).</p> <p>Look at why unemployment might be a problem for an economy (e.g. impact on budget, inequalities and living standards, Pareto inefficiency, impact on business confidence reducing investment, risk of deskilling and socio effect of unemployment). Consider the impact of youth unemployment.</p> <p>Why unemployment may come about and persist. Demand side and supply side approaches (possible split is: Demand side: cyclical. Supply side: structural, frictional, real wage). Explain that it is possible to categorise</p>

		<p>markets, such as occupational and geographical inflexibility, lack of incentives to work and real wage unemployment.</p> <p>Understand that solutions to unemployment will depend on its cause and nature, but that approaches can broadly be characterised as either demand side or supply side.</p> <p>Demand side solutions</p> <p>Understand that, where a negative output gap exists, governments can use fiscal and monetary policy to increase the level of aggregate demand</p> <p>Evaluate the appropriateness and potential effectiveness of such solutions</p> <p>Supply side solutions</p> <p>Explain and evaluate potential supply side approaches to the reduction of unemployment, targeted at particular labour market problems</p>	<p>unemployment into voluntary and involuntary, but that there is substantial debate as to the precise meaning of these terms.</p> <p>How unemployment might be reduced. Look at demand side and supply side approaches, and the extent to which each of these might be effective and/or appropriate.</p>
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18

Inflation and deflation (revisited):
Measurement, Calculation, Causes, Costs and Solutions

Understand how inflation is calculated via weighted changes in price indices, generally over a twelve month period.

Identify the major measures of inflation in use at the present time and the differences between them.

Understand demand-pull and cost-push explanations of inflation.

Explain and evaluate the quantity theory of money.

Appreciate that rising prices can create costs, but that these costs will depend on the level of inflation, the cause of inflation and the extent to which it was anticipated.

Explain and evaluate possible responses to the issue of inflation in terms of how effective or desirable solutions are likely to be.

Look at broadly what is meant by inflation and how it might be measured, focusing on the difficulties with generating a representative measure of inflation. Look at some of the main measures (CPI, RPI and RPI-X) used in the UK, the reasons for each and the differences between them. Show how weighted indices are used to calculate changes in the cost of living. Use simple numerical questions to ensure learners can do it for themselves.

Discuss possible reasons for inflation, dividing them broadly into demand pull and cost push, illustrating each with AD/AS analysis. Introduce the concept of the NAIRU. Look at the Monetarist view on inflation via the quantity theory of money, together with the extent to which the quantity theory is true and/or relevant. Go through the equation and, again, ensure learners can cope with simple numerical examples.

Look at why inflation is perceived as a problem (look at hyperinflation in (say) Zimbabwe) Points might include: impact on competitiveness, confidence and those on fixed incomes, policy trigger, redistributive effects on savers/lenders and public/private sector (fiscal drag), damage to resource allocation, disguise of inefficiency, menu costs, distorts the market mechanism).

Discuss possible approaches to controlling inflation. Demand side approaches via monetary and fiscal policy (look at current UK approach). Supply side approaches via trying to break wage-price spiral (e.g. increase competition between firms/globalisation, reduce trade union power). Attempts to reduce inflationary expectations (e.g. central bank independence, clear inflation targets). Costs and benefits of each approach.

Mention Incomes policies of the past.

19	Deflation	<p>Understand that, as with inflation, deflation may be either demand side or supply side driven and the effects will depend upon the cause – deflationary pressure caused by supply side improvements may be viewed as beneficial under some circumstances.</p> <p>Understand that demand-deflation can create major problems for economies and understand the costs of such deflation to households, governments and firms as well as the difficulties governments face when trying to end deflationary spirals once they have taken hold.</p>	<p>Use one lesson to explain the impact of deflation on an economy (e.g. a fall in consumer spending, increasing burden of private/public debt), falling nominal wages leading to mass unemployment). Use Japan as an example to discuss with learners and to understand the problems associated with deflation.</p>
20	The Phillips Curve: Short-Run and Long-Run	<p>Explain that there may be a trade-off between inflation and unemployment in the short run and that such trade-offs have been observed in the UK.</p> <p>Argue that Neo-Classical economists believe that the short run Phillips curve is not stable due to the role of expectations; in the long run, attempts to hold unemployment below its natural</p>	<p>Revisit the trade-off identified at AS level between unemployment and inflation. Look at data for the UK 1970 to present day, and show that between 1980 and 1992 there were clear trade-offs present, but that in the 1970s and post 1992 this trade-off is less apparent. Discuss possible reasons for the break-down of this trade-off, looking at firstly the expectations augmented Phillips curve. Show that if unemployment is consistently held below the NAIRU then inflationary expectations may build, meaning that when the labour market returns to equilibrium, a higher level of wage and price inflation will now be locked into the system (and that therefore the LRPC is vertical). Show the impact of the 1973 oil shock in this context.</p>

		<p>rate/NAIRU will result in accelerating inflation and that when the economy eventually return to its natural rate/NAIRU it will do so with a higher level of inflation.</p> <p>Understand that changes on the supply side (either favourable or adverse) can cause the position of the long run Phillips curve to shift and that economic policy changes can bring such shifts about.</p>	<p>Look at the role of supply side policies as a way of improving the Phillips curve trade-off (by reducing the NAIRU). Look at the evidence of the post 1992 period. Thus the SRPC may shift either vertically or horizontally.</p> <p>Show that most of the same issues raised by SR/LR Phillips curve analysis can also be illustrated by SR/LR AS analysis.</p>
<p>21 - 22</p>	<p>Economic growth (revisited)</p> <p>Actual vs. potential economic growth</p>	<p>Explain the differences between changes in measured gross domestic product (GDP) (actual growth) and potential growth and understand that by 'economic growth' economists are generally referring to an increase in the productive capacity of the economy rather than short-term changes in the level of national income.</p> <p>Explain the differences between actual and potential growth using the concepts of positive and negative output gaps and the</p>	<p>Revisit the difference between actual and potential economic growth, and look at how potential growth can be measured (business/trade cycles), and explain the concept of sustainable growth. Revisit PPF analysis.</p>

	<p>business cycle.</p> <p>Understand what is meant by the term 'recession'.</p>	
Causes of growth	<p>Understand that growth can be brought about by changes in factors such as the quantity, quality and efficiency of use of factors of production, changes in the state of technology and changes in factor market flexibility.</p>	<p>Look at the causes of growth, looking at policies to improve the quantity, quality and efficiency of use of the economy's factors of production together with the impact of technological change. China as a case study both in pre and post 1978 and then again it's modern day foreign investment into Africa. Link back to development economics and the growth strategies considered there.</p> <p>If time, opportunity to look at Marxist and Schumpeterian Schools of Thought which focus on technological change/innovation as the key to potential growth (and eventually the downfall of capitalism...)</p>
Benefits and costs of growth	<p>Understand why growth may be beneficial to an economy in terms of impact on households, governments and firms.</p>	<p>Look at why growth is believed to be beneficial (e.g. impact on living standards, government finances, jobs (in the long run) and profits).</p> <p>Discuss possible problems with growth (such as excessive actual growth leading to inflation, possible rising income inequalities, opportunity cost in the short run (China again), 'short run' job losses, external costs and the depletion of non-renewable natural resources (China again). Opportunity to look at some "off-the-spec" models such Hubbert Peak Theory, Jevons Paradox, Malthusian Catastrophe and Herman Daly's Uneconomic Growth theory.</p> <p>Discuss the extent to which growth is or is not likely to be able to reduce the problems of pollution and depletion of resources. Discussion of the extent to which growth is sustainable. A good way of tying this together is to link with the complementary ideas of energy-independence and whether</p>

			energy-independence should be sought regardless of environmental issues.
23	Control of the national (public sector) debt: Measurement, Causes, Implications and Solutions	<p>Understand the relationship between the budget/fiscal deficit and the national (public sector) debt.</p> <p>Understand that deficits may result from either discretionary or automatic government policy.</p> <p>Explain why governments have been concerned about high levels of public sector debt.</p> <p>Concerns may include opportunity cost of interest payments, risk of credit downgrades, confidence issues surrounding refinancing and the risk of crowding out and slower growth.</p> <p>Discuss the extent to which it is appropriate to tighten fiscal policy during periods of economic downturn as a way of reducing the budget/fiscal deficit.</p>	<p>Admittedly, it's not the easiest bridge to make but discussions concerning economic growth should lead to discussions about growth strategies which should lead into discussions about taking on public debt – either from the Keynesian School of G>T in order to stimulate AD, or from the development economics issues of LEDCs taking on debt in the 1970s and 1980s to pay for industrialisation and to pay for more expensive oil (Oil Shocks of 73 and 79).</p> <p>Explanation of how Government can finance budget deficits (IMF/World Bank loans, selling Government bonds, foreign creditors). Discuss the difference say between Japan's national debt (purchased by the Bank of Japan, other Japanese banks and trust funds – therefore insulated from the global bond market) and Jamaica's debt (owed to the IMF).</p> <p>Discussion of problems associated with debt such as "crowding out" (Monetarist critique of Keynesian policies), credit downgrades (look at UK downgrade of 2013), confidence issues leading to higher cost of borrowing (see current prices at FT Bond yields website). Contrast 'crowding out' to 'crowding in'.</p> <p>Discussion of fiscal austerity as a means of cutting down the budget (at a time of recession). Case studies should include UK and Greece.</p>
24	Fiscal Policy and Monetary Policy (revisited)		No additional specification content (see Term Two) but, having had the discussions on economic growth and national debt recently, it is now an ideal moment to revisit the topic of fiscal policy (critical to the A-Level course) and revisit some key areas – this time linking it into the

			<p>Keynesian/Neoclassical debates and with economic growth and debt as key discussion points.</p> <p>From here, spend less (but not insignificant) amount of time doing the same with monetary policy in order to reinforce the understanding of central banks, interest rates, quantitative easing. Perhaps link to wider discussion of Keynesian and Monetarism and the key tenets of both ideas – in particular, taking time to explain the Monetarists' view of Monetarist Policy (that it only causes price increases and therefore that the growth rate of the money supply should be targeted).</p>
<p>25 - 26</p>	<p>Financial stability</p>	<p>The financial sector</p> <p>Understand the changes in the structure of the UK economy in recent years, in particular the growing size and influence of the financial sector.</p> <p>Asset bubbles</p> <p>Explain, with appropriate examples (for example the financial crisis of 2007-08), how asset bubbles may arise and what the economic consequences of such bubbles may be.</p>	<p>Start with a discussion about savings and investment. Classical explanation that $S=I$ is not required (and will, in fact, be unhelpful) but a general discussion of the basic business model of a financial institution (recycling deposits into investment) is a good basis to start from. Explanation that investments, however, don't have an immediate return and therefore one of the most significant factors affecting investment is expectations of the future (leading to a discussion of uncertainty and risk). Given this, financial markets should be seen not just as a means to provide money for investment but also to make money by taking advantage of the differences among people's views about future returns on the same investment project. The buying and selling of an asset is driven not by the ultimate return but by the expectations of that return.</p> <p>Opportunity now to look at various financial organisations/fund managers and how they have made money. Opportunity for plenty of investment/risk games to illustrate the idea of speculation.</p> <p>Should lead nicely to a discussion on speculation bubbles (case studies to include dotcom bubble, 1997 asset bubbles in SE Asia – MINT economies) and their impact on the economies.</p>

		<p>The role and purpose of regulation.</p> <p>Understand the need for regulation of the financial system in terms of creating financial stability.</p>	<p>Look at the general purpose of financial regulation (maintain market confidence, financial stability, consumer protection, reduction of financial crime) before taking a more detailed look at the FCA in the UK, their powers and the impact they have had on the financial markets post-2008.</p>
27	<p>The balance of payments: Measurement</p>	<p>Understand what is meant by the balance of payments.</p> <p>Understand that the balance of payments sums to zero overall and that a current account deficit or surplus will be matched by compensating flows on the capital/financial accounts.</p>	<p>Look at the overall structure of the balance of payments, showing that it should always sum to zero (via supply and demand for currency diagrams).</p>
	<p>Current account imbalances: causes, impacts and solutions to current account deficits</p>	<p>Understand why countries may end up running current account deficits (or surpluses) and what is meant by a structural deficit (or surplus).</p> <p>Understand the possible link between changes in the terms of trade and the overall current account balance.</p> <p>Evaluate the consequences of a current account deficit/surplus.</p> <p>Evaluate possible approaches to dealing with a sustained current account deficit.</p>	<p>Look at the possible causes of a current account deficit (this may include the impact of terms of trade, strength of currency, underlying productivity and competitiveness, level of domestic/global demand).</p> <p>Look at the extent to which a current account deficit might matter (e.g. short run benefits in terms of escaping PPF, size as a % of GDP, duration, possible deflationary effect, possible downward pressure on exchange rates, has to be financed via capital flows/central bank purchase, all of which have issues).</p> <p>Ways in which a current account deficit might be reduced (such as: protectionism, deflation, exchange rate, supply side policies) and an evaluation of their effectiveness/desirability.</p>

TERM SIX			
Week	Specification Content	Specification Amplification	Further guidance notes
28 - 29	European Union	<p>Learners need to draw on examples from economies other than the UK when discussing economic problems.</p> <p>Analyse and evaluate the advantages and disadvantages of membership of the EU for member states. and prospective members.</p> <p>Evaluate whether the continuous expansion of the EU is beneficial for both existing members and new members.</p> <p>Evaluate the benefits and possible drawbacks of membership of the economic and monetary union (EMU).</p> <p>Assess the EMU in terms of its fit with an optimal currency area.</p>	<p>Look at the history of the EU, its current structure and the costs and benefits of UK membership of the EU. The expansion of the EU since 2004 and, in particular, the recent political furore over restrictions on Bulgarian and Romanian people working in the UK which were lifted on 1 Jan 2014. A discussion on the likely costs and benefits of this to both the existing and new member states.</p> <p>The European Single Currency. Look at the framework surrounding it (one size fits all monetary policy, the stability and growth pact) plus the convergence criteria. Look at reasons for, such as, price transparency, increased competition leading to lower inflation, more growth and lower prices for consumers, decrease in exchange rate volatility leading to more investment and cross-border mergers (thus economies of scale), greater FDI (in theory). Look at reasons against, such as, deflationary stance of the ECB, risk of asymmetric shocks, changeover costs, rounding inflation and the particular difficulties for the UK (such as variable rate mortgages and stage of economic cycle).</p> <p>Having considered the implications of monetary union, Robert Mundell's criteria for Optimal Currency Area (perfect labour mobility, perfect capital mobility, harmonised business cycles and a single fiscal policy framework to redistribute income amongst the area) should be offered for discussion. Learners should be encouraged to assess whether the EMU fits these criteria – there should be lots of relevant data concerning such issues and one can also consider the membership of the PIIGS at their historical point in time.</p>

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REVISION

PLAN 2

TERM ONE			
Week	Specification Content	Specification Amplification	Further guidance notes
1 — 2 (Maybe more, if sub-themes are looked at in more detail)	Scarcity, choice and opportunity cost	Define and illustrate the concepts of scarcity, choice and opportunity cost for society, individuals and the government.	The goal here is to set the scene for the course as a whole, as well as introducing learners to the idea that resources (land, labour and capital) are scarce, but there are unlimited wants; all societies have to make choices. You could use command vs. free market systems to illustrate the way in which choices are made and the different outcomes that may result can be a useful way to get across the idea that scarcity is a problem for all economies. This can also be used to explore some of the issues such as inequality and merit goods which will occur later in the course.
	Production possibility frontiers (PPFs) Specialisation, division of labour and exchange	<i>Learners should understand that these concepts show that all economies have to decide what, how and for whom to produce and understand the difference between economic goods and free goods.</i> Use production possibility frontier diagrams to depict choice, opportunity cost, short- and long-term economic growth and efficiency. Understand movements along and shifts in PPFs. Understand that the PPF is usually drawn concave to the origin because of imperfect factor substitution and why a straight line	An introduction to the price mechanism and the invisible hand as the way in which market based systems allocate resources can again flag up later content, and look at some of the strengths (automatic resource allocation, no waste, resources allocated to those most wanting them in theory) and weaknesses (especially inequalities). This would be a basic introduction, as market failure is covered later. Move from this to show that scarcity can be illustrated graphically using PPFs, giving an explanation that they represent the limit to an economy's output at a given point in time with existing resources at existing factor productivity. Relate PPFs back to the discussions of market systems, to show that the different choices systems have made can be represented two dimensionally (e.g. Capital vs. consumer goods balance – Modern China vs. UK vs. USSR), and then show that over time, these changes may have

		<p>PPF is an indication of perfect factor substitutability of resources.</p> <p><i>Learners will need to understand the concept of increasing opportunity cost at the margin as output increases.</i></p> <p>Explain factors which may shift the PPF inwards or outwards.</p> <p>Relate long-term economic growth and changes in productivity to outward or skewed shifts in an economy's PPFs.</p> <p><i>Learners should be able to understand the link between PPFs and economic potential as shown by the long run aggregate supply curve.</i></p> <p><u>Perhaps also (but will cover later too)</u></p> <p>Understand the advantages and disadvantages of specialisation.</p> <p>Define productivity and explain how it may be increased by the use of specialisation and other factors.</p>	<p>implications for the position of PPFs – i.e. that they can shift.</p> <p>This can then be used as a link to economic growth (actual and potential), unemployment and trade; flagging up the macro side of the course, and use this to discuss how short term decisions on resource utilisation may have longer term implications, again looking at China as a case study. Link to opportunity cost, as a concept and diagrammatically.</p> <p>Other reasons for shifts in PPFs – Pivots caused by improvements in productivity in one industry (IT/lean production in manufacturing, miracle rice/GM in agriculture). Again, this can be linked to productivity (learners should be able to define productivity) and the extent to which this matters (how can the US's GDP be so much bigger than that of China?). Link to specialisation and division of labour, but link back to market systems – show how specialisation is vital for growth but that it also in itself requires an efficient system of exchange. - link to the importance of money in providing a medium of exchange.</p> <p>Inward shifts reflecting depletion of resources (Ebola, Malawian floods, complete lack of investment – Sub-Saharan Africa?).</p>
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		<i>Learners should understand the importance of specialisation at the individual and national level.</i>	
3	<p>Factors influencing demand and supply in product markets:</p> <p>Demand</p>	<p>Define a product market.</p> <p>Explain the objectives of economic agents: That firms seek to maximise profits and consumers seek to maximise satisfaction/utility.</p> <p><i>Learners should be aware that firms and consumers are assumed to behave rationally but that in reality, economic agents do not always behave rationally.</i></p> <p>Identify the main influences on demand and supply in product markets.</p> <p>Understand why demand curves normally slope downward from left to right.</p> <p>Understand the importance of marginal utility in the derivation of demand curves. Learners should understand the concept of diminishing marginal utility.</p> <p><i>Learners should have a basic</i></p>	<p>Recap on how markets allocate resources, and the notion of supply and demand. Explain that all this can be illustrated graphically.</p> <p>Discussion of how graphs work and how they can be read – in particular the idea that they can be read either across and down or up and across is important . Ensure that they are clear that demand curves can show both a quantity and/or a financial value depending on how you look at them.</p> <p>Concept of demand as effective demand (desire for a product supported by the ability and willingness to pay). Factors affecting demand (income, price, tastes, prices of substitutes and complements – anything the learners can come up with; this is generally a good brain-storming exercise).</p> <p>The principle of diminishing marginal utility can be used as a good way into why demand curves slope down, can involve some fun experiments and is ultimately a useful tool to explain consumer surplus and (eventually) allocative efficiency. Links well with the idea of consumers as utility maximisers.</p> <p>Big effort on shifts vs. extensions in demand (price vs. non-price factors), looking at the importance of the ceteris paribus principle, before moving onto unusual demand curves – can be used as a way into the idea that consumers may not be fully rational in particular the notion of conspicuous consumption/Veblen goods, and Giffen goods. There are a variety of interesting concepts that can be introduced here for half a lesson such as default bias, price anchoring and pain of payment, just to get across the idea that most of us aren't quite as rational as we might like to think.</p>

		<p><i>understanding of the substitution and income effects of a price change.</i></p> <p><i>Learners should understand that, in reality, economic agents do not always behave rationally.</i></p>	
4	<p>Factors influencing demand and supply in product markets:</p> <p>Supply</p>	<p>Understand why supply curves will normally slope upward from left to right, for example, producers will be able to make higher profits at higher prices and that higher levels of output mean increased marginal costs in the short run.</p> <p><i>Learners should be aware of the assumption that firms are price takers in this analysis of the supply curve.</i></p> <p><i>Learners should be aware of the main assumptions upon which free markets operate, such as a large number of buyers and sellers, perfect information.</i></p>	<p>Big introduction on the principles underpinning the supply curve; too many learners misunderstand what supply really means, and therefore can't understand why an increase in demand will not automatically be met with an increase in supply until price rises. Hence, look at – many buyers and sellers, diminishing returns to a factor (marginal cost), desire to maximise profit, using the opportunity to discuss why profit matters in a market economy (reward for risk, incentive to produce, source of funds for investment).</p> <p>The housing market is a good scenario to use as an introduction to why supply curves will be upward sloping (I won't sell you my house for £200,000 just because the house next door has sold for £200,000 – if you really want to buy my house, you'll have to pay a lot more!). This can then be followed by agricultural markets, where the principle of diminishing returns to a factor can be illustrated fairly simply using either physical or thought-experiments.</p> <p>Factors affecting supply (costs, technology, natural factors etc.). Hence supply will be positively correlated with price.</p>

			<p>Make completely clear that if supply curve has a positive gradient, then suppliers will not increase supply without an increase in price due to inability to cover costs, even if demand is present. Use vertical and horizontal supply curves to drive this home, using music downloads and fixed capacity events such as concerts as clear examples of exceptions, going on to discuss when an upward sloping supply curve is realistic (generally primary products).</p> <p>Finally big effort on shifts vs. extensions in supply, i.e. distinguish between price and non-price factors.</p> <p>This area can also be a useful opportunity to introduce index numbers – some reports will have supply comparisons which are indexed against a base year.</p>
5	<p>The determination of equilibrium price and output in a freely competitive market</p> <p>How resources are allocated in</p>	<p>Illustrate, using diagrams, equilibrium price and output situations in product markets.</p> <p>Explain effects on price and output of shifts in demand and supply curves.</p> <p><i>Learners should be able to understand the reasons for movements along and shifts of demand and supply curves.</i></p> <p>Understand the role of profit and the function of prices in allocating resources to different uses.</p>	<p>Introducing the concept of equilibrium as a situation with no tendency to change is quite important, rather than leaving it as a hanging term.</p> <p>Then the housing market can be used as an example of how excess demand and supply will cause prices to rise or fall to equilibrium – get learners to think about what would actually happen if prices were above or below equilibrium and what this would mean in the real housing market – thinking about what situation a given vendor would be facing in each situation can make the situation clear.</p> <p>Detailed discussion of each possible disruption to equilibrium (shift left/right in D/S) and exactly how a new equilibrium arises; again emphasising that prices will not start to change until excess demand or supply has arisen. Use of real world case studies as exercises (BBC reports on crop price changes are a good source, but increasingly Bloomberg and the FT have good short video links or articles). Emphasise to learners that reaching a</p>

	<p>a free market economy</p> <p>Consumer and producer surplus</p>	<p>Understand that changes in one market affect other markets, for example, interrelationships between factor and product markets (also covered in labour market section below).</p> <p>Define, explain and illustrate, using diagrams, consumer surplus and producer surplus.</p> <p><i>Learners should be aware that consumer surplus and producer surplus are jointly maximised at the free market equilibrium.</i></p> <p><i>Learners should be able to calculate the value of consumer and producer surplus, for example, calculating the area of a triangle from the figures given on a diagram.</i></p>	<p>new equilibrium can take time. Concept of the invisible hand.</p> <p>Again, there may be opportunities to bring in index numbers at this point.</p> <p>Link back to market economies and the invisible hand – show that markets are efficient, and then link into consumer, producer and community surplus. Demonstrate that, in principle, those who are prepared to pay the most are those who get supplied, and that the most efficient firms are the ones who do the supplying. Calculations to illustrate the concepts of consumer or producer surplus. Review how to calculate the area of a triangle.</p>
6	<p>Elasticity:</p> <p>Price elasticity</p>	<p>Understand the meaning of the terms price, income and cross price elasticities of demand and price elasticity of supply.</p> <p><i>Learners should be aware of the</i></p>	<p>Introduction of general concept of responsiveness to change; many possible elasticities e.g. temperature elasticity, fashion, elasticity, advertising elasticity, etc., but that there are 3 key demand elasticities and 1 supply elasticity that matter.</p> <p>Concept of responsiveness of demand to a change in price – idea that</p>

	<p>of demand</p>	<p><i>factors which influence price, elasticity of demand.</i></p> <p>Learners should be able to define, calculate and interpret numerical values of elasticity.</p> <p><i>Learners should understand that price elasticity of demand varies along a straight line downward sloping demand curve.</i></p> <p>Explain the relationship between price elasticity of demand and total revenue.</p> <p><i>Learners should be able to evaluate the extent to which knowledge of price elasticity of demand is important to decision-making in firms and governments.</i></p>	<p>demand may change a lot or a little following a price change, and that demand will generally change in the opposite direction to price. Getting learners to understand the concept without numbers first can be a big help – using images of products and a line with ‘big change in demand’ and ‘small change in demand’ can get the idea across.</p> <p>Introduction to idea of proportionality and then to equation for PED (% change in QD/% change in price not $dQ/dP \cdot P/Q$ – far too confusing, and misses the real point of elasticity at A level). Relating early on to the impact on a firm’s revenue can also get the idea across, as well as reinforcing why we might want to study this concept.</p> <p>Practice of simple calculations, explanation of the significance of both the negative sign and the absolute value in predicting change in demand given a change in price.</p> <p>Factors affecting PED (substitutes, % of income, advertising/brand loyalty, nature of product, width of definition, SR/LR).</p> <p>Straight line demand curves – vertical, horizontal and downward sloping. Explanation that PED varies along a straight line downward sloping demand curve, with $PED = -1$ at the midpoint. Use this to illustrate the use of PED for firms – when demand is price elastic, firms can increase revenue by cutting price – show on diagram, discuss whether profits will rise – link to production costs. Similarly, if demand is price inelastic then an increase in price will increase revenue. Again, show on diagram. Show that therefore, most firms will be close to the mid-points of their demand curves. Look at the impact on price and quantity of changes in supply when demand is perfectly inelastic, perfectly elastic, unitary elasticity.</p> <p>Also cover the limitations of PED as a tool – can price changes really be calculated/tried out, where does the data come from, discuss whether big</p>
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<p>7</p>	<p>Elasticity:</p> <p>Income and cross price elasticities of demand, price elasticity of supply</p>	<p>Use the concept of income elasticity to distinguish between normal and inferior goods.</p> <p><i>Learners should be able to define, calculate and interpret numerical values of elasticity.</i></p> <p><i>Learners should be aware of the factors which influence price, income and cross price elasticities of demand and price elasticity of supply.</i></p>	<p>Income elasticity of demand. Idea that an increase in income may lead to either a rise or fall in demand, hence YED can be either positive or negative. Formula. Again a simple exercise involving ‘big rise in D’, ‘small rise’, ‘big fall’, ‘small fall’ with product images can get the idea across that D may rise or fall following a change in income.</p> <p>Explanation of normal goods, divided into income elastic and income inelastic and inferior goods focussing again on proportionality. Illustrate using income-consumption graphs.</p> <p>Implications of YED for firms’ strategy – not on specification, but adds a little life to what can be a bit of a dull concept – idea of a portfolio of cyclical and counter-cyclical goods (Tesco) etc., or firms that have successfully rebranded either up or down market (Waitrose essentials? Skoda?).</p> <p>Use social trends data to look at the relation of changes in income to pattern of household spending – drop in food as a percentage of total income even though spending has risen in absolute terms and relate this back to income elasticity – spending may fall as a percentage of income even if demand is rising if YED is less than 1.</p> <p>XED – formula, substitutes and complements and positive/negative XED. Implications of XED for firms (loss leaders and so on).</p> <p>Links between markets – how changes in the price of one good have an impact on the market for another in the context of substitutes and complements. Use loss leaders, captive products as an example of how firms might use XED for complements, and discuss advertising and product differentiation as ways to decrease XED between substitutes (not on specification).</p>

			<p>PES – explanation of the concept – how easy it is for firms to respond to a change in price. Assumptions behind PES (firms are price takers), and that therefore the concept only applies in reality to a limited number of markets. Learners find PES really confusing, often mixing PES up with supply and very often fail to understand that it is the responsiveness of S to a change in P which is being considered, not just the flexibility of supply (although inevitably these are linked).</p> <p>Formula – PES will generally be positive. Elastic and inelastic supply. Factors affecting PES: Factor mobility/substitutability, storage, length of production period, time period considered, capacity utilisation.</p> <p>Graphs showing perfectly elastic, elastic, inelastic and completely price inelastic supply, together with situations in which each may apply – again music downloads/sports/music venues for the limiting cases. Look at the impact on price and quantity of changes in demand when supply is perfectly inelastic and perfectly elastic.</p> <p>Introducing labour markets here can be interesting giving you the chance to run some sort of experiment involving the backward bending supply curve for labour.</p>
<p>8 - 9</p>	<p>Wage determination and Labour market issues</p>	<p>Identify the main influences on demand and supply in labour markets.</p> <p>Understand determinants of the elasticity of the demand and supply of labour.</p> <p>Understand the causes and</p>	<p>Explanation of wages as the price of labour and that in a free market wages are therefore determined by supply and demand.</p> <p>Look at the demand for labour, discussing why firms need workers, and what will determine their demand – link to technology, productivity, the demand for products and thus the state of the economy. Labour is therefore a derived demand and will be negatively correlated with wage rates. No need for MRP theory at this point. Look at the factors that might impact on the sensitivity of demand to a rise in wage rates (degree of</p>

		<p>implications of wage differentials.</p> <p><i>Knowledge of the factors which cause shifts in the demand and supply curves of labour is required, illustrated by the use of diagrams.</i></p> <p>Understand that changes in one market affect other markets, for example, interrelationships between factor and product markets.</p> <p><i>Knowledge of marginal revenue product theory is not required.</i></p> <p>Understand the factors which affect flexibility in labour markets, for example, trade union power, regulation, welfare payments and income tax rates.</p> <p>Explain the impact of migration on labour markets.</p> <p>Evaluate the effects of the statutory national minimum wage on labour markets.</p> <p><i>Learners should understand the links between issues in the labour market and supply side</i></p>	<p>competition, factors substitutability, PED for final product and so on).</p> <p>Make clear that labour supply is those actively looking for work (not the supply of jobs). Again, discuss the factors that will be likely to affect this – wage levels, benefit levels, societal attitudes towards gender roles (participation rates), migration, tax levels, education and so on. Hence, supply will be positively correlated with wages, but strongly influenced by a range of other factors. Built into this can be an analysis of what will make labour supply more or less likely to rise following an increase in wage rates (skills, qualifications, benefit levels and so on).</p> <p>Show that wages, in principle, are therefore determined by supply and demand, and that they will tend towards equilibrium. Distinguish between unemployed and economically inactive.</p> <p>A good exercise at this point is to get learners to try to explain wages' differentials using supply and demand diagrams – using some real data, they can tease out the supply and demand factors which result in some jobs being far better paid than others.</p> <p>Look at factors that may cause wage levels to shift such as trade union power, immigration following EU expansion, changes in the structure of industry, globalisation and so on.</p> <p>Then look at government intervention in labour markets – the minimum wage. Recent history, advantages and disadvantages from the point of view of individual firms and workers as well as for the economy as a whole (possible unemployment, may deter FDI/increase relocation abroad, may increase participation rate, may force firms to invest, may reduce income inequalities).</p> <p>These topics provide the opportunity to make the link to macro, by flagging</p>
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<p>10 - 11</p>	<p>Government policy objectives</p>	<p>Explain the main macroeconomic objectives and possible conflicts between policy objectives.</p> <p><i>Learners should understand why governments have attempted to achieve low inflation, low levels of unemployment, sustainable economic growth and equilibrium in the current account of the balance of payments.</i></p>	<p>Introduction to policy objectives (unemployment, inflation, growth (actual/potential), current account) and policy instruments (fiscal, monetary, supply side). The BBC News Website Economy Tracker gives a good picture of macro data and trends with some simple to follow analysis and explanation of key terms. The idea here is to set the scene for macroeconomics as a whole – there doesn't seem much point in introducing models of the economy unless there is some context in which to see it. There's lots of opportunity for independent learner research here, short learner presentations on different economies. Probably worth flagging up the main policy instruments here too – monetary, fiscal and supply-side policy – at least briefly, so that learners can begin to understand that governments have tools with which they can attempt to influence their policy goals.</p> <p>Explanation of why each policy objective might be important and an overview of some of the factors that might affect them. Idea of AD/AS explained using PPF analysis, and extension of PPFs to try to explain policy objectives. Analogy of economy as a glass of water can also be helpful here to cement a simple picture of the economy into the minds of learners (AS=glass, AD=water); likewise, getting learners to visualise the economy as a restaurant with 10 tables can be helpful when getting them to understand the situations in which prices will start to rise, capacity issues</p>

			<p>and so on.</p> <p>Lots of good resources – short video clips - on inflation on the Bank of England website.</p>
12	The circular flow of income model	<p>Explain the flows in the circular flow model and understand that they should be equal (income = output = expenditure).</p> <p>Explain injections into and withdrawals from the circular flow.</p> <p>Use the model to explain the concept of national income equilibrium and to explain how changes in injections and withdrawals might lead to changes in the equilibrium level of national income, and hence explain the multiplier process.</p> <p><i>Learners will not be required to calculate the multiplier.</i></p>	<p>Circular flow model. Concept of equilibrium revisited. This is an opportunity to introduce the idea of Keynesian economics as the idea that one group's expenditure is another group's income is explored. Lots of credit crunch/austerity, Great Depression, Chinese growth activities here with plenty of supporting clips available on the web.</p> <p>Injections and withdrawals, and the impact of a change in these on policy objectives. Show how the multiplier is derived from circular flow. This can be illustrated quite well by looking at regionally successful or unsuccessful areas and the impact of a big business opening or closing. For example at the time of writing, the closure of the 2 of the UK's last deep coal mines.</p> <p>Expenditure=Output=Income. GDP/GNP. Ireland is a good country to contrast GDP and GNP because of its large multinational base.</p>
13 - 15	The components of aggregate demand (AD)	<p>Define the components of aggregate demand: consumption, investment, government spending and net export (exports minus imports).</p>	<p>Idea that the economy will be in equilibrium if $AD=AS$, followed by components of AD ($C+I+G+X-M$): Learners can be made to derive this from the circular flow model.</p> <p>Consumption: Definition - total expenditure by UK households. Significance of consumption as part of AD – use of actual data to show that</p>

	<p>The AD function</p>	<p>Explain the factors which affect the levels of consumption and investment in the economy.</p> <p><i>Learners should explain the importance of factors such as income and profit, wealth, interest rates, expectations and taxation.</i></p> <p>Define productivity and explain how it may be increased by the use of specialisation and other factors.</p> <p><i>Knowledge of the Keynesian theory of the consumption function, the marginal efficiency of capital and the accelerator effect are not required.</i></p> <p>Understand why an AD function will slope downward from left to right.</p> <p>Understand that changes in the components of AD can cause the function to shift.</p> <p><i>Learners are expected to explain at least one of the following: the real balance effect, the trade effect and the interest rate effect.</i></p>	<p>C is over 60% of AD in the UK, but that this varies significantly from economy to economy (why?). Good opportunity to introduce a comparison with countries such as China.</p> <p>UK's recent consumer boom and the factors that have driven it, leading onto the general factors affecting consumption (national income, interest rates, tax, confidence/feel-good, house prices/equity withdrawal, availability of credit – link to contemporary examples in each case).</p> <p>This is a good opportunity to look at the impact of changes on policy objectives, before learners latch onto diagrams as the only answer, although still at a superficial level (rising C may improve actual growth, the government's fiscal position and unemployment but worsen inflation and the trade balance).</p> <p>Investment: Definition of investment - public/private, gross/net, human/physical/R&D. Distinguish between depreciation, i.e. replacing worn out capital, and expansion, i.e. buying additional capital in order to increase output rather than simply maintain output levels.</p> <p>Significance of investment in terms of impact on productivity, competitiveness and potential growth (PPF analysis).</p> <p>Use of budget data to illustrate productivity gap, and the measures that might be used to close it, also look at data on the investment gap in terms of % of GDP spent by different countries – China vs. UK/US. Again, World Bank data can be used to look at the different patterns of investment in different economies across the world and why this might be.</p> <p>Lead into factors affecting investment (private sector) – interest rates and business confidence (MEC theory – optional), taxes (esp. corporation tax), tax breaks, profits, rate of technological change, access to funds – role of stock exchange, pressures from globalisation.</p>
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TERM TWO

Week	Specification Content	Specification Amplification	Further guidance notes
16	The aggregate supply (AS) function	<p>Understand the shape of the Keynesian long run aggregate supply (LRAS) curve.</p> <p>Understand the factors which might result in a shift in LRAS.</p> <p><i>Learners are expected to realise that the LRAS is vertical at the full employment level of output.</i></p> <p><i>These include: changes in the quantity, quality and efficiency of use of factors of production, changes in the state of technology and changes in factor market flexibility.</i></p> <p><i>Learners should understand how changes in policy instruments may be used to bring such shifts about.</i></p>	<p>Introduce the idea of AS representing the maximum potential output of the economy – link back to PPFs and water/glass analogy.</p> <p>Determined by the quantity, quality and efficiency of use of the 4 key factors of production.</p> <p>Keynesian AS – elastic at low output because as AD rises there are no shortages of skilled workers/other factors of production. As the economy approaches full employment shortages of factors will appear in particular sectors of the economy, driving up costs and therefore prices. At full employment, further increases in AD are purely inflationary.</p> <p>Show how changes in quantity, quality and efficiency of use of factors can shift AS, pick examples in terms of all 4 factors – training, investment, relaxation of planning controls, decrease in corporation tax and so on). Show how the AS function might shift vertically as a result of changes in cost-related factors (oil prices, VAT etc.). Big effort on factors that shift AS right/left versus up/down. This will be useful in helping learners distinguish between factors shifting SRAS and LRAS for the classical view.</p> <p>Plenty of opportunity to link back to PPFs and brainstorm/research factors that might shift the LRAS function and then link back to government policy, giving an early insight into SSPs.</p>

<p>17 - 18</p>	<p>AD/AS analysis</p>	<p>Illustrate and explain how AD and AS interact to determine the equilibrium level of output, employment and prices in the long run.</p> <p><i>Diagrammatic analysis is required.</i></p>	<p>Now is the opportunity to look at a variety of different real-world scenarios and to allow learners to see the power of the model. There are a very wide range of one-off or sustained scenarios that can be used to explore the AD/AS model. The UK itself from 1979 to the present day can be used if you focus on major incidents, Ireland from the early 90s is another very good example. Then simple scenarios to highlight recent economic events such as the recent collapse in oil prices, VAT hikes, the steady reduction in UK corporation tax. It is also an opportunity to consolidate the theoretical impact of rising consumption and/or investment on an economy.</p>
<p>19 — 21 (or longer, if you address more policy at this point)</p>	<p>Short run aggregate supply (SRAS), Long run aggregate supply (LRAS)</p>	<p>Understand that there are differences between Keynesian and Neo-Classical views on what the AS curve will look like in the long run.</p> <p>Understand why the SRAS function is assumed to slope upwards from left to right.</p> <p>Understand why a SRAS function might shift.</p> <p>Explain the Neo-Classical view of the process through which an economy might adjust to long run equilibrium.</p> <p>Understand that Keynesian economists disagree with this process of adjustment because</p>	<p>This is probably the point at which the debate between Keynesian and neoclassical economists can be formalised.</p> <p>It may be helpful at this stage to introduce the idea of the NAIRU. Natural rate; learners should by now understand from the nature of the ‘Keynesian’ LRAS that it can be hard to get an economy close to full employment (“in the long run we’re all dead”), and that as AD rises, inflationary pressures will build. It is a relatively short step from there to get them to understand upward and downward self-stabilisation. This can most easily be done through an exploration of the wage-price spiral – very high unemployment puts downward pressure on wages, therefore firms, facing little demand, will be pressured into cutting/not raising prices, therefore reducing inflation. Linking back to the derivation of the AD function, it can be shown that AD will start to rise. But likewise, when AD is too high, the reverse process can be illustrated before any diagrams have been drawn, and the idea of a stable, non-full employment output has been introduced.</p> <p>Beyond this, there is some formal derivation to be done, but having understood the upward sloping nature of micro supply curves, learners can generally be made to understand SRAS as well, even though the mapping isn’t direct. Plenty of opportunity to look at the situation in the Eurozone as</p>

		<p>of issues such as inflexible factor markets ('sticky wage', etc.) and that, consequently, the LRAS function may not be vertical at the equilibrium level of output.</p> <p><i>Learners should understand the assumptions behind SRAS analysis, such as fixed input prices, productivity and technology.</i></p> <p><i>Learners should be aware that SRAS in this form is associated with Monetarist and Neo-Classical economists.</i></p> <p><i>Factors might include changes in labour costs, changes in commodity prices, changes in the value of the exchange rate, taxation and subsidies.</i></p> <p><i>Learners should understand the assumptions of flexible product and factor markets which underpin this analysis.</i></p>	<p>the extent to which about, and product markets are flexible is examined. Krugman's New York Times column inevitably has a rich vein of data along these lines to be mined.</p> <p>Depending on personal preferences, this area could be extended into a discussion of austerity more generally, the role of supply side policies in trying to make product and labour markets more flexible and also in increasing potential growth/shifting LRAS to the right.</p>
22	Monetary policy	Understand the role of the Bank of England in creating monetary and financial stability, and its	Role of the (independent) Central Bank and the Monetary Policy Committee. Explanation of money and the money supply, the Bank of England's inflation target and how interest rates will be set to achieve this.

<p>Framework</p> <p>The operation of monetary policy and monetary stability</p>	<p>status as lender of the last resort.</p> <p>Understand the purpose of the Bank’s inflation target, its symmetrical nature and any other objectives that the Bank may be required to pursue.</p> <ul style="list-style-type: none"> • Interest rates <p>Understand how changes in interest rates may be used to achieve the Bank’s objectives and the factors the Bank is likely to take into account when setting base interest rates.</p> <p>Understand how interest rate changes can impact both the real economy and inflation.</p> <p>Discuss the extent to which changes in interest rates are likely to affect the exchange rate.</p> <p><i>Learners should be able to evaluate the likely impact of changes in interest rates and the overall effectiveness of interest</i></p>	<p>The importance of the symmetrical inflation target and the additional aims that have been adopted since Carney became Governor. Impact of a change in interest rates on AD/AS and hence on policy objectives including inflation and the time horizon over which interest rates will be expected to have an impact. The importance of having an independent central bank.</p> <p>The Bank of England has a lot of good resources in this area both video and printed, and the BBC has a new interactive resource that it is developing, one of which is precisely about how interest rates work.</p> <p>Advantages and disadvantages of interest rates as a tool for demand management (such as, flexibility, ability to make a series of incremental changes, but effectiveness in boom/recession scenarios, side effects on investment and the exchange rate). The breakdown of the interest rate transmission mechanism/credit crunch.</p> <p>Lots of opportunity here for role-play of the Monetary Policy Committee in making interest rate decisions (or generally having debates). If the UK isn’t doing anything much, there are plenty of other countries that can be used to illustrate the possibilities of inflationary or deflationary pressures. The key here is both to understand the process of monetary policy but also to understand that judgements are quite delicate.</p> <p>QE and direct controls are probably best introduced in the context of some sort of liquidity trap style argument, looking at the experience of the UK and the US in the first instance to understand why interest rates alone might not be sufficiently powerful to be able to achieve the Bank’s objectives. Again, the Bank of England has plenty of resources explaining QE. There might be some value in starting to explore Japan’s experience with QE (and maybe the ECB if things go as badly as they are looking like they might) in terms of its limitations). This also links to the idea of bubbles (below).</p>
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		<p><i>rate control as a policy tool.</i></p> <p><i>Learners should be able to use AD/AS diagrams to support their analysis and evaluation.</i></p> <ul style="list-style-type: none">• Quantitative easing (QE) <p>Understand the role of QE within the financial system and be able to explain how QE is expected to work.</p> <p><i>Learners should be able to evaluate the impact and risks of QE.</i></p> <p><i>Learners should understand the process through which QE may eventually be reversed.</i></p> <p><i>Detailed knowledge of different measures of the money supply is not required.</i></p> <ul style="list-style-type: none">• Direct intervention <p>Understand that central banks can intervene directly in the banking system to stimulate lending activity, for example,</p>	
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		<p>funding for lending.</p> <p><i>Learners should be able to analyse and evaluate any additional changes to the operation of monetary policy that arise over time.</i></p>	
24	<p>Monetary policy</p> <p>Financial stability</p>	<ul style="list-style-type: none"> • The financial sector <p>Understand the changes in the structure of the UK economy in recent years, in particular the growing size and influence of the financial sector.</p> <p><i>Learners should be able to evaluate the extent to which the UK's large financial sector is beneficial to the real economy</i></p> <ul style="list-style-type: none"> • Asset bubbles <p>Explain, with appropriate examples (for example the financial crisis of 2007-08), how asset bubbles may arise and what the economic consequences of such bubbles may be.</p>	<p>Probably the place to start here is with the idea of bubbles. There are plenty of good case studies which can be researched, many of which have things in common. Japan, the 2007-08 crisis, the Wall Street crash, the .com bubble; all of these have similar underpinning themes but differing aftermaths. There is no need to look at all of these in depth (or indeed at all!), but it is an interesting area that makes clear the need for regulation of the financial sector to create stability.</p> <p>In terms of regulation, the key here is to understand why things can go wrong and how we might be able to prevent it. There is no need for in-depth analysis of the institutional arrangements in the UK, although a knowledge of the key players is useful in terms of understanding stimulus material in this area. There is plenty of opportunity to explore the idea of moral hazard (non-specification) in the US mortgage market, bankers' bonuses in the UK and the desirability of regulating this and how easy this is likely to be.</p> <p>It might be possible to cover the whole idea of information asymmetry at this point in the course, as a micro diversion, meaning it doesn't have to be covered again as part of market failure.</p> <p>This links naturally to a look at the UK's financial sector and the extent to which it is likely to be beneficial. Learners often get the idea that the only thing the UK does is banking, and this might be an opportunity to look at,</p>

		<ul style="list-style-type: none"> The role and purpose of regulation <p>Understand the need for regulation of the financial system in terms of creating financial stability.</p> <p><i>Learners are not expected to have a detailed understanding of the system of financial regulation in the UK.</i></p>	<p>for example, UK export performance in different sectors to put the whole thing into perspective, as well as making the point that the ‘financial sector’ isn’t just banking.</p>
<p>25 — 26</p>	<p>Fiscal policy Framework Demand side fiscal policy</p>	<p>Understand the overall purpose and structure of the budget.</p> <p>Analyse the possible impact of changes in tax and spending on the economy using AD/AS diagrams and the Laffer curve.</p> <p><i>Learners should be aware of the major areas of government expenditure and sources of revenue.</i></p> <p><i>Learners should be able to explain the differences between current expenditure and capital expenditure and between direct and indirect taxes and their relative desirability.</i></p>	<p>Introduction to the budget – surplus, deficit, balance. Link to the national debt. UK position on both, looking at recent budgets. Why a surplus or deficit might matter. Link between surplus deficit and GDP (two way causation), stabilisation policy. Keynesian vs. Classical views on the role for a budget deficit. This can link back to the austerity debate that you might have covered earlier in the course, and there is a lot of material out there about countries that have followed different fiscal paths through the financial crisis. Link to automatic stabilisers, and the view that a budget deficit is ‘ok’ in a recession and a surplus in a boom – consider whether governments should aim for a balanced budget across the economic cycle.</p> <p>Government spending: Current vs. Capital spending. Impact of each on AD/AS in the SR and LR. Probably worth introducing the idea of structural and cyclical deficits at this stage. The idea of excessive government capital spending can be stressed again at this stage. If you have used Japan, Spain or China as case studies, the idea of potentially wasteful capital spending is an interesting one to bring in if you haven’t done so already.</p> <p>Taxation: Direct vs. Indirect. Progressive, proportional, regressive.</p>

		<p><i>Learners should be able to illustrate this idea using AD/AS diagrams.</i></p> <p>Explain how Keynesian economists believe that fiscal policy can and should be used to control the level of aggregate demand in the economy under certain circumstances.</p> <p><i>Learners should be able to evaluate the use of demand side fiscal policy in terms of both its effectiveness and possible side effects, for example, on the public sector debt.</i></p> <p><i>Learners should be able to evaluate the effectiveness of these types of policy.</i></p>	<p>Advantages and disadvantages of direct (incentives, impact on AD, progressive, collection) and indirect taxes (regressive, avoids disincentives, targeting of demerit goods, inflationary impact), and their impact on the economy.</p> <p>Link between direct tax rates, tax revenue and incentives to work/brain drain – Laffer Curve. AD/AS. Plenty of banker stories plus the long running wealth tax in France to use to stimulate debate – also possible to flag up equality, etc., as part of this debate; you could add this as a topic at this stage rather than covering it as part of market failure/imperfection.</p> <p>A nice extension discussion would be to discuss the pros and cons of operating a flat tax system e.g. Estonia’s flat-rate income tax, or Slovakia that sets the same rate of tax on everything!</p>
<p>27 - 28</p>	<p>Control of the national (public sector) debt</p> <p>Measurement</p>	<p>Understand the relationship between the budget/fiscal deficit and the national (public sector) debt.</p> <p><i>Learners should understand the difference between structural and cyclical deficits.</i></p>	<p>Having covered the potential role of fiscal policy, this topic gives the opportunity to look at some of the implications of debt.</p> <p>There is plenty of interesting data around about this with the UK, US, Japan and Greece making interesting case studies about the extent to which debt might or might not create problems.</p> <p>Some of this ground will be becoming familiar to the learners, but now is</p>

	<p>Causes</p> <p>Implications</p> <p>Solutions</p>	<p>Understand that deficits may result from either discretionary or automatic government policy.</p> <p>Explain why governments have been concerned about high levels of public sector debt.</p> <p>Concerns may include opportunity cost of interest payments, risk of credit downgrades, confidence issues surrounding refinancing and the risk of crowding out and slower growth.</p> <p><i>Learners should be able to evaluate the extent to which these concerns are reasonable and hence whether debt is always a bad thing.</i></p> <p>Discuss the extent to which it is appropriate to tighten fiscal policy during periods of economic downturn as a way of reducing the budget/ fiscal deficit.</p>	<p>the chance to look in detail at the austerity debate once and for all; depending on how much you have done on this before, this area might be fairly quick, but a look at what has happened during the financial crisis, the situation that Greece has found itself in, the story of Japan again, and so on, are worth revisiting.</p> <p>As part of this, spending some time on what debt really means, who it is owed to, how bond markets work, what credit ratings are and why they might be important is valuable.</p>
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TERM THREE

Week	Specification Content	Specification Amplification	Further guidance notes
29	Supply side fiscal policy, Supply side policies	<p>Understand what is meant by supply side policies and understand how they can be used to try to increase trend growth/LRAS in the economy as well as the flexibility of product and factor markets.</p> <p>Explain that fiscal policy can be used to achieve policy objectives by operating on the supply side in the longer term (examples might include influencing incentives to work and to invest, ignore improving infrastructure).</p> <p><i>Learners should be able to evaluate supply side policies in terms of both their effectiveness and possible side effect.</i></p> <p><i>Learners should be able to analyse and evaluate the impact of supply side policies using AD/AS analysis and PPFs.</i></p>	<p>Definition – improving flexibility of markets, increasing trend growth via an increase in the quantity quality and efficiency of use of the four factors of production.</p> <p>This ties together some strands from earlier in the course such as labour and product market flexibility, policies to shift LRAS, the importance of productivity in determining international competitiveness (or not).</p> <p>As part of this, you can explain the role of fiscal policy– the shift over time from demand management to a focus on raising productivity/creating incentives. AD/AS. Reasons for this change (disadvantages of demand management – leads and lags, build-up of debt/opportunity cost – debt interest, risk of destabilisation, side effects on incentives etc.). Examples from recent budgets.</p> <p>Types of supply side policy divided into labour, product and capital market reforms, with examples of each. Probably worth exploring the idea that the right type of supply side policy will vary from economy to economy – it might be possible to contrast the current UK situation with that of an LEDC in Africa if you pull some data together, which may begin to foreshadow development economics.</p> <p>Benefits: Economy more likely to self-stabilise, increased productivity and efficiency leading to potential growth, downward pressure on inflation, possible jobs and improvement to current account policy. Helps to avoid short-run trade-off of policy objectives caused by demand management alone.</p>

			<p>Limitations: Unemployment (possibly structural), increased inequalities, time lags, opportunity cost, limited effectiveness in recession (Keynes).</p> <p>Good opportunity to introduce analysis and evaluation of some Thatcherite supply side policies.</p>
<p>30 - 31</p>	<p>Unemployment Measurement and types Costs Causes Solutions</p>	<p>Understand that unemployment can be measured in different ways and be aware of the current major approaches and the problems with measuring unemployment accurately.</p> <p><i>Learners should understand the differences between economically active and inactive individuals and should understand what is meant by the labour force.</i></p> <p>Examine the costs of unemployment; these may be both economic and social and may apply to households, governments, firms and the economy.</p> <p>Understand demand side causes, such as cyclical unemployment, driven by a fall in the level of GDP (different schools of thought have different views about how temporary this is likely to be).</p>	<p>It is quite likely that significant parts of this area will already have been covered earlier on, but one area that probably hasn't been looked at is the composition of the labour force, what unemployment really means and so on. There is loads of good data on the ONS site and plenty of good visualisations around. International activity rates are also a potentially interesting set of data to look at, with Romania (for example) having a low participation rate relative to the UK.</p> <p>Compare and contrast the Claimant Count and LFS measures; understand why some people are not eligible to receive JSA.</p> <p>The rest of this section will be deepening understanding that learners already have and building links between some of the other areas. Links to budget deficits, social exclusion and inequality, health issues, and so on, can make for some interesting discussions.</p> <p>The causes of unemployment can be looked at through the lens of a variety of interesting data, especially regionally within the UK as well as by age group and duration.</p> <p>When solutions are introduced, the Keynes-neoclassical debate can be reignited and policies from different countries around the world can be examined in the context of relative unemployment rates (very low youth unemployment in Germany, for example).</p> <p>The idea that unemployment can have demand or supply side underpinnings can feed into a re-visitation and consolidation of the idea of</p>

		<p>Understand supply side causes are driven by problems in factor markets, such as occupational and geographical inflexibility, lack of incentives to work and real wage unemployment.</p> <p><i>Learners should understand that Keynesian and Neo-Classical economists have different views as to the real underlying causes of unemployment.</i></p> <p><i>Learners should understand the natural rate of unemployment.</i></p> <p>Understand that solutions to unemployment will depend on its cause and nature, but that approaches can broadly be characterised as either demand side or supply side.</p> <ul style="list-style-type: none"> • Demand side solutions <p>Understand that, where a negative output gap exists, governments can use fiscal and monetary policy to increase the level of aggregate demand.</p>	<p>the natural rate of unemployment/NAIRU that has been covered earlier.</p> <p>Learners should be increasingly confident in evaluating these sorts of policies, having already looked at some of the limitations earlier in the course. The difference is that they have more in-depth data to apply the problems to and can build up a set of real cases to support their discussions.</p>
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		<p>Evaluate the appropriateness and potential effectiveness of such solutions.</p> <ul style="list-style-type: none"> • Supply side solutions <p>Explain and evaluate potential supply side approaches to the reduction of unemployment, targeted at particular labour market problems.</p>	
<p>32 - 33</p>	<p>Inflation and deflation</p> <p>Measurement and calculation</p> <p>Causes</p> <p>Costs</p> <p>Solutions</p> <p>Deflation</p>	<p>Understand how inflation is calculated via weighted changes in price indices, generally over a twelve month period.</p> <p><i>Learners should be able to calculate simple price indices and understand the purpose of weights.</i></p> <p><i>Learners should be able to calculate and interpret index numbers, in the context of inflation and in other areas.</i></p> <p>Identify the major measures of inflation in use at the present time and the differences between them.</p>	<p>There are many aspects that need to be covered within this section. Initially the focus will be on understanding index numbers if this has not already been done, looking at different measures of inflation (most obviously CPI and RPI, but stressing that there are a wide variety of measures, and indeed that each individual really has their own rate is potentially worth it – the BBC has a personal inflation calculator). It is worth looking at the limitations of these measures, both statistically and otherwise as well as thinking about why we need to bother measuring inflation at all.</p> <p>The ONS has lots of good data on changing weights over time and there are lots of articles on ins and outs that make the point. Mathematical practice of constructing simple indices will be useful.</p> <p>When looking at the costs of inflation, hyperinflation is never a bad place to start. There is plenty of good footage on the web about Zimbabwe and the Bank of England has some good short films as well. The key is to instil an awareness that the costs vary according to duration and size and that deflation may be just as damaging (Japan again). Distinguish between benign deflation (due to increased productive capacity i.e. AS shifting right) vs. malign deflation (due to falling AD).</p>

		<p>Understand demand-pull and cost-push explanations of inflation.</p> <p>Explain and evaluate the quantity theory of money.</p> <p><i>Learners should understand the role of expectations in sustaining and driving inflation through mechanisms such as the wage-price spiral.</i></p> <p>Appreciate that rising prices can create costs, but that these costs will depend on the level of inflation, the cause of inflation and the extent to which it was anticipated.</p> <p><i>Costs include redistributive effects, macroeconomic effects and efficiency effects.</i></p> <p>Explain and evaluate possible responses to the issue of inflation in terms of how effective or desirable solutions are likely to be.</p> <p>Understand that, as with inflation, deflation may be either demand side or supply side driven and the effects will depend upon the cause</p>	<p>The causes are generally broadly well understood by this point, but spending some time on the wage-price spiral and expectations can be valuable in escaping a diagrammatic understanding, as well as looking at the Bank's inflation reports. The quantity theory is a useful tool to revisit QE (if you didn't teach it at the time) and a contrast between Zimbabwe and the UK/US can be interesting in terms of when printing money does or doesn't trigger inflation and why/why not.</p> <p>Solutions can be an interesting research piece as different approaches can be contrasted for inflation. At the time of writing, deflation is mainly just Japan, but the policy decisions of the Eurozone must also merit consideration here.</p> <p>Diagrammatic approaches are very useful here.</p>
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34	The short run Phillips curve, the long run Phillips curve	<p>Explain that there may be a trade-off between inflation and unemployment in the short run and that such trade-offs have been observed in the UK.</p> <p>Argue that Neo-Classical economists believe that the short</p>	<p>By this stage, the potential conflict between unemployment and inflation should be well understood – learners have seen it through AD/AS analysis and have examined it from both a Keynesian and neoclassical perspective. This is therefore just presenting what they already understand in a different form and in a different historical context.</p> <p>Looking at the data for the UK across different periods (from the ONS) makes the nature of the short run Phillips curve clear, and the idea that the</p>

		<p>run Phillips curve is not stable due to the role of expectations; in the long run, attempts to hold unemployment below its natural rate/NAIRU will result in accelerating inflation and that when the economy eventually return to its natural rate/NAIRU it will do so with a higher level of inflation.</p> <p>Understand that changes on the supply side (either favourable or adverse) can cause the position of the long run Phillips curve to shift and that economic policy changes can bring such shifts about.</p> <p><i>Diagrammatic analysis is required.</i></p> <p><i>Learners should understand the role of inflationary expectations within this model.</i></p>	<p>relationship is not stable over time also becomes pretty clear.</p> <p>Learners can be asked to research trade-offs in other countries and will be likely to come back with quite a bit of evidence for the idea that sharp changes in unemployment trigger inverse changes in inflation.</p> <p>The 1973 oil shock can be used to illustrate the generation of inflationary expectations, and can be set in the context of Friedman's earlier predictions of the breakdown of the short-run Phillips curve; adaptive expectations are the easiest to use to illustrate the breakdown here.</p> <p>The impact of SSPs can be illustrated, allowing a recap of the NAIRU, shifts in LRAS and so on, setting the scene for Economic Growth as a topic and completing the whole unemployment, inflation, D side S side story arc.</p> <p>Link the potential impact of inflationary expectations with the role of an independent central bank setting an inflation target.</p>
<p>35</p> <p>-</p> <p>36</p>	<p>Economic growth</p> <p>Actual vs. potential economic growth</p>	<p>Explain the differences between changes in measured gross domestic product (GDP) (actual growth) and potential growth and understand that by 'economic growth' economists are generally referring to an increase in the productive capacity of the economy</p>	<p>By this stage, learners will have a pretty clear idea of what growth is in terms of AD/AS analysis, so much of the initial work here will be a recap of earlier work on AD/AS and PPFs.</p> <p>Even looking at the causes of growth may be relatively straightforward at a superficial level, with an evaluation of supply side and demand side policies in general. Greater sophistication can be introduced by looking at the specifics of some different countries facing different problems. The situation</p>

	<p>Causes of growth</p> <p>Benefits and costs of growth</p>	<p>rather than short-term changes in the level of national income.</p> <p><i>Learners should be able to illustrate actual and potential growth diagrammatically using both PPF and AD/AS analysis.</i></p> <p>Explain the differences between actual and potential growth using the concepts of positive and negative output gaps and the business cycle.</p> <p>Understand what is meant by the term 'recession'.</p> <p>Understand that growth can be brought about by changes in factors such as the quantity, quality and efficiency of use of factors of production, changes in the state of technology and changes in factor market flexibility.</p> <p><i>Learners should be able to discuss the importance of these factors and discuss the extent to which changes in policy instruments may be used to create growth.</i></p>	<p>for the UK might be examined through a look at the LSE growth report and our areas of comparative advantage that are likely to prove the growth areas of the future. Contrasts might be made with China, about which large amounts of information are available on their progress since 1978 and the current situation, and with a genuinely underdeveloped economy from sub-Saharan Africa such as Malawi. The policies to create growth will be very different in each case which will highlight the key issues.</p> <p>Likewise the costs and benefits of growth will be highly dependent on the stage of development. The BBC has some good footage on the great smog of 1953 in London, discussions of 'peak oil' are worth a look and inequality can again be raised as an issue here, with Richard Wilkinson's TED talk on the impact of inequality in developed economies a good starting point for discussion.</p> <p>But the idea that economic growth over the last 100 years had made a massive difference to living standards of people in this country in terms of life expectancy, leisure time, labour-saving devices, the nature of work, the quality of leisure and so on does need to be made clear.</p> <p>Link to market failure – externalities, inequality etc.</p>
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		<p>Understand why growth may be beneficial to an economy in terms of impact on households, governments and firms.</p> <p><i>Learners should be able to evaluate these benefits in terms of how evenly such benefits may be distributed, the opportunity costs of growth, the sustainability of growth and the side-effects of growth in terms of conflicts with other policy objectives.</i></p>	
<p>37 - 39</p>	<p>Advantages and disadvantages of free trade</p> <p>Protectionism</p> <p>Globalisation</p> <p>Trade and the UK</p>	<p>Understand the advantages and disadvantages of international trade from the point of view of the economy as a whole and for households, firms and government.</p> <p><i>Learners should be able to explain the theory of comparative advantage using numerical and graphical approaches.</i></p> <p><i>Learners should understand the difference between absolute and comparative advantage.</i></p> <p><i>Learners should be able to explain and numerically illustrate the terms of trade.</i></p>	<p>Starting with a reminder of PPFs and how trade may allow a country to escape its PPF is useful as an early activity, and a discussion of the benefits of free trade in terms of driving up competition, widening access to resources may help to revise some aspects of supply side economics.</p> <p>The theory of trade requires learners to be able to understand, numerically and graphically, the situations in which, in principle, two countries might or might not be able to trade – an understanding of the limitations of the model such as protectionism, transport costs, and so on, is also important.</p> <p>Reasons for trade outside of comparative advantage may use case studies of the impact trade has had on economic growth and living standards (China again) - comparative advantage leading to increased living standards (consume outside PPF), liberalisation leading to increased efficiency, potential growth and downward pressure on inflation. Lower prices and greater choice/quality for consumers.</p> <p>As part of this, a look at what the UK actually appears to have comparative</p>

		<p>Understand the arguments for and against the implementation of protectionist policies.</p> <p>Explain and illustrate key methods of protectionism.</p> <p><i>Methods include: tariffs (diagram required), quotas, subsidies, exchange rate manipulation and administrative/regulatory policies.</i></p> <p>Evaluate the costs and benefits of globalization.</p> <p>Identify the UK's major export sectors.</p> <p>Evaluate the extent to which an increasingly integrated world economy is beneficial to the UK.</p> <p><i>Learners should understand the role of the World Trade Organisation (WTO) in policing trade agreements and negotiations.</i></p>	<p>advantage in. You may have touched on this earlier, but looking at the UK's major exports of goods and services may allow a recap of issues such as unemployment and growth policy.</p> <p>Reasons against free trade/in favour of protectionism - strategic industries, infant industries, prevent dumping, cultural factors, revenue raising (tariffs), protect jobs, solve current account deficits – look at the extent to which these arguments are actually valid and whether, even so, they are likely to outweigh the benefits of trade – Great Depression as a case study might be interesting, perhaps contrasted with the more limited protectionism that took place during the Great Recession – the role of the WTO might be introduced, although how much impact the WTO really has currently can be questioned; there is plenty of scope for roleplaying exercises here to expose the limits to the power of the WTO.</p> <p>Forms of protectionism (tariffs, quotas, subsidies, administrative barriers, exchange controls, 'precautionary bans', voluntary export restraint etc, looking at actual cases, bra wars, US steel protection...). Limitations of these (retaliation, increasing inefficiency and so on).</p>
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TERM FOUR

Week	Specification Content	Specification Amplification	Further guidance notes
1 - 2	<p>Exchange rates and exchange rate policy</p> <p>Exchange rates in a free market</p> <p>Exchange rate policy</p>	<p>Explain that in a free-float system, the exchange rate will be determined by the forces of demand and supply.</p> <p>Use demand and supply diagrams to analyse and evaluate the factors which might cause exchange rates to appreciate or depreciate.</p> <p><i>Learners should understand that demand for a currency is equal to exports plus capital inflows, whilst supply is equal to imports plus capital outflows.</i></p> <p><i>Such factors may include interest rates, QE, trade flows, confidence, safe haven issues and speculation.</i></p> <p>Evaluate the possible impacts of changes in exchange rates on the policy objectives.</p> <p><i>Learners should be able to use AD/AS diagrams to support their analysis.</i></p>	<p>Introducing this topic is probably best done with actual data involving familiar situations for learners – holidays, eBay purchases from the US and so on. After that, the key is to make it clear who is doing the demanding and supplying in exchange rate markets – that it is not (just) the central bank - that supply of sterling comes from holders who want to buy foreign currency and that demand is not generally from UK citizens, but from holders of foreign exchange who need sterling for a variety of purposes. Then the idea of D and S and the factors likely to affect it can be brought in, stressing the importance of capital flows for an economy like the UK. Opportunity here to link with the Balance of Payments Financial Account.</p> <p>Factors causing changes in equilibrium. In many ways this can be a useful recap of supply and demand, which may now feel quite a long time ago: changes in interest rates, trade balance, confidence, expectations etc. Look at recent history– Asian crisis and collapse of the rouble, recent weakness of the euro and the factors that might have driven these realignments.</p> <p>Impact of a change in exchange rates on the economy (SR/LR) and individual economic factors. Link to policy objectives, show that depreciation may have mixed impact on trade balance in the short and long run (Marshall-Lerner condition), and whilst this may decrease unemployment and increase growth, it might cause inflation if supply side conditions are tight. Look at the after-effects e.g. ERM exit for the UK back in 1992 or the rouble collapse of 2014. Similarly a strong pound may be instrumental in holding down inflation (recent strength of the pound helping BoE).</p>

		<p>Evaluate the microeconomic effects of exchange rate changes on households and firms.</p> <p>Understand how monetary authorities can influence the value of an exchange rate in a floating system (a 'managed' or 'dirty' float).</p> <p><i>Learners should understand what is meant by an exchange rate index.</i></p> <p><i>Learners should be able to explain the impact of changes in exchange rates on the terms of trade.</i></p> <p><i>Understanding of the Marshall-Lerner condition is required.</i></p> <p>Evaluate the advantages and disadvantages of policies which hold exchange rates artificially above or below their free market levels.</p>	<p>Hence the reasons that governments may have a policy geared towards a particular level of currency strength. Good recent examples to discuss to make clear some of the ideas have been China (formerly held low, now slowly rising), Denmark trying to hold its peg against the euro, Switzerland, Russia allowing its currency to fall rather than trying to defend it, the UK during the ERM period and the perils of trying to hold a currency artificially high.</p>
<p>3</p> <p>—</p>	<p>The balance of payments</p> <p>Measurement</p>	<p>Understand what is meant by the balance of payments.</p> <p>Understand that the balance of payments sums to zero overall and</p>	<p>In reality the study of exchange rates will overlaps with this area to a considerable extent, but it is still worth looking at exchange rates in detail first because the idea that the supply and demand of a currency will be equal is the key to understanding that the balance of payments will sum to zero, an issue that learners generally struggle with.</p>

4	Current account imbalances: causes	<p>that a current account deficit or surplus will be matched by compensating flows on the capital/financial accounts.</p> <p><i>Detailed knowledge of the sub-components of the balance of payments is not required.</i></p>	<p>Whilst there is no requirement to look at the balance of payments in huge detail, looking at goods, services and transfers for the UK is likely to prove rewarding, especially transfers which may give an insight into why eventually sustained trade deficits may be unsustainable.</p>
	Current account imbalances: impacts	<p>Understand why countries may end up running current account deficits (or surpluses) and what is meant by a structural deficit (or surplus).</p> <p><i>Factors may include: productivity, factor costs, exchange rates, industrial structure, commodity prices, protectionist policies and sources of comparative advantage.</i></p>	<p>Much of the material on causes of deficits and surpluses will be useful in recapping last year's work on productivity, investment, consumptions and so on. Using China, Germany, the UK and maybe Saudi Arabia/Russia as case studies in why surpluses or deficits emerge may be useful in bringing out the key issues.</p> <p>The link between exchange rates and trade can be illustrated well through the terms of trade, which can also highlight the significance of import and export elasticity (hence the Marshall-Lerner condition).</p>
	Solutions to current account deficits	<p>Understand the possible link between changes in the terms of trade and the overall current account balance.</p> <p><i>Learners should be able to calculate the terms of trade index.</i></p> <p>Evaluate the consequences of a current account deficit/surplus.</p> <p><i>Understanding the nature of the</i></p>	<p>Looking at the impact of trade surpluses and deficits in the UK's case may allow some recapping of the financial crisis from last year and an analysis of share/property prices in London may again allow supply and demand to be revisited.</p> <p>Solutions will allow demand and supply side policies from last year to be revised, together with some of their evaluative points.</p>

		<p><i>deficit/surplus, its causes and the nature of compensating capital inflows are likely to be significant in evaluation.</i></p> <p>Evaluate possible approaches to dealing with a sustained current account deficit.</p> <p><i>These may include exchange rate policies, deflationary policies, supply side reforms and protectionism.</i></p>	
<p>5 - 6</p>	<p>The European Union</p>	<p>Learners need to draw on examples from economies other than the UK when discussing economic problems.</p> <p>Analyse and evaluate the advantages and disadvantages of membership of the EU for member states and prospective members.</p> <p>Evaluate whether the continuous expansion of the EU is beneficial for both existing members and new members.</p> <p>Evaluate the benefits and possible drawbacks of membership of the</p>	<p>The travails of the Eurozone are likely to have been touched on at various points over the last year of the course and this is an opportunity to put it all into one place.</p> <p>The recent rise of UKIP means that there is a lot of debate online about the benefits of EU membership to the UK and by the time this specification is live, we may well be facing an in-out referendum. It is important to draw out the economic and non-economic factors that are likely to feed into this debate, but there is a lot of material to be looked at from the perspective of the UK.</p> <p>The debate is different when looking at recent joiners or potential new entrants and it is worth spending some time either looking at what has happened to the recent joiners or analysing the situation likely to face new joiners. It is also vital to make clear the difference between EU membership and membership of the European single currency.</p>

		<p>economic and monetary union (EMU).</p> <p><i>Learners should have an understanding of the structure of the EMU (Eurozone), including the role of the European Central Bank.</i></p> <p>Assess the EMU in terms of its fit with an optimal currency area.</p>	<p>The euro is a topic that will have come up before, most likely in the austerity debate, and a good way of looking at it is through the lens of Mundell's criteria for an optimal currency area; bringing out evidence on whether each of the criteria is hit is an interesting lesson, and a contrast with the single currency area of the US and how they were able to bail out Detroit because of a central government with fiscal authority (or even the UK and the single pound area; material from the Scottish independence debate might be useful here) can be a useful way of highlighting the strengths and weaknesses of single currency areas.</p>
7	<p>Economic development</p> <p>Measurement</p>	<p>Understand what is meant by the concept of economic development.</p> <p>Evaluate the extent to which changes in national income are a good indicator of changes in the level of development in a country.</p> <p><i>Learners should be able to explain the difference between GDP and gross national product (GNP).</i></p> <p><i>Learners should understand the meaning and significance of purchasing power parity adjustments.</i></p> <p>Identify and understand other possible measures of economic development, including:</p>	<p>Although you may have touched on LEDCS at times before, this marks the start of a look in detail.</p> <p>There is a wealth of information available on the measurement of economic development from the United Nations. Hans Rosling's gapminder site is also a great tool. This is an area where learners can do huge amounts of research, build presentations, etc., both inside and outside of class.</p> <p>A fair amount of the material here will be a recap of what has already been looked at in the context of the costs and benefits of economic growth, but putting it into the context of LEDCs and emerging economies brings the benefits of growth into sharp focus.</p> <p>Although calculating the HDI is not on the specification, getting learners to do so is a good way of getting them to understand how it really works and what its strengths and limitations are. The data is readily available from the UN HDR site.</p> <p>Likewise showing how the MDPI is calculated can be a good way of exploring the Millennium Development goals.</p>

		<ul style="list-style-type: none"> • the human development index (HDI) – understand how the index is calculated and be able to discuss the extent to which the HDI can show differences in economic development <p><i>Learners will not be expected to calculate HDI.</i></p> <ul style="list-style-type: none"> • the economic structure of an economy • more indirect indicators such as access to health and education, access to the internet and mobile phone usage <p><i>Learners should have an awareness of the United Nations Millennium Development Goals.</i></p> <p><i>Learners should have some understanding of typical economic problems facing more economically developed countries (MEDCs), LEDCs and emerging economies.</i></p>	<p>By the end of this, it will be helpful if learners have some case studies of countries at different levels of economic development so that when obstacles and solutions are examined it will be clear that both of these are highly contextualised.</p> <p>Can be fun to get learners to make 5 minute films on a country of their choice highlighting key features, which then links into obstacles.</p> <p>Consideration of primary/secondary/ tertiary/quarternary sectors and economic structure – patterns of the balance of each of these in LEDCs and MEDCs.</p>
8	Economic development Obstacles	Discuss why LEDCs may face difficulties in competing with MEDCs and in raising their level of economic development.	There are a very wide variety of issues that can be examined here and coverage of the ones mentioned in the spec will give a strong background understanding to the issues faced by LEDCS.

<p style="text-align: center;">— 10</p>		<p>Explain and evaluate relevant obstacles; including: the extent to which endowment with natural resources is beneficial or whether there is a ‘resource curse’, low levels of health and education, low life expectancy, the impact of MEDC trade policies, the impact of poor levels of infrastructure, capital and technology, the effect of institutional weakness and poor governance, high levels of public sector debt and rapid population growth.</p>	<p>It is tempting to spend an hour each on: Infrastructure issues (incl. capital and technology). Hence the poverty trap. Could link weak banking system to Harrod-Domar (non-spec). Low levels of health and education provision (including HIV/AIDS in SSA). Governance and Corruption (Transparency International a useful resources here). Population issues – growth and structure; could link to Lewis 2 sector model (non-spec). Debt. Trade policies of MEDCs (Probably already covered earlier in the course).</p> <p>And a couple of hours on: Primary product dependency/ resource curse (because you can cover primary product price volatility at this stage, saving time when discussing market failure and imperfections later). Can revisit the terms of trade here via the Prebisch-Singer hypothesis (non-spec).</p>
<p style="text-align: center;">11 — 13</p>	<p>Economic development Solutions</p>	<p>Explain and evaluate possible approaches to raising the level of economic development; including: liberalisation – a move towards a more free-market based system involving internal and external liberalisation, international aid, debt relief, government intervention in the form of policies such as import and export substituting industrialisation and encouraging FDI.</p>	<p>The focus here needs to be the extent to which the solutions have succeeded or may be able to do so in the future; under what circumstances are they more or less likely to be successful?</p> <p>Probably worth spending time on each of: Liberalisation (Oxfam’s luckiest nut video, although a little dated is still worth using here) – 2 hours. ISI/EPI (Brazil vs. Asian Tigers– 2 hours). The role of FDI, especially the role of China in Africa is worth a look - 1 hour. AID (Aims and effectiveness) - 1 hour. Debt relief - 1 hour. Other solutions (Private venture capital, Grameen Bank?) - 1 hour.</p>

			<p>TED talks by Jaqueline Novogratz interesting here. Other interesting TED talks include those by Paul Collier and Dambisa Moyo.</p>
<p>14 — 15</p>	<p>Micro revisited</p> <p>Costs, revenues and profits, The growth of firms</p>	<p>Explain the law of diminishing returns.</p> <p><i>A numerical and diagrammatic understanding of total, average and marginal product is required.</i></p> <p><i>Learners should understand that diminishing returns may not set in immediately.</i></p> <p>Distinguish between fixed and variable costs and be able to distinguish between the short run and the long run.</p> <p><i>Learners should understand the link between the marginal product of labour and a firm's marginal costs, for example, as the marginal product of labour falls, the marginal costs rise as more workers are employed.</i></p> <p>Define and calculate total, average and marginal values for revenue and costs.</p> <p><i>Appropriate diagrams should be</i></p>	<p>This is a major shift of focus back to microeconomics and setting the scene is probably important.</p> <p>Large parts of this area are inevitably quite technical and the greater the extent to which concepts can be illustrated using a variety of techniques such as games, real world stories and worked calculations the better.</p> <p>It can be helpful to teach the relationships between marginal, averages and totals in the abstract first – using a different analogy like learner heights, or some such, to show how they might interact. It might be worth producing materials for more A level mathematicians to allow them to see the links with calculus.</p> <p>Revisiting a diminishing returns game may be helpful for illustrating increasing and diminishing returns to a factor.</p> <p>When looking at fixed and variable costs, it is important to make it clear that fixed costs are not literally fixed – that they change, just not with output.</p> <p>External economies of scale is a concept that learners often mix up. Good contexts include IT in the UK or US and the Formula 1 industry in the UK.</p> <p>Internal economies and diseconomies of scale can be linked with growth and mergers, and there is plenty of opportunity here for student research and presentations. In particular all the research that suggests that most mergers destroy shareholder value is interesting and cases such as RBS-ABN AMRO are worth looking at; getting learners to research their own mergers is often a worthwhile exercise at this stage.</p>

	<p><i>used to illustrate all concepts relating to costs and revenues (the difference between the short run and long run is required).</i></p> <p>Explain and illustrate internal and external economies and diseconomies of scale.</p> <p><i>Learners should be able to derive the long run average cost curve.</i></p> <p>Understand how and why firms might grow.</p> <p><i>Learners should understand the difference between internal and external growth.</i></p> <p>Understand types of integration/mergers (horizontal, vertical and conglomerate).</p> <p><i>Learners should be able to evaluate the possible costs and benefits of growth/mergers.</i></p>	<p>It is worth spending a bit of time on the transition from one short run to the next when deriving LRAC and teasing out the differences between using existing capacity more effectively and an actual increase in capacity; the idea that unit costs will probably rise immediately after an expansion is an interesting illustrative point diagrammatically. Envelope curve.</p>
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TERM FIVE

Week	Specification Content	Specification Amplification	Further guidance notes
16	Background to market structures	<p>Explain that the structure of a market depends on the number of firms and their ability to enter and exit markets freely (contestability).</p> <p>Explain the concept of profit maximisation (using marginal revenue and marginal cost).</p> <p>Define and understand the difference between normal and abnormal profits.</p> <p><i>Learners should understand that economists define profits differently to businesses, that is, accounting profit compared with economic profit.</i></p>	<p>Once costs have been covered, it is then a question of setting the scene for what follows – why we have bothered at all? Hence explaining that we are going to take our model firm with its costs and look at what happens in a range of different situations is useful. Learners can brainstorm markets that they think will be more or less competitive, or put them on a printed out line, and they can work out what makes a market more or less competitive – out of this the key market structures should emerge, together with an idea of barriers to entry. Worth considering innocent vs. strategic barriers to entry – leads into a nice discussion of natural monopoly.</p> <p>As part of this, profit maximisation can be set up as our initial assumption – looking at why profits are valuable to a business is useful at this stage, and can be taught using a simple ‘suppose price is fixed at £10, how many units will the firm want to sell?’. This then sets up perfect competition.</p> <p>You can show abnormal profit in this analysis, and it is worth stressing that normal profit cannot be shown on the diagram because it is already part of cost.</p> <p>Discussion of the disruptive nature of Uber globally is a great example to introduce here.</p>
17 -	Perfect competition	<p>Define perfect competition and explain the importance of its underpinning assumptions.</p> <p>Explain and illustrate with diagrams the short run and long run</p>	<p>Getting learners to work out what they think will make a market perfectly price competitive can be a good first exercise. Then getting them to come up with real-world markets that they think will fit the key criteria of homogeneous products, free entry and exit, no barriers to entry in the LR and perfect knowledge is beneficial.</p>

18		<p>equilibrium price and output for the firm and the industry.</p> <p><i>Learners should understand how the short run adjusts to the long run.</i></p> <p>Explain and evaluate the efficiency of perfectly competitive markets.</p> <p>Explain and illustrate the concepts of productive and allocative efficiency.</p> <p><i>Learners should be able to evaluate perfectly competitive markets using allocative and productive efficiency.</i></p> <p><i>Learners should be able to illustrate productive and allocative efficiency through diagrams.</i></p>	<p>Apart from getting them to derive and use the models (which will reinforce earlier work on normal and abnormal profit) it can be worth considering issues like whether the internet is making markets more or less perfect.</p> <p>Discussing the extent to which markets do tend towards normal profits in the long run can be interesting and contrasts with formerly very profitable sectors (restaurants with an unusual twist or even a discussion of the salaries that early computer programmers could command).</p> <p>At this stage, learners can be introduced to the ideas of productive and allocative efficiency – allocative efficiency can be linked back to maximisation of community surplus from year 1 – the idea that $D=MU$ and $S=MC$ meaning welfare will be maximised. Productive efficiency is easier to understand – but in both cases, learners need to be clear in why the efficiency is beneficial for the economy as a whole/wider society. In other words, they are not just points on a diagram.</p>
19	Monopolistic competition	<p>Define monopolistic competition and explain the importance of its underpinning assumptions.</p> <p><i>Learners should understand the importance of non-price factors such as differentiated products and advertising in monopolistic competition.</i></p> <p>Explain and illustrate with diagrams</p>	<p>The most important thing here is for learners to understand that this is not monopoly! Getting learners to think about which assumptions of perfect competition they would change if they wanted to make a more realistic model can be a good starting point, because they often go for identical products and perfect knowledge and you can build from there.</p> <p>After that, probably the big challenge here is getting learners to understand why MR and AR are no longer the same when D slopes downwards. Making it clear that price cuts apply to all products, not just the marginal ones with numerical examples will help. The link between MR, AR and TR can best be explored by relating back to PED and the idea that TR is</p>

		<p>the short run and long run equilibrium price and output for the firm.</p> <p><i>Learners should understand how the short run adjusts to the long run.</i></p> <p>Explain and evaluate the efficiency of monopolistically competitive markets.</p> <p><i>Learners should be able to evaluate monopolistic competition using allocative and productive efficiency.</i></p>	<p>maximised at the midpoint of the D curve – the link to MR and AR will now make it much clearer why this is true.</p> <p>Monopolistic competition can be used to examine non-price competition and competitive strategies - using scenarios like how a local restaurant might increase sales brings out a wide range of ideas in discussion, and stealing the marketing mix from business studies as a framework can be helpful here.</p> <p>Diagrammatically the challenge is to keep learners away from the minimum point of the AC curve and to explain exactly what productive and allocative inefficiency really mean in terms of wasted resources per unit and welfare loss.</p>
<p>20 - 21</p>	<p>Monopoly</p>	<p>Define monopoly and explain the importance of its underpinning assumptions.</p> <p>Learners should be able to distinguish between structural and behavioural barriers to entry, for example, high start-up costs as against limit pricing.</p> <p><i>Learners should understand the concept of a pure monopoly.</i></p> <p>Compare, using diagrams, the short run and long run equilibrium positions in perfect competition with</p>	<p>Monopoly is the point at which real world issues can be examined in some detail.</p> <p>Although many real world monopolies probably fit into the category of oligopoly, the line is blurred and looking at the economies of scale and dynamic efficiency that is clearly present in organisations like Google and Amazon is well worth the time.</p> <p>The diagrams essentially replicate monopolistic competition (although it is essential that learners can explain them effectively), so most of the time can be spent looking at interesting issues such as barriers to entry (game theory can be used here in terms of the incumbent monopoly game).</p> <p>Probably the most interesting aspect is looking at the benefits of firms which operate on a large scale in terms of the impact on the economy as a whole and consumers in terms of lower prices resulting from scale</p>

		<p>those of monopoly.</p> <p><i>Learners should understand the links to international competitiveness.</i></p> <p>Explain and evaluate the potential costs and benefits of monopoly, for example, price discrimination, lack of contestability, efficiency against the benefits of economies of scale and natural monopoly.</p> <p><i>Learners should be able to use diagrams to illustrate differences in efficiency.</i></p> <p><i>Learners should have an awareness of dynamic efficiency and Pareto efficiency.</i></p> <p><i>Detailed knowledge of the different degrees of price discrimination will not be required.</i></p> <p><i>Diagrammatic approach to price discrimination will not be required.</i></p>	<p>economies and dynamic efficiency – getting learners to prove this diagrammatically can be a good way of reinforcing an understanding of the underpinning diagrams.</p> <p>Network and information monopolies are an interesting area here and there have been some good Economist articles on this area in terms of the benefits they can bring especially in their growth stages.</p> <p>Price discrimination again can be used to show some of the benefits of monopoly power (pharmaceuticals pricing in MEDCS and LEDCS, for example).</p> <p>The key is to challenge their automatic assumption that monopoly is bad and look at evaluative factors such as the role of shareholders, contestability and the possible role of a regulator.</p> <p>An interesting discussion to have is the impact of globalisation – local, regional, national, international monopolies. There are some great stories on the BBC News Website about companies that were once great monopolies but no longer exist.</p>
<p>22</p> <p>-</p>	<p>Oligopoly</p>	<p>Explain the main features of oligopolistic markets and the concept of interdependence.</p>	<p>Much of this will build on the work already covered in monopoly and the task here is to look at the ways in which firms actually compete and the reasons that they might not.</p>

Use of simple concentration ratios to measure the extent of market power is required.

Explain that oligopolistic markets may be characterised by price and non-price competition, price leadership, collusion and price wars.

Explain and evaluate the potential costs and benefits of oligopoly.

Learners should understand the importance of dominant firms in the context of innovation and the competitiveness of the whole economy.

The allocative and productive efficiency of oligopolistic markets should be understood.

Use game theory to evaluate interdependent behaviour in oligopolistic markets.

Learners should be able to determine a Nash equilibrium in a matrix.

When looking at competition, game theory is a fun area to examine the extent to which price competition will take place, and when it has been established that it might not, looking at actual competitive behaviour will bring out many of the key features of the structure, which is permeated by interdependence.

There are likewise a variety of cartel games that will bring out the reasons that cartels may arise and the reasons for their collapse – the role of regulators may be introduced again here when looking at actual cases of collusion.

Game theory only needs to be looked into at a relatively superficial level – a two player, 2 decision matrix should suffice, although looking at stable or unstable matrices and what they tell us will be helpful. There are some good clips from 'Goldenballs' that give a light-hearted insight into strategy here. The auction of Premier League football rights is also an interesting application in this area (although in more abstract terms because the number of players was larger). Prisoners Dilemma is the most useful game to consider. As an extension, you could consider the difference in outcome between one-shot and repeated (finitely and infinitely), or different games e.g. Chicken Game (use the Footloose tractor scene as a great example).

The kinked demand curve allows you to introduce an interesting discussion on price wars, collusion, sticky prices etc.

24	Business objectives	<p>Explain how firms may have different objectives, such as maximisation of profit, revenue or market share, survival, social and community objectives.</p> <p><i>Learners should understand the different objectives of the various stakeholders and be aware of the concept of satisficing.</i></p>	<p>Learners will already have looked at profit maximisation before. At this stage it is important that they are aware of the ownership structure of plcs and an explanation of the stock exchange is probably advisable if this hasn't been covered earlier in the course.</p> <p>This leads clearly to the divorce of ownership from control and its possible implications. Consider the principal-agent problem, and link with asymmetric information.</p> <p>Looking at the story of Enron can be an interesting lesson as well as the rise of shareholder activism, to at least, a limited extent in recent years. This area can also be used to look back at the financial crisis and the behaviour of the big bankers (RBS?) in pursuing deals that were more in their own interests than those of the business they were running.</p> <p>Once it has been established that owners might not be able to control managers, an examination of managerial objectives can be undertaken and used as a way of reinforcing diagrams.</p>
25	Privatisation	<p>Explain the way in which privatisation may increase competition.</p> <p><i>Learners should understand that privatisation may take many forms other than simply transferring the ownership of state-run assets into the private sector.</i></p> <p>Evaluate the effects of privatisation on competition, efficiency, prices</p>	<p>This is an obvious area for the use of case studies, with the recent Royal Mail privatisation, as well as the return of the east coast main line to private ownership and Hinchinbrook hospital going the other way.</p> <p>There is plenty of data on the micro and macro implications of the privatisations of the 80s and 90s around, allowing a retrospective look, but it is important to look at the more modern forms of privatisation being used such as contracting out of services such as search and rescue and the implications that this may have.</p> <p>Renationalisation might well be looked at in the context of the rail sector with various politicians wanting to take it back into state control. The return of some franchises to the government allows for a direct comparison of</p>

		and the whole economy.	state and private control.
26	Competition policy	<p>Explain the reasons why governments may be concerned with competition, monopolies and mergers in industry.</p> <p>Understand the role of competition authorities and regulators in promoting competition and contestability in markets.</p> <p><i>Learners should understand that regulators can affect the degree of contestability in a market.</i></p> <p><i>Learners should be able to evaluate the extent to which competition and contestability are desirable.</i></p> <p><i>Detailed knowledge of UK and EU competition legislation is not required.</i></p> <p><i>Detailed knowledge of regulatory policies is not required.</i></p>	<p>The focus here should be on the goal of regulation rather than its form and that some sectors may be more likely to need regulating than others (ex-state run industries for example).</p> <p>Much of the content here will overlap with the evaluation of monopoly and oligopoly markets from earlier in the term, and that an increase in competition and contestability isn't necessarily desirable in all circumstances (cooperation between firms is permitted under EU law in certain circumstances, for example).</p> <p>Probably worth looking at some of the watchdog bodies to see how regulation works (or not) in practice. Water, Post and Rail all have interesting features. Also worth looking at the CMA and some of its recent cases – domestic energy for example.</p> <p>Consider the reasons for, and implications of, regulatory capture. You could link really well to the financial crisis and the inability of regulators to predict it or respond to it.</p>
	Market Success		<p>Market Success and Market Failure.</p> <p>Recap of why markets in theory should allocate resources efficiently (competition holding down prices and costs, raising quality, consumer sovereignty/choice, invisible hand, allocative efficiency).</p>

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Understanding market failure

Define market failure and have an understanding of efficiency, that is, the maximisation of consumer/producer surplus at the free market equilibrium output.

Understand that market failure may take many forms, including

- public goods
- merit and demerit goods
- externalities
- monopoly power
- information asymmetries and gaps
- an absence of private property rights
- income inequality
- volatile prices

Appreciate the reasons for, and the consequences of, each source of market failure for economic agents.

Learners should be able to distinguish between public goods and private goods.

Learners should be able to draw and analyse diagrams showing the external benefits of consumption

Situation in which the free market does not allocate resources optimally in spite of the advantages highlighted.

Public goods: Non-excludable and non-diminishable. Free rider problem means that they would not be supplied in a free market leading to a welfare loss. Touch on cost-benefit analysis and the difficulty of putting economic values on concepts such as human life.

Monopoly power: Covered under market structures.

Externalities: Cost or benefits to third parties arising from production or consumption that are not taken into account by the free market, meaning that equilibrium output will be either too high or too low – thus a misallocation of resources due to the divergence between social cost and private cost. $SC = PC + EC$.

Production externalities: (pollution from production and so on). Social cost is greater than private cost, therefore such goods will be under-priced and over-supplied in the free market. Analysis using MSC/MSB diagrams.

Consumption externalities: Merit and Demerit goods. Case studies on health, education, tobacco, alcohol and cars/roads, using social cost/benefit analysis and MSC/MSB diagrams where appropriate; these require some time on them for learners to really understand the welfare loss, but can be linked back to allocative efficiency diagrams from earlier in the course.

Information asymmetries: Lop-sided information can damage markets and in extreme case render them unable to operate at all. Use of used cars (lemons) and private health insurance as examples.

Absence of property rights – where assets do not have clearly defined

		<p><i>and the external costs of consumption and production.</i></p> <p><i>Learners should be able to derive the socially efficient level of output and identify and explain welfare loss.</i></p>	<p>owners then a price cannot be established and they will be over-used. Tragedy of the commons, overfishing of cod as case studies.</p> <p>Inequalities. Explanation that whilst in theory the market will deliver goods to those who want them the most as long as incomes are equal, income inequalities mean that resources will instead go to those with the most money, therefore reducing total welfare</p> <p>Volatile prices. Covered under development economics.</p>
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TERM SIX

Week	Specification Content	Specification Amplification	Further guidance notes
29	Price volatility, maximum and minimum prices	<p>Explain why and how governments intervene in markets, for example, to correct market failure and reduce income inequality.</p> <p>Explain that, in certain cases, government intervention can create distortions in markets, for example, in agriculture, housing and labour markets.</p> <p>Understand the reasons for government failure and be able to evaluate its effects.</p> <p><i>Learners should be able to link policies to the reduction of income inequality, for example, progressive taxation and the benefits system, price stabilisation and guaranteed minimum price schemes in agriculture and the national minimum wage.</i></p>	<p>Maximum prices: Concept of maximum prices as a ceiling introduced by governments (e.g. rent controls) and other agencies (sporting/music events) as a way of securing access to goods/services to all groups and tackling problems with inequalities.</p> <p>Problems such as excess demand, the need for alternative resource allocation arrangements, possibility of black/unregulated markets emerging (discuss fair renting in the housing market and the illegal rental agreements that followed) and the impact on producer revenue (and thus on quality of provision), producer and consumer surplus.</p> <p>Minimum guaranteed prices – with close reference to agriculture:</p> <p>Reasons for intervention (agricultural price volatility – use of S/D and elasticity to illustrate, desire to protect rural incomes/rural way of life, redistributive effects).</p> <p>CAP – theory, recent history and reforms – looking at the impact of EU expansion on the CAP.</p> <p>Disadvantages of intervention in this fashion – opportunity cost of funds, cost of storage, impact on consumer surplus, dumping of surplus produce on world markets (e.g. impact of US powdered milk production on Jamaican dairy industry, US rice on Nicaraguan producers), drive towards intensive farming methods and the environmental and health side effects that these create.</p>

			The national minimum wage was covered in labour markets back in term 1.
30 - 31	Why and how governments intervene in markets, The effects of government intervention	<p>Explain why and how governments intervene in markets, for example, to correct market failure and reduce income inequality.</p> <p>Evaluate government intervention policies.</p> <p><i>Governments may intervene by using policies, such as taxation (specific and ad valorem taxes), subsidies, state provision and regulation, minimum and maximum prices, use of prices, for example, road pricing and tradeable pollution permits.</i></p> <p><i>Simple demand and supply diagrams should be used.</i></p> <p><i>Learners should be able to link policies to the reduction of income inequality, for example, progressive taxation and the benefits system, price stabilisation and guaranteed minimum price schemes in agriculture and the national minimum wage.</i></p>	<p>Taxes and subsidies – full analysis of ad valorem and specific taxes, looking at the impact of elasticity on the burden and incidence of tax. How taxes and subsidies can internalise externalities by making private costs equal to social costs. Problems with estimating the value of external costs – what is a tree worth?</p> <p>Regulation – legislative action to force socially efficient outcomes or to control monopoly power – but costs of administration may prove counter-productive.</p> <p>Market based solutions – tradable pollution permits – extension of property rights. Use EU scheme as a case study, problems such as high administrative costs and the need for a global system. Road pricing – lots of trial schemes in the UK and across the world using GPS technology.</p> <p>Direct government provision – public goods and some merit goods – link to problems with cost-benefit analysis.</p> <p>The risk of government failure (such as inadequate information, administrative costs, market distortions) throughout.</p>

		<i>Learners should be aware of distortions in markets and examples of government failure.</i>	
32	REVISION		