

3.1.1.1 Economic methodology

Can you explain why economics is a social science?



Can you explain how the methods of economists differ from those of natural scientists?



Can you distinguish between positive and normative statements?



Can you explain how value judgements influence economic decision making and policy?



Can you explain how moral and political judgements affect views on the best course of action?

**3.1.1.2 The nature and purpose of economic activity**

Can you explain that the central purpose of economic activity is to produce goods and services to satisfy needs and wants?



Can you explain the key economic decisions of what to produce, how to produce it and for whom?

**3.1.1.3 Economic resources**

Can you identify the factors of production: land, labour, capital and enterprise?



Can you explain why the environment should be treated as a scarce resource?

**3.1.1.4 Scarcity, choice and the allocation of resources**

Can you explain the fundamental economic problem of scarcity?



Can you explain why scarcity means choices must be made about how resources are allocated?



Can you define opportunity cost and apply it to decisions made by consumers, firms and governments?

**3.1.1.5 Production possibility diagrams**

Can you draw a production possibility diagram and use it to show the allocation of resources?



Can you use a production possibility diagram to illustrate opportunity cost and trade-offs?



Can you use a production possibility diagram to show unemployed or underemployed resources?



Can you use a production possibility diagram to show economic growth?



Can you explain why all points on the boundary are productively efficient but only one point is allocatively efficient?



Can you distinguish between capital goods and consumer goods on a production possibility diagram?



3.1.2

Individual economic decision making

3.1.2.1 Consumer behaviour

Can you explain the assumption of rational decision making in traditional economic theory?



Can you explain the role of economic incentives in influencing behaviour?



Can you distinguish between total utility and marginal utility?



Can you explain the hypothesis of diminishing marginal utility and how it links to a downward-sloping demand curve?



Can you explain utility maximisation and the importance of decisions made at the margin?



3.1.2.2 Imperfect information

Can you explain the importance of information for making rational decisions?



Can you explain asymmetric information, using examples?



Can you explain how imperfect information can lead to irrational choices and market failure?



3.1.2.3 Aspects of behavioural economic theory

Can you explain bounded rationality?



Can you explain bounded self-control?



Can you explain biases in decision making, including rules of thumb, anchoring, availability and social norms?



Can you explain the importance of altruism and perceptions of fairness?



Can you explain how behavioural economics challenges the view that individuals are rational utility maximisers?



3.1.2.4 Behavioural economics and economic policy

Can you explain choice architecture and framing?



Can you explain what a nudge is and give examples?



Can you explain default choices, restricted choice and mandated choice?



Can you evaluate how governments and other organisations can use behavioural insights to influence decisions?



3.1.3

Price determination in a competitive market

3.1.3.1 The determinants of the demand for goods and services

Can you explain the relationship between price and quantity demanded shown by a demand curve?



Can you distinguish between a movement along and a shift of the demand curve?



Can you explain the factors that cause the demand curve to shift?



3.1.3.2 Price, income and cross elasticities of demand

Can you calculate price elasticity of demand?



Can you calculate income elasticity of demand?



Can you calculate cross elasticity of demand?



Can you use income elasticity of demand to distinguish between normal and inferior goods?



Can you use cross elasticity of demand to distinguish between substitutes and complements?



Can you explain the relationship between price elasticity of demand and total revenue?



Can you explain the factors that influence price, income and cross elasticities of demand?



Can you interpret numerical values of price, income and cross elasticities of demand?



Can you explain the significance of elasticities of demand for firms and governments?



3.1.3.3 The determinants of the supply of goods and services

Can you explain the relationship between price and quantity supplied shown by a supply curve?



Can you explain why higher prices give firms an incentive to increase output through higher profits?



Can you distinguish between a movement along and a shift of the supply curve?



Can you explain the factors that cause the supply curve to shift?



Can you explain why, in perfect competition, the supply curve is derived from the marginal cost curve?



3.1.3.4 Price elasticity of supply

Can you calculate price elasticity of supply?



Can you explain the factors that influence price elasticity of supply, including time?



Can you interpret numerical values of price elasticity of supply?



3.1.3.5 The determination of equilibrium market prices

Can you explain how equilibrium price and quantity are determined by demand and supply?



Can you distinguish between equilibrium and disequilibrium in a market?



Can you explain how excess demand and excess supply cause prices to change?



Can you use demand and supply diagrams to analyse changes in equilibrium price and quantity?



Can you apply demand and supply analysis to real-world markets?



Can you explain the assumptions and limitations of the demand and supply model?



3.1.3.6 The interrelationship between markets

Can you explain how a change in one market can affect other related markets?



Can you explain joint (complementary) demand?



Can you explain competitive demand?



Can you explain composite demand?



Can you explain derived demand?



Can you explain joint supply?



Can you use diagrams to analyse the effects of changes in demand, supply and price across linked markets?



3.1.4 Production, costs and revenue

3.1.4.1 Production and productivity

Can you explain production as the conversion of inputs into output?



Can you define productivity and labour productivity?



Can you calculate labour productivity from data?



3.1.4.2 Specialisation, division of labour and exchange

Can you explain the advantages and disadvantages of specialisation and the division of labour?



Can you explain why specialisation requires an efficient means of exchange?



Can you explain the functions of money as a medium of exchange?



3.1.4.3 The law of diminishing returns and returns to scale

Can you distinguish between the short run and the long run?



Can you distinguish between total, average and marginal returns?



Can you explain the law of diminishing returns?



Can you explain increasing, constant and decreasing returns to scale?



Can you explain how diminishing returns and returns to scale affect a firm's costs?



3.1.4.4 Costs of production

Can you distinguish between fixed and variable costs?



Can you distinguish between total, average and marginal costs?



Can you distinguish between short-run and long-run costs?



Can you explain the shapes of short-run and long-run cost curves?



Can you explain how factor prices and productivity affect costs and a firm's choice of inputs?



Can you calculate costs from data?



Can you draw and interpret cost curve diagrams?



3.1.4.5 Economies and diseconomies of scale

Can you distinguish between internal and external economies of scale, giving examples?



Can you explain the causes of diseconomies of scale?



Can you explain the relationship between returns to scale and economies and diseconomies of scale?



Can you explain the shape of the long-run average cost curve, including an L-shaped LRAC?



Can you explain minimum efficient scale?



Can you explain how minimum efficient scale affects market structure and barriers to entry?



3.1.4.6 Marginal, average and total revenue

Can you distinguish between total, average and marginal revenue?



Can you explain why the average revenue curve is the firm's demand curve?



Can you explain the relationship between average and marginal revenue?



Can you explain the relationship between marginal revenue and total revenue?



Can you calculate revenues from data?



Can you draw and interpret revenue curve diagrams, including for a price taker and a price maker?



3.1.4.7 Profit

Can you define profit as total revenue minus total cost?



Can you distinguish between normal profit and supernormal (abnormal) profit?



Can you explain the role of profit in a market economy?



3.1.4.8 Technological change

Can you distinguish between invention and innovation?



Can you explain how technological change affects methods of production, productivity, efficiency and costs?



Can you explain how technological change can create new products and markets and destroy existing ones?



Can you explain how technological change can affect the structure of markets?



Can you explain the process of creative destruction?



3.1.5

Perfect competition, imperfectly competitive markets and monopoly

3.1.5.1 Market structures

Can you explain the spectrum of market structures from perfect competition to pure monopoly?



Can you explain how market structures differ by number of firms, product differentiation and ease of entry?



3.1.5.2 The objectives of firms

Can you explain why profit maximisation occurs where marginal cost equals marginal revenue?



Can you explain the divorce of ownership from control and the principal-agent problem?



Can you explain alternative objectives of firms, such as survival, growth, sales revenue maximisation, market share and satisficing?



3.1.5.3 Perfect competition

Can you state the characteristics of a perfectly competitive market?



Can you explain why a perfectly competitive firm is a price taker?



Can you use diagrams to show short-run equilibrium in perfect competition, including supernormal profits and losses?



Can you use diagrams to explain the adjustment to long-run equilibrium in perfect competition?



Can you explain why perfect competition is used as a benchmark for efficiency?



Can you evaluate the usefulness of the perfect competition model?



3.1.5.4 Monopolistic competition

Can you state the characteristics of monopolistic competition?



Can you use diagrams to show short-run and long-run equilibrium in monopolistic competition?



Can you explain the importance of non-price competition in monopolistic competition?



3.1.5.5 Oligopoly

Can you state the characteristics of an oligopoly?



Can you distinguish between defining oligopoly by market structure and by market conduct?



Can you calculate an n-firm concentration ratio?



Can you distinguish between collusive and non-collusive oligopoly?



Can you distinguish between cooperation and collusion between firms?



Can you use the kinked demand curve to illustrate interdependence and price stability?



Can you explain cartels, price leadership and price wars?



Can you explain non-price competition and barriers to entry in oligopoly?



Can you explain why interdependence leads to uncertainty in oligopoly?



Can you evaluate the advantages and disadvantages of oligopoly?



3.1.5.6 Monopoly and monopoly power

Can you use a diagram to show the profit-maximising price and output of a monopolist?



Can you explain the factors that influence the degree of monopoly power?



Can you evaluate the advantages and disadvantages of monopoly, including natural monopoly?



3.1.5.7 Price discrimination

Can you explain the conditions necessary for price discrimination?



Can you use a diagram to analyse price discrimination?



Can you give real-world examples of price discrimination?



Can you evaluate the effects of price discrimination on consumers and producers?



3.1.5.8 The dynamics of competition and competitive market processes

Can you explain the short-run and long-run benefits of competition?



Can you explain how competition encourages improvements in quality, cost reduction and customer service?



Can you explain how creative destruction drives competition over time?



3.1.5.9 Contestable and non-contestable markets

Can you explain what makes a market contestable?



Can you explain how contestability affects the conduct and performance of firms?



Can you explain the role of sunk costs in determining contestability?



Can you explain hit-and-run competition?



3.1.5.10 Market structure, static efficiency, dynamic efficiency and resource allocation

Can you distinguish between static and dynamic efficiency?



Can you explain the conditions for productive efficiency?



Can you explain the conditions for allocative efficiency ($P = MC$)?



Can you explain how research and development, investment and innovation lead to dynamic efficiency?



Can you compare the efficiency of different market structures using conduct and performance?



3.1.5.11 Consumer and producer surplus

Can you define consumer surplus and producer surplus?



Can you use consumer and producer surplus in welfare analysis?



Can you use a diagram to show the deadweight welfare loss of monopoly?



Can you use consumer and producer surplus to analyse the effects of price discrimination?



3.1.6 The labour market

3.1.6.1 The demand for labour, marginal productivity theory

Can you explain why the demand for labour is a derived demand?



Can you explain marginal productivity theory?



Can you explain why the labour demand curve slopes downwards?



Can you explain the factors that shift the demand for labour?



Can you explain the factors that determine the elasticity of demand for labour?



3.1.6.2 Influences upon the supply of labour to different markets

Can you explain the monetary and non-monetary factors that influence the supply of labour to an occupation?



Can you explain the shape of the supply curve of labour to an occupation?



Can you explain the factors that shift the supply of labour to an occupation?



3.1.6.3 The determination of relative wage rates and levels of employment in perfectly competitive labour markets

Can you use a diagram to explain how wages and employment are determined in a perfectly competitive labour market?



Can you explain how market forces determine relative wage rates between occupations?



3.1.6.4 The determination of relative wage rates and levels of employment in imperfectly competitive labour markets

Can you explain the causes of imperfections in labour markets, including monopsony, trade unions and imperfect information?



Can you use a diagram to show how a monopsony employer sets wages and employment?



Can you compare monopsony wages and employment with the competitive outcome?



3.1.6.5 The influence of trade unions in determining wages and levels of employment

Can you explain the factors that influence the power of trade unions?



Can you use a diagram to analyse the effect of a trade union in a competitive labour market?



Can you use a diagram to analyse the effect of a trade union in a monopsony labour market?



3.1.6.6 The National Minimum Wage

Can you use diagrams to analyse the effects of a national minimum wage on labour markets?



Can you evaluate the advantages and disadvantages of a national minimum wage?



3.1.6.7 Discrimination in the labour market

Can you explain the conditions needed for wage discrimination by employers?



Can you analyse how discrimination by gender, ethnicity or other factors affects wages and employment?



Can you give real-world examples of labour market discrimination?



Can you evaluate the costs and benefits of discrimination for workers, employers and the economy?



3.1.7

The distribution of income and wealth: poverty and inequality

3.1.7.1 The distribution of income and wealth

Can you distinguish between income and wealth?	☐	☐	☐
Can you explain the factors that influence the distribution of income and wealth?	☐	☐	☐
Can you distinguish between equality and equity and explain the role of value judgements?	☐	☐	☐
Can you interpret a Lorenz curve?	☐	☐	☐
Can you interpret a Gini coefficient (without needing to calculate it)?	☐	☐	☐
Can you evaluate the benefits and costs of more equal and less equal distributions of income and wealth?	☐	☐	☐
Can you describe the main features of the distribution of income and wealth in the UK?	☐	☐	☐

3.1.7.2 The problem of poverty

Can you distinguish between relative and absolute poverty?	☐	☐	☐
Can you explain the causes of poverty?	☐	☐	☐
Can you explain the effects of poverty on individuals and the economy?	☐	☐	☐

3.1.7.3 Government policies to alleviate poverty and to influence the distribution of income and wealth

Can you explain policies governments can use to reduce poverty and redistribute income and wealth?	☐	☐	☐
Can you analyse the economic consequences of redistributive policies, including effects on incentives?	☐	☐	☐
Can you evaluate policies to reduce poverty and inequality, including moral and political judgements?	☐	☐	☐

3.1.8

The market mechanism, market failure and government intervention in markets

3.1.8.1 How markets and prices allocate resources

Can you explain the rationing, incentive and signalling functions of prices?	☐	☐	☐
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Can you evaluate the advantages and disadvantages of the price mechanism in allocating resources?



Can you discuss whether markets should be extended into new areas, such as blood or organs?



3.1.8.2 The meaning of market failure

Can you define market failure as a misallocation of resources?



Can you distinguish between complete and partial market failure?



Can you explain the idea of a missing market?



Can you identify the causes of market failure, including public goods, externalities, merit and demerit goods, monopoly and inequality?



3.1.8.3 Public goods, private goods and quasi-public goods

Can you explain the characteristics of non-rivalry and non-excludability?



Can you distinguish between public goods and private goods?



Can you explain what makes a good quasi-public?



Can you explain how technology can change whether a good is a public good?



Can you explain the free-rider problem?



Can you explain the tragedy of the commons and its link to environmental market failure?



3.1.8.4 Positive and negative externalities in consumption and production

Can you distinguish between private costs, external costs and social costs?



Can you distinguish between private benefits, external benefits and social benefits?



Can you explain why negative externalities lead to over-production or over-consumption?



Can you explain why positive externalities lead to under-production or under-consumption?



Can you explain how the absence of property rights contributes to externalities?



Can you use marginal private and social cost and benefit diagrams to analyse externalities and welfare loss?



3.1.8.5 Merit and demerit goods

Can you explain why classifying goods as merit or demerit goods involves value judgements?



Can you explain how merit and demerit goods are linked to externalities and imperfect information?



Can you use diagrams to show the misallocation of resources caused by merit and demerit goods?



Can you distinguish merit and demerit goods from goods that simply generate externalities?



3.1.8.6 Market imperfections

Can you explain how imperfect and asymmetric information cause market failure?



Can you explain how monopoly power leads to market failure?



Can you explain how the occupational and geographical immobility of factors of production leads to market failure?



3.1.8.7 Competition policy

Can you explain the main principles of UK competition policy?



Can you show awareness of EU competition policy?



Can you evaluate the costs and benefits of competition policy?



Can you apply competition policy to real-world examples, such as mergers, cartels and abuse of dominance?



3.1.8.8 Public ownership, privatisation, regulation and deregulation of markets

Can you evaluate the arguments for and against public ownership?



Can you evaluate the arguments for and against privatisation?



Can you evaluate the arguments for and against regulation, including price caps, and deregulation?



Can you explain regulatory capture?



Can you assess the effects of UK privatisation and regulation on the performance of industries?



3.1.8.9 Government intervention in markets

Can you explain why market failure provides a case for government intervention?



Can you use diagrams to analyse the effects of indirect taxes and subsidies?



Can you use diagrams to analyse maximum and minimum price controls?



Can you explain state provision and regulation as methods of intervention?



Can you explain how extending property rights can correct market failure?



Can you explain how tradable pollution permits work?



Can you explain the objectives of government intervention in a mixed economy?



Can you evaluate the strengths, weaknesses and relative merits of different methods of intervention?



3.1.8.10 Government failure

Can you define government failure as a misallocation of resources caused by intervention?



Can you explain causes of government failure, including inadequate information, conflicting objectives and administrative costs?



Can you explain how intervention can create market distortions and unintended consequences?



Can you explain why intervention may not improve welfare even when market failure exists?



3.2.1.1 The objectives of government economic policy

Can you state the main macroeconomic objectives: economic growth, low unemployment, price stability and a satisfactory current account?



Can you explain why these objectives may conflict in the short run?



Can you explain other possible objectives, such as a balanced budget and a fairer distribution of income?



Can you explain why the priority given to different objectives changes over time?

**3.2.1.2 Macroeconomic indicators**

Can you explain real GDP and real GDP per capita as indicators of performance?



Can you explain the Consumer Prices Index (CPI) and Retail Prices Index (RPI)?



Can you explain how unemployment is measured?



Can you explain productivity as a macroeconomic indicator?



Can you explain the current account balance as an indicator of performance?

**3.2.1.3 Uses of index numbers**

Can you explain the role of the base year and weights in index numbers?



Can you calculate and interpret index numbers?



Can you use index numbers to compare changes in prices and other variables over time?



Can you explain how CPI and RPI are constructed using a basket of goods and household spending?



Can you convert nominal values into real values using a price index?

**3.2.1.4 Uses of national income data**

Can you evaluate the limitations of national income data for comparing living standards over time?



Can you evaluate the limitations of national income data for comparing living standards between countries?



Can you explain the use of purchasing power parity (PPP) exchange rates for international comparisons?



3.2.2**How the macroeconomy works: the circular flow of income, AD/AS analysis, and related concepts****3.2.2.1 The circular flow of income**

Can you explain the meaning of national income?	☐	☐	☐
Can you distinguish between nominal and real national income?	☐	☐	☐
Can you explain why real income is a useful indicator of economic performance?	☐	☐	☐
Can you explain the circular flow of income and why national income equals output equals expenditure?	☐	☐	☐
Can you distinguish between equilibrium national income and full employment national income?	☐	☐	☐
Can you explain how injections and withdrawals affect the level of national income?	☐	☐	☐

3.2.2.2 Aggregate demand and aggregate supply analysis

Can you explain why a change in the price level causes a movement along the AD and AS curves?	☐	☐	☐
Can you explain the factors that shift the AD curve?	☐	☐	☐
Can you explain the factors that shift the short-run AS curve?	☐	☐	☐
Can you explain the factors that shift the long-run AS curve and how they differ from short-run factors?	☐	☐	☐
Can you explain economic growth as a rightward shift of long-run AS?	☐	☐	☐
Can you draw and use AD/AS diagrams to show macroeconomic equilibrium?	☐	☐	☐
Can you use AD/AS diagrams to analyse demand-side and supply-side shocks?	☐	☐	☐
Can you explain how events in the global economy are transmitted to the domestic economy?	☐	☐	☐

3.2.2.3 The determinants of aggregate demand

Can you define aggregate demand and state its components ($C + I + G + X - M$)?	☐	☐	☐
Can you explain the determinants of consumption?	☐	☐	☐
Can you explain the determinants of investment, including the accelerator process (without calculations)?	☐	☐	☐
Can you explain the determinants of government spending, exports and imports?	☐	☐	☐
Can you explain the determinants of saving?	☐	☐	☐
Can you distinguish between saving and investment?	☐	☐	☐

Can you explain how net exports affect aggregate demand and economic performance?



3.2.2.4 Aggregate demand and the level of economic activity

Can you explain the role of aggregate demand in determining the level of economic activity?



Can you explain the multiplier process?



Can you define the marginal propensity to consume?



Can you calculate the multiplier using the marginal propensity to consume?



Can you explain why a higher marginal propensity to consume leads to a larger multiplier?



3.2.2.5 Determinants of short-run aggregate supply

Can you explain how the price level and costs of production determine short-run aggregate supply?



Can you explain how changes in wage rates, raw material prices, business taxes and productivity shift SRAS?



3.2.2.6 Determinants of long-run aggregate supply

Can you explain the fundamental determinants of LRAS, including technology, productivity, attitudes, enterprise, factor mobility and incentives?



Can you explain why the classical LRAS curve is vertical at the normal capacity level of output?



Can you explain the role of institutional factors, such as the banking system, in financing investment?



Can you explain the shape of the Keynesian AS curve?



Can you compare the Keynesian and classical views of long-run aggregate supply?



3.2.3 Economic performance

3.2.3.1 Economic growth and the economic cycle

Can you distinguish between short-run and long-run economic growth?



Can you explain the demand-side and supply-side determinants of growth and trend growth?



Can you evaluate the costs and benefits of economic growth for individuals, the economy and the environment?



Can you discuss whether economic growth is sustainable?



Can you identify the phases of the economic cycle using indicators such as GDP, inflation, unemployment and investment?



Can you explain positive and negative output gaps?



Can you explain causes of cyclical instability, including credit and debt, asset price bubbles, speculation and animal spirits?



Can you explain how global and domestic shocks affect the economic cycle?



Can you use production possibility and AD/AS diagrams to analyse growth and output gaps?



3.2.3.2 Employment and unemployment

Can you explain how unemployment is measured using the claimant count and the Labour Force Survey?



Can you distinguish between voluntary and involuntary unemployment?



Can you explain seasonal, frictional, structural and cyclical unemployment?



Can you explain demand-side and supply-side causes of unemployment?



Can you explain real wage unemployment and its causes?



Can you explain the natural rate of unemployment and its determinants?



Can you evaluate the consequences of unemployment for individuals and the economy?



Can you explain why the appropriate policy depends on the cause of unemployment?



Can you use AD/AS diagrams to link negative output gaps to cyclical unemployment and supply-side causes to LRAS?



3.2.3.3 Inflation and deflation

Can you define inflation, deflation and disinflation?



Can you explain demand-pull inflation?



Can you explain cost-push inflation?



Can you explain the Fisher equation of exchange ($MV = PT$ or $MV = PQ$)?



Can you explain the monetarist quantity theory of money?



Can you explain the role of expectations in determining inflation?



Can you evaluate the costs of inflation and deflation for individuals and the economy?



Can you explain how world commodity prices and conditions in other economies affect UK inflation?



Can you distinguish between deflationary policy and deflation?



3.2.3.4 Possible conflicts between macroeconomic policy objectives

Can you explain how output gaps relate to unemployment and inflation?



Can you use the short-run Phillips curve to explain the trade-off between inflation and unemployment?



Can you use the long-run (vertical) Phillips curve to explain the natural rate of unemployment?



Can you explain the policy implications of the short-run and long-run Phillips curves?



Can you explain policies that may reconcile conflicts between objectives in the short and long run?



Can you explain the monetarist and supply-side view that objectives are compatible in the long run?



Can you use AD/AS diagrams to analyse conflicts between macroeconomic objectives?



3.2.4

Financial markets and monetary policy

3.2.4.1 The structure of financial markets and financial assets

Can you explain the characteristics and functions of money?



Can you distinguish between narrow money and broad money?



Can you distinguish between the money market, the capital market and the foreign exchange market?



Can you explain the role of financial markets in the economy?



Can you distinguish between debt and equity?



Can you explain the inverse relationship between interest rates and bond prices?



Can you explain how firms raise finance through shares, corporate bonds and bank loans?



Can you explain the coupon and maturity of a bond?



Can you calculate the yield on a government bond?



3.2.4.2 Commercial banks and investment banks

Can you distinguish between commercial banks and investment banks?



Can you explain the main functions of a commercial bank?



Can you describe the structure of a commercial bank's balance sheet?



Can you explain the objectives of liquidity, profitability and security and why they conflict?



Can you explain how commercial banks create credit?



Can you explain how combining commercial and investment banking can increase systemic risk?



3.2.4.3 Central banks and monetary policy

Can you explain the main functions of a central bank?



Can you explain how monetary policy can use interest rates, the money supply and credit, and the exchange rate?



Can you state the government's current monetary policy objectives, including the inflation target?



Can you explain the role of the Bank of England's Monetary Policy Committee in setting Bank Rate?



Can you explain the factors the MPC considers when setting Bank Rate?



Can you explain how changes in the exchange rate affect aggregate demand and policy objectives?



Can you explain the transmission mechanism of monetary policy?



Can you explain how a central bank can influence the growth of the money supply?



Can you explain quantitative easing?



Can you explain the Funding for Lending scheme and forward guidance?



Can you evaluate the effectiveness of monetary policy?



3.2.4.4 The regulation of the financial system

Can you explain the roles of the Bank of England, the PRA, the FPC and the FCA in regulating the financial system?



Can you explain why banks may fail, including maturity mismatch?



Can you explain how liquidity ratios and capital ratios affect the stability of banks (without calculations)?



Can you explain moral hazard in the financial system?



Can you explain systemic risk and how problems in the financial sector affect the real economy?



3.2.5.1 Fiscal policy

Can you explain fiscal policy in terms of government spending, taxation and the budget balance?	☐	☐	☐
Can you explain the macroeconomic and microeconomic roles of fiscal policy?	☐	☐	☐
Can you use AD/AS diagrams to analyse how fiscal policy affects aggregate demand and aggregate supply?	☐	☐	☐
Can you explain how spending and taxation affect the pattern of economic activity?	☐	☐	☐
Can you explain the reasons for public expenditure and taxation?	☐	☐	☐
Can you distinguish between direct and indirect taxes?	☐	☐	☐
Can you distinguish between progressive, proportional and regressive taxes?	☐	☐	☐
Can you explain the principles of taxation, including equity?	☐	☐	☐
Can you evaluate the merits of different UK taxes?	☐	☐	☐
Can you distinguish between the budget deficit and the national debt?	☐	☐	☐
Can you distinguish between cyclical and structural budget deficits and surpluses?	☐	☐	☐
Can you evaluate the consequences of budget deficits and surpluses and the significance of the national debt?	☐	☐	☐
Can you explain the role of the Office for Budget Responsibility?	☐	☐	☐
Can you evaluate changes in government spending and taxation, including measures to reduce a deficit?	☐	☐	☐

3.2.5.2 Supply-side policies

Can you distinguish between supply-side policies and supply-side improvements?	☐	☐	☐
Can you explain how supply-side policies increase potential output and trend growth?	☐	☐	☐
Can you explain how tax changes can alter incentives to work, save and invest?	☐	☐	☐
Can you explain how supply-side policies affect unemployment, inflation and the current account?	☐	☐	☐
Can you explain how supply-side policies can reduce the natural rate of unemployment?	☐	☐	☐
Can you explain free-market supply-side policies, such as tax cuts, privatisation, deregulation and labour market reform?	☐	☐	☐
Can you explain interventionist supply-side policies, such as education and training, industrial policy and R&D subsidies?	☐	☐	☐

Can you explain how supply-side improvements can originate in the private sector?



Can you explain why government intervention may be needed to correct market failures such as short-termism?



Can you evaluate the microeconomic and macroeconomic effects of supply-side policies?



3.2.6 The international economy

3.2.6.1 Globalisation

Can you explain the causes and main characteristics of globalisation?



Can you evaluate the consequences of globalisation for less-developed countries?



Can you evaluate the consequences of globalisation for more-developed countries?



Can you explain the role of multinational corporations in globalisation?



3.2.6.2 Trade

Can you explain the model of comparative advantage?



Can you use a simple numerical example to show comparative advantage?



Can you distinguish between comparative and absolute advantage?



Can you explain how specialisation and trade increase total output?



Can you explain other benefits of trade, such as economies of scale and increased competition?



Can you explain the costs of international trade?



Can you describe changing patterns of UK trade?



Can you explain protectionist measures, including tariffs, quotas and export subsidies?



Can you use a diagram to analyse the effects of an import tariff?



Can you evaluate the causes and consequences of protectionism?



Can you explain the features of a customs union?



Can you explain the main features of the Single European Market?



Can you explain the role of the World Trade Organization?



3.2.6.3 The balance of payments

Can you explain the structure of the balance of payments, including the current, capital and financial accounts?



Can you explain the components of the current account: trade in goods, trade in services, primary income and secondary income?



Can you explain the meaning of current account deficits and surpluses?



Can you explain how productivity, inflation and the exchange rate influence the current account?



Can you distinguish between foreign direct investment and portfolio investment?



Can you explain the effects of investment flows between countries?



Can you explain expenditure-switching and expenditure-reducing policies?



Can you explain how policies to correct imbalances may affect other macroeconomic objectives?



Can you evaluate the significance of current account imbalances for individual economies and the global economy?



3.2.6.4 Exchange rate systems

Can you explain how exchange rates are determined in a freely floating system?



Can you use a diagram to analyse changes in a floating exchange rate?



Can you explain how governments and central banks intervene to influence exchange rates?



Can you explain how a fixed exchange rate is maintained?



Can you evaluate the advantages and disadvantages of fixed and floating exchange rate systems?



Can you explain how changes in the exchange rate affect the economy?



Can you evaluate the advantages and disadvantages of joining a currency union, such as the eurozone?



3.2.6.5 Economic growth and development

Can you distinguish between economic growth and economic development?



Can you describe the main characteristics of less-developed economies?



Can you explain indicators of development, including the Human Development Index (HDI)?



Can you explain how investment, education and training affect growth and development?



Can you explain barriers to growth and development, such as corruption, weak institutions, poor infrastructure, low human capital and lack of property rights?



Can you evaluate policies to promote growth and development?



Can you evaluate the roles of aid and trade in promoting development?



Can you compare market-based and interventionist development strategies?

