

1.1 Scarcity and choice

Scarcity, choice and opportunity cost

Can you define scarcity, choice and opportunity cost and illustrate them for society, individuals and government?



Can you explain that every economy must decide what to produce, how to produce it and for whom?



Can you distinguish between economic goods and free goods?



Production possibility frontiers

Can you use a PPF diagram to illustrate choice, opportunity cost, efficiency and short-run and long-run economic growth?



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



Can you explain why a PPF is usually concave to the origin (imperfect factor substitutability) and what a straight-line PPF implies?



Can you explain increasing opportunity cost at the margin using a PPF?



Can you explain the factors that shift a PPF inwards or outwards, and link growth and productivity changes to outward or skewed shifts?



Can you link the PPF to an economy's productive potential and to long-run aggregate supply (LRAS)?



Specialisation, division of labour and exchange

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



Can you define productivity and explain how specialisation and other factors can raise it?



Can you explain the importance of specialisation and exchange for individuals and for nations?



1.2 Demand and supply in product markets

Factors influencing demand and supply

Can you define a product market?



Can you explain that firms are assumed to maximise profit and consumers to maximise satisfaction (utility), acting rationally?



Can you explain diminishing marginal utility and its role in deriving a downward-sloping demand curve?



Can you identify the main factors that influence demand and the main factors that influence supply?



Can you explain why supply slopes upwards (higher prices bring higher profits and short-run marginal costs rise)?



Can you explain the basic substitution and income effects of a price change?



Equilibrium price and output

Can you illustrate equilibrium price and output in a freely competitive market using a diagram?



Can you distinguish between movements along and shifts of demand and supply curves, and explain the reasons for each?



Can you use diagrams to analyse the effect of shifts in demand and supply on equilibrium price and output?



Consumer and producer surplus

Can you define, explain and illustrate consumer surplus and producer surplus?



Can you explain why consumer and producer surplus are jointly maximised at the free market equilibrium?



Can you calculate the value of consumer and producer surplus from a diagram (e.g. area of a triangle)?



Elasticities

Can you explain the meaning of price, income and cross price elasticity of demand and price elasticity of supply?



Can you define, calculate and interpret values of each type of elasticity?



Can you explain the factors that influence each elasticity?



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



Can you explain why price elasticity of demand varies along a straight-line demand curve?



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



Can you use cross price elasticity to identify substitutes and complements?



Can you apply elasticity to the incidence of indirect taxes and subsidies on consumers and producers?



Can you evaluate the importance of elasticity to firms and to government?



1.3 Labour markets

Wage determination

- | | |
|--|---|
| Can you identify the main influences on the demand for and supply of labour? | ☐ ☐ ☐ |
| Can you illustrate the factors that shift the demand for and supply of labour? | ☐ ☐ ☐ |
| Can you explain the determinants of the elasticity of demand for and supply of labour? | ☐ ☐ ☐ |
| Can you explain the causes and implications of wage differentials? | ☐ ☐ ☐ |

Labour market issues

- | | |
|---|---|
| Can you explain how trade unions, regulation, welfare payments and income tax affect labour market flexibility? | ☐ ☐ ☐ |
| Can you evaluate the effects of the national minimum wage on labour markets and the wider economy? | ☐ ☐ ☐ |
| Can you explain the impact of migration on labour markets? | ☐ ☐ ☐ |
| Can you explain the links between labour market issues and supply-side performance? | ☐ ☐ ☐ |

1.4 Resource allocation

How resources are allocated in a free market

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|---|---|
| Can you explain the role of prices and profit in allocating resources in a free market economy? | ☐ ☐ ☐ |
| Can you explain how a change in one market can affect other markets, including factor and product markets? | ☐ ☐ ☐ |
| Can you state the main assumptions of free markets, such as many buyers and sellers and perfect information? | ☐ ☐ ☐ |
| Can you explain why economic agents do not always act rationally, and what this means for free market outcomes? | ☐ ☐ ☐ |

1.5 Costs, revenues and profits

Costs and returns

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|--|---|
| Can you explain the law of diminishing returns and why it may not set in immediately? | ☐ ☐ ☐ |
| Can you explain total, average and marginal product, numerically and diagrammatically? | ☐ ☐ ☐ |

Can you link the marginal product of labour to marginal cost?



Can you distinguish between fixed and variable costs, and between the short run and the long run?



Can you define and calculate total, average and marginal costs?



Revenue and profit

Can you define and calculate total, average and marginal revenue?



Can you explain why profit is maximised where marginal revenue equals marginal cost ($MR = MC$)?



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



Can you distinguish between accounting profit and economic profit?



Economies of scale

Can you explain and illustrate internal economies and diseconomies of scale?



Can you explain and illustrate external economies and diseconomies of scale?



Can you derive the long-run average cost curve from short-run average cost curves?



1.6 Growth of firms and efficiency

The growth of firms

Can you explain how and why firms grow?



Can you distinguish between internal (organic) and external growth?



Can you explain horizontal, vertical and conglomerate integration and mergers?



Can you evaluate the possible costs and benefits of growth and mergers?



Efficiency

Can you explain and illustrate productive efficiency?



Can you explain and illustrate allocative efficiency?



Can you explain dynamic efficiency and Pareto efficiency?



Background to market structures

Can you explain that market structure depends on the number of firms and on the freedom of entry and exit (contestability)?



Can you explain how regulators can affect the contestability of a market?



Can you distinguish between structural barriers to entry (e.g. high start-up costs) and behavioural barriers (e.g. limit pricing)?

**Business objectives**

Can you explain that firms may aim for profit maximisation, revenue maximisation, market share, survival or social and community objectives?



Can you explain that different stakeholders have different objectives, and explain satisficing?

**Perfect competition**

Can you define perfect competition and explain its underpinning assumptions?



Can you illustrate short-run and long-run equilibrium for the firm and the industry under perfect competition?



Can you explain how a perfectly competitive market adjusts from the short run to the long run?



Can you explain and evaluate the efficiency of perfect competition using allocative and productive efficiency?

**Monopolistic competition**

Can you define monopolistic competition and explain its underpinning assumptions?



Can you illustrate short-run and long-run equilibrium for the firm under monopolistic competition?



Can you explain how a monopolistically competitive market adjusts from the short run to the long run?



Can you explain the importance of non-price factors such as product differentiation and advertising?



Can you explain and evaluate the efficiency of monopolistic competition?



1.8 Monopoly and oligopoly

Monopoly

Can you define monopoly and pure monopoly and explain the underpinning assumptions?	☐	☐	☐
Can you use diagrams to compare short-run and long-run equilibrium under monopoly with perfect competition?	☐	☐	☐
Can you use diagrams to illustrate differences in efficiency between monopoly and perfect competition?	☐	☐	☐
Can you explain and evaluate the costs and benefits of monopoly, including price discrimination, lack of contestability, efficiency and economies of scale?	☐	☐	☐
Can you explain natural monopoly?	☐	☐	☐
Can you explain the links between monopoly and international competitiveness?	☐	☐	☐

Oligopoly

Can you explain the main features of oligopoly and the concept of interdependence?	☐	☐	☐
Can you calculate and interpret simple concentration ratios?	☐	☐	☐
Can you explain price and non-price competition, price leadership, collusion and price wars?	☐	☐	☐
Can you use game theory to analyse and evaluate interdependent behaviour of firms?	☐	☐	☐
Can you determine a Nash equilibrium in a pay-off matrix?	☐	☐	☐
Can you explain the allocative and productive efficiency of oligopoly and the role of dominant firms in innovation?	☐	☐	☐
Can you explain and evaluate the costs and benefits of oligopoly?	☐	☐	☐

1.9 Competition policy and privatisation

Competition policy

Can you explain why governments are concerned about competition, monopolies and mergers?	☐	☐	☐
Can you explain the role of competition authorities and regulators in promoting contestability?	☐	☐	☐
Can you evaluate how desirable competition and contestability are?	☐	☐	☐

Privatisation

Can you explain how privatisation may increase competition?	☐	☐	☐
Can you evaluate the effects of privatisation on competition, efficiency, prices and the whole economy?	☐	☐	☐
Can you explain that privatisation can take forms other than a transfer of ownership (e.g. contracting out, deregulation)?	☐	☐	☐
Can you evaluate the arguments for renationalisation?	☐	☐	☐

1.10

Market failure

Understanding market failure

Can you define market failure, and define efficiency as maximising consumer and producer surplus at the free market equilibrium?	☐	☐	☐
Can you identify the forms of market failure: public goods, merit and demerit goods, externalities, monopoly power, information gaps, absence of property rights, income inequality and volatile prices?	☐	☐	☐
Can you explain the causes and consequences of each form of market failure for economic agents?	☐	☐	☐
Can you distinguish between public goods and private goods using non-rivalry and non-excludability, and explain the free rider problem?	☐	☐	☐
Can you explain why merit goods are under-consumed and demerit goods over-consumed, including the role of information gaps?	☐	☐	☐

Externalities

Can you draw and analyse diagrams showing external costs and benefits of production?	☐	☐	☐
Can you draw and analyse diagrams showing external costs and benefits of consumption?	☐	☐	☐
Can you derive the socially efficient level of output (where marginal social cost equals marginal social benefit)?	☐	☐	☐
Can you identify and explain the welfare loss area on an externality diagram?	☐	☐	☐

Why and how governments intervene

Can you explain why governments intervene in markets, for example to correct market failure or reduce income inequality?



Can you analyse and evaluate specific and ad valorem indirect taxes as a form of intervention?



Can you analyse and evaluate subsidies as a form of intervention?



Can you evaluate state provision and regulation as forms of intervention?



Can you analyse and evaluate maximum and minimum prices using diagrams?



Can you evaluate road pricing and tradeable pollution permits?



Can you explain how progressive taxation, benefits, price stabilisation, guaranteed minimum prices and the national minimum wage can reduce income inequality?

**The effects of government intervention**

Can you explain how government intervention can create market distortions, for example in agriculture, housing and labour markets?



Can you explain the reasons for government failure?



Can you evaluate the effects of government failure?



2.1 Models and the circular flow

Macroeconomic models and theory

Can you use economic models to develop a critical understanding of macroeconomic issues?



Can you explain the historical context of key economic ideas and theories?



Can you explain the debate between Keynesians (the economy can settle below full employment) and Neo-Classical economists (the economy self-adjusts to full employment)?



Can you evaluate the policy options governments use as a result of this disagreement?



Can you discuss major UK and global economic issues from 1990 to the present day?



The circular flow of income

Can you explain the flows in the circular flow of income and why income, output and expenditure must be equal?



Can you explain injections into and withdrawals from the circular flow?



Can you use the circular flow to explain national income equilibrium and how changes in injections and withdrawals change it?



Can you explain the multiplier process (calculation not required)?



2.2 Aggregate demand

Components of aggregate demand

Can you define the components of AD: consumption, investment, government spending and net exports ($X - M$)?



Can you explain the factors affecting consumption, including income, wealth, interest rates, expectations and taxation?



Can you explain the factors affecting investment, including profit, interest rates, expectations and taxation?



The AD curve

Can you explain why the AD curve slopes downwards from left to right, using the real balance, trade or interest rate effect?



Can you explain how changes in the components of AD shift the AD curve?



2.3

Aggregate supply and AD/AS analysis

Long-run aggregate supply

Can you explain the shape of the Keynesian LRAS curve?



Can you explain why the Neo-Classical LRAS is vertical at the full employment level of output?



Can you explain the differences between Keynesian and Neo-Classical views of the shape of LRAS?



Can you explain the factors that shift LRAS: the quantity, quality and efficiency of factors of production, technology and factor market flexibility?



Can you explain how changes in policy instruments can shift LRAS?



Can you explain the Neo-Classical process by which an economy adjusts to long-run equilibrium, and its assumption of flexible product and factor markets?



Can you explain the Keynesian objection to self-adjustment based on inflexible factor markets such as sticky wages?



Short-run aggregate supply

Can you explain why the SRAS curve slopes upwards from left to right?



Can you explain the assumptions behind SRAS, such as fixed input prices, productivity and technology, and its link to Monetarist and Neo-Classical economists?



Can you explain how changes in labour costs, commodity prices, the exchange rate, taxes and subsidies can shift SRAS?



AD/AS analysis

Can you use AD/AS diagrams to explain how equilibrium output, employment and the price level are determined in the long run?



2.4 The Phillips curve

Short-run and long-run Phillips curves

Can you draw and explain the short-run Phillips curve trade-off between inflation and unemployment, with UK evidence?



Can you explain the Neo-Classical view that the short-run Phillips curve is unstable because of expectations?



Can you explain why trying to hold unemployment below the natural rate/NAIRU leads to accelerating inflation in the long run?



Can you draw and explain the vertical long-run Phillips curve at the natural rate of unemployment/NAIRU?



Can you explain the role of inflationary expectations in the Phillips curve model?



Can you explain how supply-side changes and policy changes can shift the long-run Phillips curve?



2.5 Objectives and economic growth

Government policy objectives

Can you explain the main macroeconomic objectives: low inflation, low unemployment, sustainable growth and current account equilibrium, and why governments pursue them?



Can you explain and evaluate possible conflicts between macroeconomic objectives?



Economic growth

Can you distinguish between actual (measured GDP) growth and potential growth (growth of productive capacity)?



Can you explain positive and negative output gaps and the business cycle?



Can you explain the meaning of a recession?



Can you illustrate actual and potential growth using PPF and AD/AS diagrams?



Can you explain the causes of growth: changes in the quantity, quality and efficiency of factors, technology and factor market flexibility?



Can you discuss how far policy instruments can generate economic growth?



Can you explain the benefits of growth for households, firms and government?



Can you evaluate the benefits of growth in terms of distribution, opportunity cost, sustainability and conflicts with other objectives?



2.6 Unemployment

Measuring unemployment

Can you explain the main current measures of unemployment (e.g. claimant count and Labour Force Survey) and the problems of measuring it accurately?



Can you distinguish between economically active and inactive people and define the labour force?



Can you explain the natural rate of unemployment?



Causes and costs

Can you explain the economic and social costs of unemployment for households, firms, government and the economy?



Can you explain demand-side (cyclical) unemployment and the different views on how temporary it is?



Can you explain supply-side causes of unemployment: occupational and geographical immobility, weak work incentives and real wage unemployment?



Can you explain the different Keynesian and Neo-Classical views on the causes of unemployment?



Solutions

Can you explain and evaluate demand-side (fiscal and monetary) solutions to unemployment when there is a negative output gap?



Can you explain and evaluate supply-side solutions aimed at specific labour market problems, including policies to improve labour mobility and flexibility?



2.7 Inflation and deflation

Measuring inflation

Can you explain how inflation is calculated from weighted changes in a price index, usually over twelve months?



Can you calculate simple price indices and explain the purpose of weights?



Can you calculate and interpret index numbers in the context of inflation?



Can you identify the main measures of inflation in use (e.g. CPI and RPI) and the differences between them?



Causes and costs of inflation

Can you explain demand-pull and cost-push inflation?



Can you explain and evaluate the quantity theory of money ($MV = PT$)?



Can you explain how expectations sustain inflation, including the wage-price spiral?



Can you explain the costs of inflation (redistributive, macroeconomic and efficiency effects) and how they depend on its level, cause and whether it was anticipated?



Can you evaluate responses to inflation: fiscal or monetary policy, supply-side policy, direct wage and price controls, and reducing inflationary expectations?



Deflation

Can you distinguish between demand-side and supply-side deflation and explain why supply-driven deflation may be beneficial?



Can you explain the costs of demand-side deflation for households, firms and government, and why deflationary spirals are hard to escape?



2.8 Balance of payments

Measurement and imbalances

Can you explain what the balance of payments measures?



Can you explain why the balance of payments sums to zero, with a current account deficit or surplus matched by capital/financial account flows?



Can you explain the causes of current account deficits and surpluses, including productivity, factor costs, exchange rates, industrial structure, commodity prices, protectionism and comparative advantage?



Can you explain what is meant by a structural current account deficit or surplus?



Can you calculate the terms of trade index and explain the link between changes in the terms of trade and the current account?



Consequences and policies

Can you evaluate the consequences of a current account deficit or surplus, considering its nature, causes and compensating capital inflows?



Can you evaluate approaches to a sustained current account deficit: exchange rate policy, deflationary policy, supply-side reform and protectionism?



2.9 Public sector debt

Control of the national debt

Can you explain the relationship between the budget (fiscal) deficit and the national debt?



Can you explain how deficits can arise from discretionary and automatic fiscal policy?



Can you distinguish between structural and cyclical deficits?



Can you explain why governments are concerned about high public sector debt: the opportunity cost of interest, credit downgrades, refinancing confidence, and crowding out and slower growth?



Can you evaluate how reasonable these concerns are and whether debt is always harmful?



Can you discuss whether it is appropriate to tighten fiscal policy in a downturn to reduce the deficit?



2.10 Fiscal policy

The budget and fiscal policy

Can you explain the purpose and structure of the government budget?



Can you identify the major areas of government spending and sources of tax revenue?



Can you distinguish between current and capital expenditure?



Can you distinguish between direct and indirect taxes and discuss their relative desirability?



Can you analyse the effects of changes in taxation and government spending using AD/AS diagrams?



Can you use the Laffer curve to analyse the effects of tax changes?



Can you explain the Keynesian view that fiscal policy can and should manage AD in certain circumstances?



Can you evaluate demand-side fiscal policy in terms of effectiveness and side effects such as on public sector debt?



Can you explain and evaluate how fiscal policy can work on the supply side, e.g. through incentives to work and invest or infrastructure spending?



2.11 Monetary policy and financial stability

Monetary policy

Can you explain the Bank of England's role in monetary and financial stability and as lender of last resort?



Can you explain the purpose of the inflation target, its symmetrical nature and any other objectives of the Bank?



Can you explain the factors considered when setting Bank Rate?



Can you explain how interest rate changes affect the real economy and inflation, using AD/AS diagrams?



Can you discuss how far interest rate changes affect the exchange rate?



Can you evaluate the likely impact and overall effectiveness of interest rate changes?



Can you explain how quantitative easing (QE) is expected to work?



Can you evaluate the impact and risks of QE and explain how QE may eventually be reversed?



Can you explain how central banks can intervene directly to stimulate lending, e.g. the Funding for Lending scheme?



Can you analyse and evaluate how the operation of monetary policy has changed over time?



Financial stability

Can you explain the growing size and influence of the financial sector in the UK economy?



Can you explain how asset bubbles arise and their consequences, e.g. the 2007-08 financial crisis?



Can you explain why regulation of the financial system is needed for financial stability?



Can you evaluate how far the UK's large financial sector benefits the real economy?



2.12

Exchange rates

Exchange rates in a free market

Can you explain how a floating exchange rate is determined by demand (exports, capital inflows) and supply (imports, capital outflows) of a currency?



Can you use demand and supply diagrams to analyse appreciation and depreciation caused by interest rates, QE, trade flows, confidence, safe-haven flows and speculation?



Can you explain what an exchange rate index is?



Can you evaluate the impact of exchange rate changes on macroeconomic objectives, using AD/AS diagrams?



Can you evaluate the microeconomic effects of exchange rate changes on households and firms?



Can you explain how exchange rate changes affect the terms of trade?



Can you explain the Marshall-Lerner condition?



Exchange rate policy

Can you explain how monetary authorities can influence the exchange rate in a managed or 'dirty' float?



Can you evaluate the advantages and disadvantages of holding an exchange rate above or below its free market level?



2.13

Supply-side policies

Supply-side policies

Can you explain what supply-side policies are, with examples of market-based and interventionist policies?



Can you explain how supply-side policies can raise trend growth or LRAS and improve the flexibility of product and factor markets?



Can you analyse the impact of supply-side policies using AD/AS diagrams and PPFs?



Can you evaluate supply-side policies in terms of effectiveness and possible side effects?



3.1 International trade

Free trade and protectionism

Can you explain the advantages and disadvantages of free trade for the economy, households, firms and government?



Can you evaluate the arguments for and against protectionism?



Can you explain and illustrate a tariff using a diagram?



Can you explain quotas, subsidies, exchange rate manipulation and administrative/regulatory barriers as methods of protection?



Globalisation and the UK

Can you explain how globalisation has increased specialisation, trade, capital transfers and foreign direct investment (FDI)?



Can you explain how globalisation has increased international labour mobility?



Can you evaluate the costs and benefits of globalisation?



Can you identify the UK's major export sectors?



Can you evaluate how far an increasingly integrated world economy benefits the UK?



Comparative advantage and the WTO

Can you distinguish between absolute and comparative advantage?



Can you explain the theory of comparative advantage using numerical examples and diagrams?



Can you explain and numerically illustrate the terms of trade?



Can you explain the role of the World Trade Organisation (WTO) in policing trade agreements and negotiations?



3.2 The EU and non-UK economies

The European Union

Can you analyse and evaluate the advantages and disadvantages of EU membership for member states and prospective members?



Can you evaluate whether continued EU expansion benefits existing and new members?



Economic and monetary union

Can you explain the structure of EMU (the eurozone) and the role of the European Central Bank?



Can you evaluate the benefits and drawbacks of EMU membership?



Can you assess how well the eurozone fits the theory of an optimal currency area?

**Other economies**

Can you explain typical economic problems facing more economically developed countries (MEDCs)?



Can you explain typical economic problems facing less economically developed countries (LEDs) and emerging economies?



Can you use examples from economies other than the UK to support your analysis?

**3.3 Measuring development****Measurement of development**

Can you explain the concept of economic development?



Can you evaluate how far changes in national income indicate changes in development?



Can you explain the Human Development Index (HDI), how it is constructed and how well it shows differences in development (calculation not required)?



Can you use the economic structure of an economy as an indicator of development?



Can you use indirect indicators of development such as access to health and education, internet access and mobile phone use?



Can you explain the difference between GDP and GNP?



Can you explain the meaning and significance of purchasing power parity (PPP) adjustments?



Can you outline the United Nations Millennium Development Goals?

**3.4 Obstacles to and solutions for development****Obstacles to development**

Can you discuss why LEDs may find it hard to compete with MEDCs and raise their level of development?



Can you evaluate whether natural resource endowment helps development or creates a 'resource curse'?



Can you explain how low levels of health, education and life expectancy hinder development?



Can you explain how MEDC trade policies can hinder LEDC development?



Can you explain how poor infrastructure and limited capital and technology hinder development?



Can you explain how institutional weakness and poor governance hinder development?



Can you explain how high public sector debt and rapid population growth hinder development?



Solutions

Can you explain and evaluate internal and external liberalisation (moving towards free markets) as a route to development?



Can you explain and evaluate international aid?



Can you explain and evaluate debt relief?



Can you explain and evaluate import-substituting and export-substituting (export-led) industrialisation as forms of government intervention?



Can you explain and evaluate encouraging foreign direct investment (FDI)?

