1.1 Scarcity and choice

Scarcity, choice and opportunity cost

- Can you define scarcity and explain why it forces choices to be made?
- Can you explain and illustrate opportunity cost for society, individuals and government?
- Can you distinguish between economic goods and free goods?

Production possibility frontiers

- Can you use a PPF diagram to illustrate choice, opportunity cost and efficiency?
- Can you use a PPF to show short-term and long-term 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 substitution) and what a straight-line PPF implies?
- Can you explain the factors that cause a PPF to shift outwards or inwards?
- Can you link long-term growth and productivity changes to outward or skewed shifts of the PPF and to LRAS?

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 a means of exchange?
- Can you define productivity and explain how specialisation and other factors can raise it?

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 utility?
- Can you explain the role of marginal utility in deriving a demand curve?
- Can you identify the main factors that shift demand and supply in product markets?

Can you explain why demand curves slope downwards, using diminishing marginal utility and income and substitution effects?

Can you explain why supply curves slope upwards, using profit incentives and rising short-run marginal costs?

Equilibrium price and output

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

Can you analyse how shifts in demand and supply change equilibrium price and output?

Consumer and producer surplus

Can you define and illustrate consumer surplus and producer surplus on a diagram?

Can you calculate consumer and producer surplus from a diagram or data?

Elasticities

Can you define, calculate and interpret price elasticity of demand (PED)?

Can you explain the relationship between PED and total revenue?

Can you define, calculate and interpret income elasticity of demand and use it to distinguish normal and inferior goods?

Can you define, calculate and interpret cross-price elasticity of demand for substitutes and complements?

Can you define, calculate and interpret price elasticity of supply?

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

1.3 Demand and supply in labour markets

Wage determination

Can you identify the main influences on 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 how wages are determined in a competitive labour market?

Can you explain the causes and implications of wage differentials (e.g. between occupations or between Wales and other UK regions)?

Labour market issues

Can you explain the factors affecting labour market flexibility, such as trade union power, regulation, welfare payments and income tax rates?

Can you evaluate the effects of the national minimum wage on labour markets?

Can you explain the impact of migration on labour markets?

1.4 Resource allocation and market failure

Resource allocation in a free market

Can you explain how profit and price signals allocate resources to different uses in a free market economy?

Can you explain how a change in one market affects other markets, including linked factor and product markets?

Understanding market failure

Can you define market failure and efficiency in terms of maximising consumer and producer surplus at the free-market equilibrium?

Can you explain why public goods (non-rival, non-excludable) are under-provided and the free rider problem?

Can you explain why merit goods are under-consumed and demerit goods over-consumed?

Can you explain and illustrate positive and negative externalities in production and consumption?

Can you explain how monopoly power can cause market failure?

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

Can you explain how the absence of private property rights leads to market failure?

Can you explain why income inequality and volatile prices can be seen as market failures?

Can you explain the causes and consequences of each source of market failure for economic agents?

Government intervention

Can you explain why governments intervene in markets, e.g. to correct market failure or reduce income inequality?

Can you analyse and evaluate specific and ad valorem taxes as a response to market failure?	○ ○ ○
Can you analyse and evaluate subsidies and state provision?	○ ○ ○
Can you analyse and evaluate regulation, e.g. plastic bag charges?	○ ○ ○
Can you analyse and evaluate minimum and maximum prices using diagrams?	○ ○ ○
Can you analyse and evaluate market-based policies such as road pricing and tradeable pollution permits?	○ ○ ○

Effects of intervention and government failure

Can you explain how government intervention can distort markets, e.g. agriculture, housing and labour markets?	○ ○ ○
Can you explain the causes of government failure and evaluate its effects?	○ ○ ○

2.1 Macroeconomic theory

The circular flow of income

- Can you explain the circular flow of income and why income, output and expenditure are equal?
- Can you identify injections and withdrawals in the circular flow?
- Can you explain how changes in injections and withdrawals change national income through the multiplier process (no calculation)?

Aggregate demand

- Can you define the components of aggregate demand: C + I + G + (X - M)?
- Can you explain the determinants of consumption and investment, e.g. income, profit, wealth, interest rates, expectations and taxation?
- Can you explain why the AD curve slopes downwards, using at least one of the real balance, trade and interest rate effects?
- Can you explain how changes in the components of AD shift the AD curve?

Aggregate supply and equilibrium

- Can you explain the shape of the Keynesian long-run aggregate supply curve, vertical at full employment output?
- Can you explain how changes in factor quantity, quality and efficiency, technology and factor market flexibility shift LRAS?
- Can you explain how government policy can bring about shifts in LRAS?
- Can you use AD/AS diagrams to analyse long-run equilibrium output, employment and the price level?

2.2 Macroeconomic objectives

Government policy objectives

- Can you explain the objective of low and stable inflation?
- Can you explain the objective of low unemployment?
- Can you explain the objective of sustainable economic growth?
- Can you explain the objective of current account equilibrium on the balance of payments?

Can you explain the potential conflicts between macroeconomic objectives?

2.3 Policy instruments

Fiscal policy

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

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

Can you use the Laffer curve to analyse the effect of tax rate changes on tax revenue?

Can you explain the Keynesian case for using demand-side fiscal policy to manage AD in certain circumstances?

Can you explain how supply-side fiscal policy works over the longer term through incentives to work and invest and infrastructure spending?

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 inflation target, its symmetrical nature and any other objectives the Bank may pursue?

Can you explain how changes in Bank Rate are used to meet the Bank's objectives and the factors considered when setting rates?

Can you explain how interest rate changes affect the real economy, inflation and the exchange rate?

Can you evaluate the impact and effectiveness of interest rates as a policy tool using AD/AS diagrams?

Can you evaluate whether a single Bank of England interest rate is appropriate for all UK regions, especially Wales?

Exchange rates

Can you explain how a free-floating exchange rate is determined by demand and supply?

Can you analyse the factors that cause a currency to appreciate or depreciate?

Can you evaluate the effects of exchange rate changes on macroeconomic objectives, households and firms?

Can you explain how monetary authorities can influence a managed (dirty) float?

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

Supply-side policies

Can you explain how supply-side policies aim to raise trend growth and LRAS and improve product and factor market flexibility?

Can you evaluate the effectiveness and side effects of supply-side policies using AD/AS analysis and PPFs?

2.4 International trade

Free trade and protectionism

Can you evaluate the benefits and costs of free trade?

Can you describe the main forms of protection: tariffs, quotas and other trade barriers?

Can you illustrate the effect of a tariff on a diagram?

Can you evaluate the benefits and costs of protectionism?

3.1 Costs, revenues and profits

A-LEVEL ONLY

Costs and revenues

- Can you explain the law of diminishing returns?
- Can you distinguish between fixed and variable costs and between the short run and long run?
- Can you define and calculate total, average and marginal cost?
- Can you define and calculate total, average and marginal revenue?
- Can you derive the long-run average cost curve?
- Can you explain and illustrate internal and external economies and diseconomies of scale?

Profit

- Can you explain why profit is maximised where MR = MC?
- Can you define normal and abnormal (supernormal) profit and distinguish between them?

Growth of firms and efficiency

- Can you explain how and why firms grow, internally and externally?
- Can you describe horizontal, vertical and conglomerate integration?
- Can you explain and illustrate productive and allocative efficiency?

3.2 Market structures

A-LEVEL ONLY

Background and business objectives

- Can you explain how market structure depends on the number of firms and the freedom of entry and exit (contestability)?
- Can you explain that firms may pursue objectives other than profit, such as revenue, market share, survival or social and community goals?

Perfect competition

- Can you define perfect competition and explain the importance of its assumptions?
- Can you illustrate short-run and long-run equilibrium for the firm and industry in perfect competition?

Can you explain and evaluate the efficiency of perfectly competitive markets?

Monopolistic competition

Can you define monopolistic competition and explain its assumptions?

Can you illustrate short-run and long-run equilibrium for a firm in monopolistic competition?

Can you explain and evaluate the efficiency of monopolistically competitive markets?

Monopoly

Can you define monopoly and explain its assumptions?

Can you compare short-run and long-run equilibrium under monopoly with perfect competition?

Can you explain and evaluate the costs and benefits of monopoly?

Can you explain and evaluate price discrimination?

Can you explain natural monopoly and the significance of weak contestability?

Oligopoly

Can you explain the main features of oligopoly, including interdependence between firms?

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?

Can you explain and evaluate the costs and benefits of oligopoly?

Competition policy and privatisation

Can you explain why governments are concerned about competition, monopoly and mergers?

Can you describe the role of competition authorities and regulators in promoting contestable markets?

Can you explain how privatisation can increase competition?

Can you evaluate the effects of privatisation on competition, efficiency, prices and the wider economy?

3.3 Macroeconomic theory — A-LEVEL ONLY

Aggregate supply

- Can you explain why the SRAS curve is assumed to slope upwards?
- Can you explain what causes the SRAS curve to shift?
- Can you explain the Keynesian and Neo-Classical disagreement over the shape of LRAS?
- Can you explain how Neo-Classical economists expect the economy to return to long-run equilibrium?
- Can you explain why Keynesians reject this, citing sticky wages and inflexible factor markets?

Phillips curves

- Can you explain the short-run Phillips curve trade-off between inflation and unemployment and its UK evidence?
- Can you explain the Neo-Classical view that expectations make the short-run Phillips curve unstable?
- Can you explain why holding unemployment below its natural rate leads to accelerating inflation (long-run Phillips curve)?
- Can you explain how supply-side changes and policy can shift the long-run Phillips curve?

3.4 Growth and unemployment — A-LEVEL ONLY

Economic growth

- Can you distinguish between actual growth (measured GDP change) and potential growth?
- Can you use positive and negative output gaps and the business cycle to explain actual versus potential growth?
- Can you define a recession?
- Can you explain how growth results from changes in factor quantity, quality and efficiency, technology and factor market flexibility?
- Can you explain the benefits and costs of growth for households, governments and firms?

Unemployment

- Can you explain the different ways unemployment is measured (e.g. claimant count, ILO Labour Force Survey) and why accurate measurement is difficult?
- Can you describe the economic and social costs of unemployment for households, governments, firms and the economy?
- Can you explain demand-side (cyclical) unemployment and the debate over how temporary it is?
- Can you explain supply-side unemployment caused by occupational and geographical immobility, weak work incentives and real wage unemployment?
- Can you explain how fiscal and monetary policy can raise AD to close a negative output gap?
- Can you evaluate the appropriateness and effectiveness of demand-side solutions to unemployment?
- Can you explain and evaluate supply-side solutions targeted at specific labour market problems?

3.5 Inflation and the balance of payments

A-LEVEL ONLY

Inflation and deflation

- Can you explain how inflation is calculated from a weighted price index, usually over twelve months?
- Can you identify the main current measures of inflation (e.g. CPI, CPIH, RPI) and how they differ?
- 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 the costs of inflation depend on its level, cause and whether it is anticipated?
- Can you explain and evaluate policy responses to inflation in terms of effectiveness and desirability?
- Can you explain demand-side and supply-side causes of deflation and why supply-driven deflation may be beneficial?
- Can you explain the costs of demand-driven deflation for households, governments and firms?
- Can you explain why deflationary spirals are hard for governments to end?

The balance of payments

- Can you explain what the balance of payments measures and its main accounts?

Can you explain why the balance of payments sums to zero, with current account imbalances matched by capital and financial account flows?	○ ○ ○
Can you explain the causes of current account deficits and surpluses, including structural imbalances?	○ ○ ○
Can you explain the possible link between changes in the terms of trade and the current account?	○ ○ ○
Can you evaluate the consequences of a current account deficit or surplus?	○ ○ ○
Can you evaluate policies to correct a sustained current account deficit?	○ ○ ○

4.1 Policy instruments and financial stability — A-LEVEL ONLY

Fiscal policy and national debt

- Can you explain the relationship between the budget deficit and the national (public sector) debt?
- Can you explain how deficits arise from discretionary policy and automatic stabilisers?
- Can you explain why governments are concerned about high public sector debt?
- Can you evaluate whether tightening fiscal policy during a downturn is an appropriate way to reduce a deficit?

Monetary policy

- Can you explain the role of quantitative easing and how it is expected to work?
- Can you explain how central banks intervene directly to stimulate lending, e.g. Funding for Lending schemes?

Financial stability

- Can you explain the growing size and influence of the financial sector in the UK economy?
- Can you explain how asset bubbles form and their consequences, e.g. the 2007-08 financial crisis?
- Can you explain why the financial system needs regulation to maintain stability?

Exchange rates and supply-side policy

- Can you explain how exchange rate changes affect the terms of trade?
- Can you explain the significance of the Marshall-Lerner condition for the trade balance after a depreciation or devaluation?
- Can you use your knowledge of supply-side policies to evaluate ways of increasing productivity and efficiency in the economy?

4.2 International trade and globalisation — A-LEVEL ONLY

Trade and protectionism

- Can you explain the advantages and disadvantages of international trade for the whole economy, households, firms and governments?
- Can you explain the arguments for and against protectionist policies?

Can you explain and illustrate the main methods of protectionism?

Globalisation and the UK

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?

Non-UK economies: the European Union

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

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

Can you evaluate the benefits and drawbacks of membership of economic and monetary union (EMU)?

Can you assess EMU against the criteria of an optimal currency area?

4.3 Economic development

A-LEVEL ONLY

Measurement

Can you explain what is meant by economic development?

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

Can you explain other measures of development, such as the HDI, economic structure and indicators like health, education, internet access and mobile phone use?

Obstacles

Can you explain why LEDCs find it hard to compete with more developed economies and raise development?

Can you explain and evaluate dependence on natural resources (the resource curse) as an obstacle to development?

Can you explain and evaluate poor health, education and low life expectancy as obstacles to development?

Can you explain and evaluate MEDC trade policies as an obstacle to development?

Can you explain and evaluate weak infrastructure, lack of capital and technology as obstacles to development?

Can you explain and evaluate institutional weakness and poor governance as obstacles to development?

Can you explain and evaluate high public debt and rapid population growth as obstacles to development?

Solutions

Can you explain and evaluate internal and external liberalisation as routes to development?

Can you explain and evaluate international aid and debt relief?

Can you explain and evaluate government intervention such as import substitution and export promotion?

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