GCE

Rewarding Learning

Revised GCE

Economics

Course Companion

Unit A2 2: Managing the Economy in a Global World

For first teaching from September 2016
For first award of AS in Summer 2017

A2 Economics Course Companion:

Unit A2 2: Managing the Economy in a Global World

"What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom." Adam Smith

What is this unit about?

In this unit you will develop the knowledge you gained in AS 1 and AS 2 by looking at international trade and payments in more detail and exploring some of the issues that arise from increasing globalisation. As well as investigating the workings of the financial system, you will gain insights into the constraints, complications and conflicts faced by governments in pursuit of policy goals.

You will:
- explore the reasons for trade and examine why countries, from time to time, adopt protectionist measures;
- investigate the main features and effects of globalisation;
- analyse problems in measuring and promoting economic development;
- analyse the structure of the UK Balance of Payments Account, consider the problems caused by payment imbalances and look at ways in which these can be corrected;
- examine how a currency's exchange rate is determined, consider the effects of rate changes and explore how exchange rate fluctuations might be stabilised;
- explore the economic roles of the European Union and the Eurozone and consider how effectively European institutions operate;
- investigate the nature and importance of the financial sector, including the banking system and its impact on the money supply;
- explore the roles of the Bank of England and the European Central Bank;
- consider the importance and difficulty of effective regulation of the financial sector;
- distinguish between fiscal deficit and the national debt;
- investigate reasons for differences in the economic performance of different economies; and
- consider how government macroeconomic policy is affected by the growing openness of the world economy.

What are the main topics I need to study?

The exact number and sequence of topics you will study in this unit will depend on how your teacher decides to organise the course. However the content is organised, you should always try and relate the concepts and theories you study to real world events and issues.

Trade and globalisation

In this section you will learn how nations may gain from free trade, but why their governments may wish from time to time to restrict trade. You will also consider the effects of the increasing pace of globalisation.

Ideas and concepts you will be dealing with include:

- the theory of comparative advantage and the potential gains from trade;
- advantages and disadvantages of free trade and the work of the World Trade Organisation (WTO) in promoting it;
- factors which contribute to increasing globalisation and how there may be losers as well as winners as a result of this process; and
- arguments for and against protectionism, and the forms this may take.

Economic development

Here you will look at the problems facing poorer countries, including lack of infrastructure and inefficient or corrupt government.

Topics you will be investigating include:

- what characterises a Less Developed Country (LDC);
- difficulties in defining and measuring "development";
- how aid may or may not stimulate development in a LDC;
- how trade may or may not stimulate development in a LDC;
- the work of the World Bank and the International Monetary Fund.

Balance of payments and exchange rates

In this section you will deal with how trade flows are recorded, and the causes and consequences of trade imbalances. You will examine the impact that exchange rates may have on a nation's trade patterns, how and why governments may try to influence exchange rates, and factors which limit their ability to do so.

There will be a specific focus on the following topics:

- the main sections of the UK balance of payments;
- why the overall balance of payments account must balance;
- problems of deficits or surpluses in different elements of the balance of payments and ways in which governments attempt to correct these;
- how a currency's exchange rate is determined;
- the effects of changes in the exchange rate;
- arguments for and against floating and stable exchange rates;
- calculation and significance of a trade-weighted exchange rate index; and
- why exchange rate values are less informative than purchasing power parities in making comparisons between countries which use different currencies.

The European Union

This section deals with the nature, aims and institutions of the European Union. You will be asked to consider the advantages and disadvantages of membership.

Key areas for understanding include:

- characteristics of the European Union (EU);
- costs and benefits of EU membership to existing or prospective member states;
- consequences of changes in size of the EU to existing, prospective and (possibly) former member states; and

- consequences of adoption by some states of a common currency and problems affecting the Eurozone.

Monetary policy and the financial sector

This section will provide you with insights into the importance of banks to the economy and their role in the money supply. You will learn how the Bank of England supports and guides the system, as well as its role in implementing the government's monetary policy. The performance of similar functions by the European Central Bank will also be studied. You will gain understanding of the factors which precipitated the global financial crisis in 2008, and the question of control of such a complex system will be investigated.

Topics you will be investigating include:
- composition and work of the financial sector;
- the ability of banks to create spending power for consumers and the constraints that must be observed in order to continue to do so safely;
- the possibility of inflation as a consequence of growth in money supply;
- how the cost and the ease of obtaining credit may be manipulated to influence the rate of growth in the economy;
- the role of central banks both in facilitating the operation of the banking system and implementing government monetary policy;
- how the need for financial regulation is complicated by such factors as global distribution of firms and investments, complexity and power of firms involved; and
- moral problems involved with the idea that any industry may be too important to be allowed to fail.

Fiscal policy; macroeconomic policies and objectives in a global economy

This section will enable you to tie together many of the strands of the course, understanding how international events and obligations may complicate the implementation or diminish the effectiveness of some of the government's policies. You will examine issues of fiscal deficits and the National Debt, and explore how priorities or preferred policy instruments may change over time.

It will be important to grasp concepts including:
- difference between fiscal deficit and national debt;
- how expenditure is funded when there is a revenue shortfall;
- consequences of high levels of deficit and long-term debt;
- the effect of global shocks on the achievement of domestic policy objectives;
- restrictions on government's ability to select and administer certain policies; and
- the appropriateness of different policies in different economic circumstances.

Taking A Level examinations in the revised specification format

The scheme of assessment for GCE Economics has changed quite significantly, and you are strongly urged to think carefully about examination strategies which will enable you to earn the highest possible grade.

Until there are some past papers available for the current specification candidates may be consulting past papers from the previous specification for ideas about questions which may be set. **Some**

advice given to candidates preparing for legacy examinations is not necessarily the same advice as examiners would want to offer in these new circumstances. Because of this, some comparisons will be made from time to time in these notes to highlight how it may be wise to work on new techniques for Economics examinations from 2018.

Comparing the examination papers that were set between 2008 and 2017, the first obvious difference is that the revised examination has three sections instead of two, yet the time for completing the paper remains at two hours. Be reassured because, along with the ways skills are tested, the emphasis and relative demands have changed.

The table below gives an overview of the new assessment structure for the exam and gives possible time allocations for each section. These time allocations are only estimates of how long a typical candidate may wish to spend on each section. Individual candidates may find different sections of the paper more or less challenging than others and may, as a result, allocate their time differently.

Scheme of assessment

Section	**Total marks**	**Type of question**	**Structure**	**Emphasis**	**Approximate time allocation (minutes)**
Some elements of knowledge and understanding will feature in all questions					
A	20	Short-answer	3 - 5 questions, probably worth 3 - 8 marks each in total	numeracy, application, analysis	25
B	40	Case study	4 questions graduated in demand and marks available	all key skill areas will be tested	50-55
C	30	Extended response	one single-part question from a choice of two	focus will be on analysis, evaluation and judgement	40
There is no simple formula to equate suggested time spent on a section with marks available. This outline builds in a possibility of a small safety margin to allow for brief planning/review.					0-5
Total	90	The A2 units are equal in value; each accounts for 30% of an overall award at 'A' level			120

Will I need a calculator?

Yes. The use of electronic calculators in 'A' level Economics has always been actively encouraged. The new specification requires that **a minimum** of 20% of the total marks available in the A level series are allocated to the assessment of quantitative skills. In any one paper this may be significantly higher than 20%. Therefore bringing a calculator to the examination is more important than ever.

Section A: Short answer questions

Section A is the only entirely new element of the examination.

In approaching this, it is vital that candidates think carefully about what information or analysis each question is requiring and answer with an amount of detail appropriate to the number of marks available.

In the past, candidates were asked to produce a piece of continuous writing in response to nearly all the questions set on an 'A' level (A2) paper. Quality of written communication was not assessed in the first question of the 'Case Study' section, which carried the minimum allocation for a question on these papers of 5 marks. Every other question was worth at least ten marks. Very few candidates found time available an inconvenience in the old-format examination, - and besides, past paper markschemes encouraged exploration in depth in each of the other three case study and two essay question parts.

In the new examination, although some short-answer questions may be worth up to 8 marks, it is likely that many of these will consist of shorter parts. Your best policy is to trust the examiners' judgement when using your own time. In an examination which lasts 120 minutes and is marked out of 90, you should reckon that four minutes is about enough time to spend on a question worth [3] - or in other sections, for example, twenty minutes on a question worth [15]. Examiners will be aware of how much time you had available for each answer.

Section A questions at 'A' level may be more demanding than those at AS, but remember that their aim is to test your ability to reason problems out within a largely mathematical framework, whether using actual numbers or not.

Examples of 'mathematical' thinking without specific computational work

You might be asked to explain why an index of a currency's exchange value is 'trade-weighted'. A successful explanation would make clear why changes in the value of, say, the Japanese yen against the £sterling wouldn't have as big an impact on British consumers and exporters as a change in value of the US$. A short question on this topic offering only a few marks **isn't** a general question about what the Sterling Exchange Rate Index is, so any digression to explain the general principles of construction of indices longer than acknowledging that they're comparisons of values over time in terms of percentage change is unwise.

Keep your focus sharp.
Understanding the concept of 'balance' in various contexts also involves interpretative elements of quantitative skills - for example, assessing what may be an asset and what a liability of a "High Street" bank. A short question to test this will not usually (but check the marks available!) require you to explain why certain assets are obligatory or certain liabilities inevitable.

Different ways of testing how well a topic is understood

In May 2012, the first part [worth 15 marks] of one of the essay questions in A2 2 Economics required candidates to "Explain why a nation's overall balance of payments must always balance". The 'culture' of the specification - (past markschemes, examiners' reports, support materials and events for teachers and candidates) - and the value of the question were indicators that high-scoring candidates would briefly explain the component parts of a national balance of international payments on their way to clarifying what exactly those accounts measured and what steps were taken to compensate for failures in calculation.

Possible short answer question on balance of payments:

Q One of the versions of the United Kingdom's balance of payments accounts for 2013 published by the Office for National Statistics contains the information reproduced below.

item	net value (£billion)
Trade in goods	- 107.9
Trade in services	
Total income	- 16.7
Total current transfers	- 27.6
Current balance	
Capital balance	**5.4**
Net financial transactions	**71.9**
Net errors and omissions	-4.5

The financial account balance is officially described as "Net financial transactions". It is the sum of investment transactions in four categories + "Reserve assets".

(a) What is the value of the Current balance? [2]
(b) What is the net value of Trade in services? [2]

How do I answer this question?

The first piece of advice is to do exactly as the question asks.
By the time formula we have worked out above, you've got 5 minutes, 20 seconds to answer this. You are being challenged - not simply given an opportunity to show your understanding of an idea by using figures from an illustration you have rehearsed. With only four marks available, you only define the missing items or explain the concept of 'balance' as a last resort.

Simply giving correct answers with no method or calculations shown will gain you full marks. However… If you make an error in the calculation and write down nothing but incorrect answers you will gain no marks. As well as this, the task is quite complex, and recording your steps in a methodical way may assist you in reaching the correct solution.

The first thing you have to do is recognise that the first four items (not in bold type) are components of the current balance, so you aren't ready to work out the net value of trade in services yet. The order in which the questions are presented is intended to be helpful

*Therefore a typical correct answer may look something like **this**:*

(a) Current balance
+ Capital balance
+ Net financial transactions
+ Net errors and omissions
= 0.

(you would, even if you got nothing else, earn one mark for this) [1]

Current balance + £5.4b + £71.9b - £4.5b = 0 ..
Current balance = £4.5b - £5.4b - £71.9b = **-£72.8 billion** [1*]
(***or*** Current balance will be the sum of the other known totals with the +/- sign reversed.) -£(5.4 + 71.9 - 4.5)billion = **-£72.8 billion**)

[If you attempt this and get the arithmetic wrong or copy it down incorrectly, you will not get this mark but would get full marks for subsequent correct calculations based on that wrong figure.]

(b) (Using the same logic, net trade in services may be calculated as below:)
-£107.9b + net trade in services -£16.7b - £27.6b = -£72.8 billion
(once more, even if you compute this incorrectly, you would earn one mark for this) [1]
.. net trade in services = £(152.2 - 72.8)billion = **+£79.4 billion** ... [1*]

Obviously, from what has been said, the answers in bold, by the marks [1*], will earn [2] even if not backed up with the basis on which they were calculated.

Nearly everyone has a total mental block at some time, so suppose you're stuck after one minute and don't know what to do. Even though you know it wasn't exactly what is required, try writing as much of an old-style answer as four minutes allows you to do. You'd be almost certain to earn **some** marks!

General advice for this type of question:

Be calm: Keeping your wits about you should help you earn higher marks. The way to tackle the sample question above is not immediately obvious.

It is well known that exams are stressful, but if you come across a question that you think you can't do, do something!

Even writing down the list of elements of a balance of payments account may lead you on to a valid next step. If you then can do it, do so. Only if you have no idea what you ought to be doing is it worthwhile to sacrifice total relevance and just write what you do know - or guess! The only time you are guaranteed to receive zero marks is when you write nothing!!

Be resourceful - as far as possible, anyway! Even if all you are sure about is that the current account consists of the first four items, you could make sure you get some credit for that by muddling some sort of value for the balance of payments on current account. (Make it believable; show that you expect it to be negative.) Then use that figure to calculate an answer for net trade in services. If you demonstrate your knowledge that it is going to be a positive figure and a significant percentage of the net value of trade in goods, you are very likely to earn [2] marks instead of none at all. This is a perfectly valid way to show an examiner you have mastered some of the necessary concepts.

Be flexible: Sometimes examiners **will** want to test knowledge and understanding, simply. No matter how important the advice above is, if you're asked in a short question to explain what something is, provide a concise definition and develop that briefly.

Be economical with your time and maximise your productivity. Throughout Section A, each question should be read carefully in line with the relevant mark allocation. Writing a short essay in response to a question that is worth only four marks is a very inefficient way to use your time!

Section B: Case study

The case study section is the part of the exam which has changed least from the previous scheme of assessment. As a result you will find that all the past papers from 2008 (and many of those before) will provide you with valuable insight into the nature and style of this form of assessment.

The key differences are
- mark allocations are no longer fixed at 5-10-10-15
- the time available for you to complete this section is reduced

Up until 2018, candidates could have chosen to split their time between this section and the two-part essay question equally, as each section was worth 40 out the available 80 marks. Examiners will be aware in choosing tasks for candidates that time is limited, but you must take steps to help yourself as well. Making sure you concentrate on what you are being asked to do and selecting with care which parts of what you have learnt about a topic are most relevant to your answer are vital to your success not only here, but throughout the exam.

In the case study section the questions asked will relate directly to three or four extracts on a common theme. The source material will normally consist of articles totalling approximately 1200 - 1500 words. One of the articles may take the form of a chart, table or graph, or else data presented in that way will feature in at least one of the articles.

Approaching the case study section

To ensure success in this part of the paper:
- read all of the source material first to ensure that you understand what it is trying to say or show;
- read all of the questions; and
- read all of the source material again.

When reading the source material for the second time, highlight the sections which you feel might help answer the questions. This second reading is very important as often the answer to a question is contained in, or suggested by, the source material.

Making good use of the source material

It is important that you realise that you are expected to use the source material in your answers. However you will gain little reward for simply “copying and pasting” large sections of the source material into your answers.

The case study section aims to assess your ability to interpret and analyse the information provided and apply your knowledge of economic models and theory to answer questions on new and possibly unfamiliar contexts.

While this may sound daunting, be comforted by the knowledge that examiners are aware that this paper can be challenging and will apply credit to candidates who make a genuine effort to write focused answers and who endeavour to apply the theory they have learned in class to the questions asked.

Take each question in turn

While there is no hard and fast rule with regard to the type and style of questions in this section of the exam, a look at past papers and the sample assessment materials would suggest that many of the papers follow a broadly similar format, even if demands of and rewards for the first three questions are variable.

Question (a)

The first question on this part of the paper carries the fewest marks. It will probably require you to analyse and interpret written, numerical, diagrammatic or graphical data. You may also be required to make calculations such as percentages or percentage changes or you may be asked to calculate and interpret index numbers.

It is important to realise that this not an examination in statistics and you will not be expected to carry out very difficult calculations. Nevertheless, you may also be asked to describe **trends** in economic data or to describe the **relationship** between two variables. Although these are fairly elementary skills, students often lose marks in questions of this kind.

Describing trends:

A trend is an approximate path which statistics follow. If you are asked to describe a trend you need to consider whether the figures are constant, rising or falling.

To score full marks in this type of question
- you firstly need to **describe the trend**;
- you then need to **include figures** e.g. start figure and the end figure; and
- finally **calculate a percentage change** over the period.

If there are periods when the data moves in the opposite direction from the general trend then you need to explain that there are **fluctuations** in the data and give at least one example of when this occurs. If there are two or three trends (as there might be with some time series data) then divide the information into the separate parts and describe each trend.

Describing relationships:

Often a question will give you two pieces of data and ask you describe the relationship between the two. Look to see if the two pieces of data are moving in **similar** directions (a positive relationship) or in **opposite** directions (an inverse relationship). Remember in some cases there may be **no** relationship between the two pieces of data.

It is important that you describe the relationship and use the data to support the relationship you have described. For example, if you are claiming that there is an inverse relationship between the two pieces of data, you need to describe those periods when the two pieces of data move in opposite directions. If there are periods when the general relationship breaks down you need to mention them as well to gain full marks.

Checking your calculations

(which applies equally to any question in Section A or B)

An important tip about calculations is to try to develop the skill of estimating in advance what an answer might be. Sometimes candidates simply write down what appears in their calculator display without asking themselves if the figure makes any sense. The table below shows estimates of GDP per head in five countries. (There will be further discussion and explanation of these below.)

Estimated 2014 GDP per head, selected countries ($US, purchasing power parity) Source: Central Intelligence Agency World Factbook, date of access 29 February 2016 https://www.cia.gov/library/publications/resources/the-world-factbook/				
Australia	Chile	Kenya	Sri Lanka	United Kingdom
$64700	$23800	$3100	$10500	$40200

If you're asked to compare these, answers expressed as accurate percentages are undoubtedly best, but you should check them against rough approximations.

The highest value is for Australia's GDP at approximately 21 times that of Kenya; more simply, Kenya's GDP per head will be less than 5% (1/20) of Australia's - in fact it's 4.79%. Australia's figure again is more than half as much greater than the UK's, so the value for the UK will be less than two-thirds of Australia's total - in fact, it's 62.13%. Finally, for this illustration, Chile seems to be more than twice as well-off materially as Sri Lanka; the actual comparative size of its GDP per head is 226.67%. Making these rough mental calculations will give you something to compare your actual answer against and will act as a good reference point.

Question (b) and (c)

These questions will normally require you to examine a particular issue or analyse why something is happening. These questions will typically aim to give you an opportunity to demonstrate that you can analyse economic issues and events and apply the theory you have learned in class to real world situations. In addition there may be a small element of evaluative thinking in question (b); there will certainly be some evaluation involved in question (c) - see below.

While the issues discussed and the data used may be up-to-date at the time the exam was written, the source material may be a little dated and things may have changed significantly by the time you sit the exam. It is perfectly acceptable to demonstrate to the examiner that you are aware of how things have changed since the exam was written, but you should still **answer all the questions in the context of the data presented**.

Using diagrams

In many cases questions (**b**) and (**c**) may require you to draw a diagram. When drawing your diagram be careful to label it accurately and fully as you will lose easy marks if your diagram is incomplete or inaccurate. Often the difference between a top level 3 answer, and a middle level 2 answer, is the quality of the diagram produced.

You are strongly advised to ensure you bring a couple of sharpened pencils and a ruler into the exam for use when drawing diagrams. Experience would suggest that exam candidates often rush their diagrams in an attempt to save time in an exam. This is a strategy that should be avoided at all costs.

The extra 60 seconds or so it takes to draw a large, clear diagram with a ruler, may end up being a very efficient use of your time as it is likely to result in a higher mark for that question.

Even if a diagram is not specifically asked for in the question you will still gain marks for an accurate and fully labelled diagram which supports your analysis.

Question (d)

The final question will normally require you to demonstrate your ability to evaluate potential policies or judge a particular viewpoint and is likely to be worth 15 marks. You should approach this question in much the same way as you do the essay question in Section C of the paper. How to approach these 'evaluate' or 'critically examine' questions will be discussed in the next section of this course companion.

Section C: Essay section

The general advice offered about answering case study questions (i.e; the use of accurately drawn diagrams and using the source or stimulus material) is equally valid in this section.

In the previous specification candidates could have had an hour at their disposal to write a two-part essay. The second part of this question was worth 25 marks and required candidates to use judgement - for example, about the validity of some assertion, the usefulness of some piece of theory, or the effectiveness of some policy or policies. Proportionately, this might have been expected to take 35-38 minutes of the candidate's available time.

Candidates would have built up to this by answering an introductory part-question which carried 5 marks for each of the skill areas of knowledge and understanding; application; and analysis. As is the case at AS level, many of the marks for the demonstration of these skills may now be earned in Section A. (That's why it is advisable to allocate sufficient time to complete section A to the best of your ability.)

From 2018, essay questions will be prefaced by a few explanatory lines, indicating the knowledge base and clarifying the context in which understanding is to be applied. (This is designed to assist candidates and you would be well advised to consider the points when planning your response).

The essay in the new examination will be quite like the part (**b**) of questions set in the previous specification. Examiners recognise that completing this new, one-part essay is a rather more exacting task than simply finishing off a longer essay - hence the 30 mark tariff. Be aware that there still are 8 or 9 marks in that mix for demonstrating your knowledge and understanding and applying them to the specified situation or idea.

Choose your question carefully

In this section of the exam you must answer **one question** from a choice of two. While both questions are designed to be of equal difficulty and will test the same skills, you may find that you know more about one question than the other.

Obviously you should choose the question you feel you can answer best.

Plan your answer

Take a few minutes to jot down the key ideas you wish to address and the order you intend to address them. Too often candidates rush into a question without careful planning and their answer becomes a mish-mash of unconnected ideas and thoughts which gains very little favour with examiners. Taking a few minutes to plan your answer will lead to a more coherent response and will gain many more marks.

Answer the actual question – not the question you hoped had been asked!

Start your answer with an introduction which sets the answer you intend to provide in the context of the actual question asked. Take each point you intend to make in turn and fully develop each issue before moving on to the next one. When addressing each point, explain your thinking clearly and provide relevant examples or evidence to support the point you are making. Doing this will allow you to gain valuable marks for application and analysis.

Demonstrate effective evaluation and judgement

In the essay section approximately half (14/30) of the marks available are for the demonstration of evaluation and judgement. Ensure that you consider all the relevant alternative points of view and that you judge the importance of each individual point. Sometimes candidates simply list a number of pros and cons in the hope that this will gain them evaluation marks. This form of superficial evaluation will gain little reward.

What you actually need to do is neither very difficult nor overly complicated. If you read the part of the examination specification detailing the skills candidates are expected to demonstrate, you will see that the fourth assessment objective states that candidates must "evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements on economic issues". Just as in a court of law, it is essential that a judgement is based on **evidence**. You must look for evidence about the topic - ideally evidence which supports alternative points of view - and then comment on the quality of that evidence and present a conclusion. It doesn't have to be a definite approval or rejection of the idea or policy in question. It is perfectly valid to present a judgement that acknowledges that the situation is too complicated, or the evidence insufficiently clear, for a simple 'yes/no' answer.

Although it's always a good idea to keep yourself informed about what's going on in the world, you can do well in Economics examinations without constantly reading scholarly journals. In the normal course of preparing revision notes, get in the habit of including references to events or comments which may prove useful in essays. These may be points discussed in the classroom or interesting snippets you picked up in an Internet search about the topic. Teachers, textbooks and guidance materials from the examination board are useful sources of ideas about how theories may fail to cover all possibilities or policies may not (wholly) solve problems.

Elsewhere, you may have read advice about including a "final judgement", but please be reassured that markers in this subject will give you credit for an overall summary of your ideas whatever your preferred style for expressing them. If you feel more comfortable beginning your essay with a statement of your considered opinion, referring to data you will be presenting to support it, by all means do so.

General evaluative points in economics

There are some general evaluative points which can be applied to many different aspects of economics to keep in mind when trying to produce a high quality evaluative answer. However be careful not to over-use these points or depend on them exclusively in an answer.

The ceteris paribus assumption

The "ceteris paribus" assumption is a very useful tool in economics as it enables us to isolate one particular variable in our analysis of some situation or other. However in reality "other things" rarely do remain exactly "equal". Interest rates in an economy may have risen significantly, but the curb on Aggregate Demand that theory predicts may not have happened because of the increasing pace of recovery in other economies causing a surge in exports.

The assumption that economic agents are rational

The "rationality" assumption is also often rather suspect. Someone who is decorating their bathroom may have read in a magazine that Italian tiles are by far the most stylish, and be influenced by that to pay three times more for fancy, fashionable tiles than settling for plainer ones that secretly they actually preferred. Mentioning such things may not lift your answer into the highest levels, but it's better than not making any truly evaluative comment at all. For more information on why consumers (and other economic agents) may act irrationally please see the **factfile** entitled **Consumer Rationality**.

Policy impacts are inconsistent

Politicians may apply sets of policies which were successful at some other time or place in circumstances where they are no longer appropriate. 'A' level candidates often write about policies meant to fix some problem as if just passing a law brings instant solutions, but in fact, legislation is often very difficult to enforce.

Note that very often politicians are under pressure to be seen to be doing something about a particular issue. In some cases they may choose the quick or obvious option even when they know that it may not be the best. For example, politicians often talk about tightening up laws around waste disposal, in the full knowledge that tightening laws is unlikely to prevent criminals from "fly-tipping". The example of "fly-tipping" is by no means the most difficult of situations. There are thousands of decent, law-abiding householders in Northern Ireland who may not even be aware they live in a designated "smokeless zone", because burning ordinary coal in an ordinary fireplace (illegal or not!) is what everybody else is doing.

A politician's or spokesperson's policy stance may be driven by personal motivation

Anyone arguing their own case with force and fluency will generally pick the best arguments to back it up, but this doesn't make their case the only just one. It is always useful to consider the aims and values of someone expressing a particular point of view. For instance, representatives of charities generally don't support cutbacks in governments' welfare spending, and entrepreneurs will rarely argue for increases in taxes on business! However, in both cases the particular policy may well be the best one in the current circumstances. Many advocates of free trade argue that it will benefit all participants. It is important to ask who benefits most if LDCs are helped become more efficient producers of primary products. Development in less wealthy countries may depend on emergence of secondary-sector industries, and trade 'liberalisation' alone may not encourage that.

Here's something interesting to think about, too : above and below, reference is made to statistics provided by the United States' Central Intelligence Agency. On its website, the CIA defines its role as 'assisting in ... decisions relating to national security'. One of its functions is described as 'information management'. Some of the "facts" in the CIA's "book" are estimates. It would not be strange if some of the figures the agency selects reflect positively on the USA, its policies and allies.

No policy is perfect – but that does not mean they are ineffective

Sometimes a way out of an economic crisis involves unpleasant consequences for some groups in society, but that doesn't inevitably mean that solution should not be tried. Similarly, since perfection is unachievable, it's a mistake to think only in 'black-and-white' terms. Despite some contrary views, Economics isn't just a matter of putting a price on everything; nearly every gain involves some cost to somebody. A new airport or rail link may destroy people's homes and wildlife habitats. It's up to economists to get people to focus on whether benefits outweigh such costs.

Information failure

As well as deliberate bias, it is worth considering whether information on which an opinion or decision may be based is out-of-date, incomplete or inaccurate. Some data may not really mean what someone who is presenting it believes.

Consider the table below showing estimates of GDP per head in five countries on different continents. Someone who has been asked to research comparative GDP per head figures might assume that any set of figures from a prestigious source will give them what they need. Note, however, that the World Bank's estimates are presented in $US at current exchange rates. The Central Intelligence Agency's estimates are corrected for purchasing power parity - that is, they make allowance for what a Kenyan shilling will buy for a person spending it inside Kenya, - not just what they receive for it if they present it to a bank for conversion into dollars.

Someone with less insight into Economics than yourself might use data from the middle column to suggest that living standards in the UK are more than twelve times higher than those in Sri Lanka. Bare figures with no clear explanation of what or how measurement was undertaken may not be wholly reliable evidence.

Estimated 2014 GDP per head, selected countries		
Country	**World Bank** ($US at current values)	**CIA** World Factbook ($US corrected to reflect purchasing power parity)
Australia	61925	64700
Chile	14528	23300
Kenya	1358	3100
Sri Lanka	3819	10500
United Kingdom	46332	40200

Imperfect information may be better than no information

An imperfection in any theory or analytical field of study does not necessarily render it useless. Meteorology in the UK has a chequered history, but despite notable occasions when forecasts have been inaccurate, they have undeniably helped people plan for routine and abnormal bad weather. Likewise, economic forecasting is often inaccurate. However, having some idea as to the likely change in the rate of inflation over the next year (even if this isn't exact) is more useful to investors and government planners than having no information at all.

Reference to real events is often the most impressive evidence

The financial sector is a big new area of the specification. In preparation for an exam question asking you to evaluate, for example, regulation of banks and financial corporations, an Internet search with keywords "Financial Conduct Authority" + "controversy" throws up stories about its former chief officer who had been quite active in enforcing a rigorous code of conduct on the banking sector not having his contract renewed in the summer of 2015, and outcry in early 2016 when the FCA announced it was shelving plans to publish a report into how banks were getting on with promised reforms in their culture and operations. This would entitle you to question whether future control of the banking sector will be much more effective than in the recent past.

Things to avoid: (a list of don'ts)

Don't think that beginning a paragraph with "However, ..." fools the examiner when you're not expressing a contrasting idea at all. The same is true for expressions such as "On the other hand, ..." etc. By all means use such vocabulary - but do so appropriately.

Don't express normative ideas as if opinions are evidence -
Many aspects of government policy are unpopular and it is perfectly OK to dislike them yourself and favour different political opinions. What is sloppy is to express this opposition only by saying something such as 'this policy is unfair'.

Don't, at the same time, be timid about stating facts even if they are unsavoury.
For example, when discussing the impact of immigration it would be unwise and unnecessary to express strong hostile opinions either about immigrants or about other people's opposition to immigration. However, it is quite acceptable to show that you are aware that the arrival of workers from other countries may create social tensions in the host community.

Don't approach all problems as if economics has all the answers and don't be afraid to say that non-economic considerations are also important. For example, economists don't necessarily all hold the same opinion as to whether Britain should remain in or leave the European Union. It is perfectly reasonable to give weight to the feelings of people who may have suffered in European wars who have an entirely different perspective on unity among European nations.

Don't be beguiled by the proposition you're asked to consider critically. Evidence would suggest that some candidates have been unduly influenced by the wording of a statement they're asked to comment on. Some topics are more difficult than others, but examiners are obliged to set questions on all parts of the specification. Sometimes, therefore, exaggerated or extreme views have been presented to give candidates a little help. An example of this might be to attribute a quote in the data to someone arguing that "the UK should immediately terminate all its foreign aid programmes as money distributed to Less Developed Countries inevitably ends up in the hands of corrupt officials." Just because this view is expressed in the question does not mean that that you are expected to agree with it. Indeed, it should not be too difficult for you to find some fault with this statement!

Finally be careful with the "quality of written communication"

The assessment of essay and case study questions which require you to write extended answers takes into account the quality of your written communication. This does not mean that you have to write elegant phrases with long words to earn high marks. However, it does mean that you take care with your spelling, punctuation and grammar and that you use economic vocabulary accurately. Try to express your ideas clearly and concisely and present your arguments logically and coherently. Focus on what the question is asking you and do not include irrelevant or unnecessary information in your answers. Always write in sentences and paragraphs and avoid lists of bullet points unless you are short of time to complete a question.

How can I make the most of my ability?

Economics affect the lives of everybody. To develop real understanding you need to relate what you study in class to national and international economic events and issues that are reported in the media. Following the tips below will help to develop your interest and understanding of the content of this unit.

Develop and maintain good study habits: The advice offered on "how to study" in the AS course companions is at least as valid at 'A' level. If you haven't already adopted the strategies recommended there, it may be worth returning to this section in the AS 1 or AS 2 document!

Follow the news: International, financial and developmental issues in Economics feature every day on TV, radio and in the papers. Paying attention to the economics sections of the news will not only increase your understanding but give you examples you can use in exams.

Use the internet: There is a great deal of valuable information about Economics on the internet but you need to be selective in how you use websites. Tutor2u has very useful sections and good discussions in its Economics Blog. The BBC and Guardian economics and business sites are also very helpful with illuminating discussions, debates and examples. There are many other useful web addresses in the CCEA Resource List.

Read around the subject: There are a number of excellent textbooks, magazines and journals available which cover the content of this unit in detail. The resource list that follows covers some of the most commonly used textbooks and other sources of information which are available. However, this should not be interpreted as prescribing particular resources. For more advice, consult your teacher. Reading around what you discuss in class is an excellent way of broadening and deepening your understanding.

Be organised: There is quite a lot of content in this unit, but you should already be familiar with many of the key ideas and concepts from your study of Unit AS 2 on the National Economy. Make sure that you organise your notes effectively so that you cover each of the main sections.

There are more detailed Study Tips on the CCEA Economics micro-site:
www.rewardinglearning.org.uk/microsites/economics/gce/.

Further resources

Text books

There are plenty of excellent textbooks available which cover the content of this unit in detail. The list below covers some of the most commonly used texts and should in no way be interpreted as prescribing particular books at the expense of others. The subsidiary list includes some wry and challenging views of the subject - a kind of antidote to conventional Economics. Some of titles may be hard to find, but other works from the same authors may be equally subversive; they are included for interest only - not to be considered 'recommendations'!
For more advice on which texts to read or purchase consult your teacher.

Anderton A G: ***Economics*** - Pearson Education
Beardshaw, J et al: ***Economics: A Student's Guide*** - Prentice Hall
Begg, D & Fisher, S: ***Economics and Economics Workbook*** - McGraw Hill
Grant S & Bamford C: S***tudies in Economics and Business: The European Union***
(5th ed) - Heinemann
Krugman P and Oldfield M: ***International Economics: Theory and Policy*** (7th ed) - Pearson Education
Lipsey, R G & Harbury: C: ***First Principles of Economics*** - Weidenfeld & Nicolson
Maunder, P et al: ***Economics Explained*** - Collins
Sloman, J: ***Economics*** - Pearson
Chang, H-J: ***Economics, The User's Guide*** - Pelican
Galbraith, J K: ***The Essential Galbraith*** - Houghton Miffin
Harford, T: ***The Undercover Economist*** - Oxford University Press
Krugman, P: ***The Accidental Theorist***: ***And Other Dispatches from the Dismal Science*** - Penguin Business Library
Ormerod, P.: ***The Death of Economics*** - St Martin's Press
Skidelsky, R.: Keynes: ***The Return of the Master*** - Allen Lane

Websites

UK Treasury	www.hm-treasury.gov.uk
The Bank of England	www.bankofengland.co.uk
The Office for National Statistics	www.ons.gov.uk
The International Monetary Fund	www.imf.org
The International Labour Organisation	www.ilo.org
The OECD	www.oecd.org
European Union Statistical Agency	www.ec.europa.eu/eurostat
The Institute for Fiscal Studies	www.ifs.org.uk
The World Bank	www.worldbank.org
Department of Enterprise, Trade and Investment	www.detni.gov.uk/
Office of National Statistics	www.statistics.gov.uk/
Organisation of the Petroleum Exporting Countries	www.opec.org/home/
HSBC: UK economy explained	www.hsbcukeconomyexplained.co.uk/
The Financial Times	www.ft.com
The Times	www.the-times.co.uk
The Independent	www.independent.co.uk
The Guardian	www.guardian.co.uk
The Telegraph	www.telegraph.com

The Economist	www.economist.co.uk
Belfast Telegraph	www.belfasttelegraph.co.uk
Irish Times	www.irishtimes.com
Irish News	www.irishnews.com
The Scotsman	www.scotsman.com
BBC Business news	www.bbc.co.uk/news/business
Think Economics	www.whitenova.com/thinkEconomics/adas.html
David Smith economic blog	www.economicsuk.com/blog/000237.html
Freakonomics blog	freakonomics.blogs.nytimes.com/
Tutor2U	www.tutor2u.net/
Economics online	www.economicsonline.co.uk
Khan Academy	www.khanacademy.org/
Economics Help	www.economicshelp.org/
Investopedia	www.investopedia.com
S-cool	www.s-cool.co.uk/a-level/economics
Economic resources on the net	www.econwpa.wustl.edu/EconFAQ/EconFAQ.html

There are some worthwhile sites on YouTube, including

www.youtube.com/user/pajholden
www.youtube.com/user/EconplusDal

Other publications

Economics Review magazine	Phillip Allen Updates
Economics Today magazine	Anforme limited
UK Economic Outlook	PWC

CCEA resources

In addition to this publication, course companions are available for the other three units of the GCE Economics exam.

Factfiles have been prepared on a selection of topics including some new to the specification and some which regularly seem to cause problems for candidates.
Further factfiles are planned during the lifetime of the specification.
Factfiles relevant to AS 2 published during 2016 are

- Index Numbers and Indexation (trade-weighted exchange rate index)
- The financial sector (in three parts: nature and importance - role of the Central Bank - regulation)

Some worthwhile resources may have been overlooked or are as yet unpublished; look out on www.rewardinglearning.org.uk/microsites/economics/gce/, the CCEA Economics microsite, for updated information.

GLOSSARY

Absolute advantage: a situation in which one country is able to produce a good more efficiently than another country. This means that it can produce the good using fewer resources.

Appreciation (of a currency): a rise in the exchange rate of a currency so that a given amount of this currency now buys more of another currency.

Asset: something owned by an organisation or individual which has actual or potential value.

Balance of payments account: a record of one country's financial transactions with the rest of the world over a given period of time, normally a year.

Bank of England: the UK's central bank. It acts as banker to the government and to the banking system, as well as implementing the government's monetary policy, maintaining the nation's reserve assets and supervising the issue of banknotes. It supports the day-to-day operation of the banking system.

Base rate: this is the rate at which the Bank of England (BoE) is prepared to lend to other banks. By varying this rate, the BoE is able to influence all the other interest rates in the economy, and thus affect the cost of borrowing.

Bonds: a guarantee or certificate accompanying a fixed-term borrowing. A company or public authority may raise money direct from investors rather than from banks by selling a bond with a specified rate of interest throughout its term. The borrower does not need to repay the purchaser until the maturity of the bond, but bonds may be sold to other investors. Their price depends on their yield compares to similar securities at the time of sale.

Capital and financial accounts (of the balance of payments): the sections of the balance of payments that record all capital transfers and capital flows into and out of the UK.

CAP reform: in recent years, there have been attempts to reform the Common Agricultural Policy (see below) which had proved to be a huge drain on the EU budget and resulted in high agricultural prices and surpluses of certain food products. Reforms have included decoupling of payments to farmers from the amount they produce, reductions in guaranteed minimum prices, rewarding farmers for protecting and improving the environment, cutting payments to the largest farms and providing funds for rural development.

Common Agricultural Policy (CAP): the agricultural policies of the EU designed to support and stabilise farmers' incomes and guarantee the supply of food at a reasonable price.

Common currency area: a group of countries that agree voluntarily to adopt the same currency, for example, the Eurozone.

Comparative advantage: a situation in which one country is able to produce a good at a lower opportunity cost than another country.

Credit creation: the ability of banks to create spending power by undertaking to honour customers' spending. The banks lend to their customers, not by handing them cash, but by agreeing to transfer funds to those with whom they do business electronically or by writing a cheque or payment order.

Credit crunch: a period of financial difficulty in which banks are reluctant to lend to each other, business and individuals; interest rates may be much higher than normal. A credit crunch as experienced in 2007/8 may cause or prolong a recession and make the operation of official interest rate policy less effective.

Current account (of the balance of payments): the section of the balance of payments account which records payments for the purchase and sale of goods and services, and other flows which involve changes in the ownership of the money which has flowed from country to country.

Customs union: a group or bloc of countries which agrees to impose a common external tariff on imports from outside these countries.

Cyclical unemployment: (also described as "demand-deficiency") Unemployment arising from a downturn in the economy as a result of long-term fluctuations.

Deficit: a situation in which expenditure is greater than earnings.

> ***It is important not to confuse trade and fiscal (budget) deficits.***
>
> A deficit on the current account of the balance of payments occurs when expenditure on imports of goods and services is greater than earnings from exports. A fiscal deficit occurs when government expenditure exceeds its revenue from all sources.

Deflation: a sustained fall in the general level of prices. The real value of debts increases. Businesses and consumers tend to postpone spending as they expect prices to fall further. These factors may in turn lead to businesses cutting output or closing and to a further rise in unemployment.

Depreciation (of a currency): a fall in the exchange rate of a currency so that a given amount of that currency now buys less of another currency.

Depression: though there is no precise definition, a depression is normally considered to be an economic downturn that is far more severe and long-lasting than a recession (see recession).

Deregulation: cutting "red tape" by reducing legislation, or otherwise reducing the extent to which the state intervenes in a market or markets generally.

Devaluation: a decision by a government to fix the exchange rate of its currency at a lower value than it held previously.

Economic and Monetary Union (EMU): the adoption of a single currency by certain members of the EU. The main effects of this on member counties are ease of trade, transparency of prices and the need for a single monetary policy formulated by the European Central Bank (ECB - see below).

Economic cycle: (also historically referred to as the trade or business cycle) Although most economies continue to grow in the long-term, they tend to experience fluctuations in terms of stagnations or bursts of rapid expansion.

Economic development: the process by which a country is able to satisfy the basic needs of its inhabitants, raise their living standards and widen the range of economic and social choices open to them.

Economic growth: an increase in the productive capacity of the economy. This can be shown by an outward shift in the production possibility frontier. The rate of economic growth is normally measured by the percentage increase in real gross domestic product (GDP) over a period of time such as a year.

Environmental policy: the plans and measures adopted by individual countries and international economic groupings to protect the environment.

European Banking Authority: an organisation with powers throughout the whole EU (not only the Eurozone) to back up national regulatory systems. The EBA conducts periodic "stress tests" to check how banks could cope in a crisis.

European Central Bank: this is the central bank of the Eurozone. Through a committee of representatives of member countries, it decides on monetary policy and sets the official interest rate for the Eurozone.

European Union (EU): - a customs union and free trade area providing a common market through which goods and people can travel between member countries can move relatively unhindered by regulation and border controls.

Euro: the single European currency used by the majority of the member countries of the European Union.

Eurozone: the trading area formed by the EU countries which have adopted the euro as their single currency.

Exchange rate: the "price" of one currency in terms of another or others in international markets. When economic conditions mean that the price of euros in terms of pounds rises, and fewer euros may be bought for each pound exchanged, the pound is said to be depreciating against the euro.

Fair trade: the purchase of goods from developing countries at prices which guarantee a fair return for producers. The fair trade movement tries to encourage importers and consumers to purchase designated fair trade goods and to discourage the consumption of goods which are produced by very cheap labour.

Financial Conduct Authority (FCA): a non-government organisation, funded by levies on the financial institutions it regulates. It is charged with promoting fair and ethical competition in the financial sector.

Financial Policy Committee (FPC): this BoE committee plays an important role in the implementation of government monetary policy mainly by advising on issues to do with money supply. It has the power to direct the FCA (see above) and the Prudential Regulation Authority which, in turn, may instruct credit providers in the economy to modify their behaviour.

Financial sector: that part of the economy, amounting to more than 8% in the UK, which deals with trading in securities, helping insure against risk and making spending power available to households, firms and the government. It includes banks, insurance companies and the Stock Exchange.

Fiscal deficit: the situation in which, during a financial year, the government's expenditure exceeds its revenue.

Fiscal policy: this is government policy in relation to its expenditure and revenue-raising through taxation and borrowing. The main fiscal policy measures are set out in the Budget in the spring of each year. This follows an annual review of fiscal policy in the autumn in the form of the Pre-Budget Report. Fiscal policy may be automatic (as the economy expands government revenue from taxes increases and its expenditure on welfare decreases more than proportionately. This acts as a brake to control the rate of growth. The reverse is true when the economy is shrinking.) It may also be discretionary - (this is when governments deliberately change relative revenues raised from taxes or their spending as a percentage of GDP.)

Fiscal surplus: the situation in which, during a financial year, the government's revenue exceeds its expenditure.

Fixed exchange rate: the situation in which the price of a currency is set at a particular level in terms of another currency. The exchange rate is prevented from moving outside a very narrow margin either side of its set rate through intervention in the foreign exchange market by the country's central bank.

Floating exchange rate: An exchange rate that is determined by the market forces of demand and supply. The exchange rate will move in response to changes in exports, imports and international capital movements.

Foreign aid: assistance offered by wealthier economies to developing countries. This may take the form of financial grants, the provision of technical expertise, loans or tied aid which is linked to the recipient country's purchase of goods and services from the donor.

Foreign direct investment: this involves a company or (group of) investor(s) from abroad investing in an industry or company in another country. It includes:

- a multinational company extending the size of one of its foreign operations;
- the establishment of a new factory or operation in another country;
- acquisition of a significant proportion of the shares in an existing company.

Free trade: international trade which is free from barriers or import controls such as tariffs and quotas.

Free trade area: a group or bloc of countries which encourages free trade amongst its members. Members may retain their own trade barriers against other countries as in the North American Free Trade Area (NAFTA) or also form a customs union and impose a common external tariff as in the EU.

Gilts: (short for "gilt-edged securities") Government stock such as savings certificates or bonds, valued by investors because they are very safe.

Globalisation: the process by which the international economy has become more open and world markets for goods, services and capital have become more integrated. Globalisation is often associated with economic growth and improvements in the standard of living but has also been criticised for making large multinational companies more powerful at the expense of the populations of the poorest countries.

The Group of 10 (G10): despite its name, this is a group of eight of the strongest Western European economies plus Canada, Japan and the United States of America. It meets annually and is committed to communal financial support.

The Group of 20 (G20): this is a discussion forum for the Finance Ministers and Central Bank Governors of the main industrialised and developing economies. It meets to discuss issues related to global economic stability such as policies for economic growth and the regulation, supervision and functioning of world financial markets.

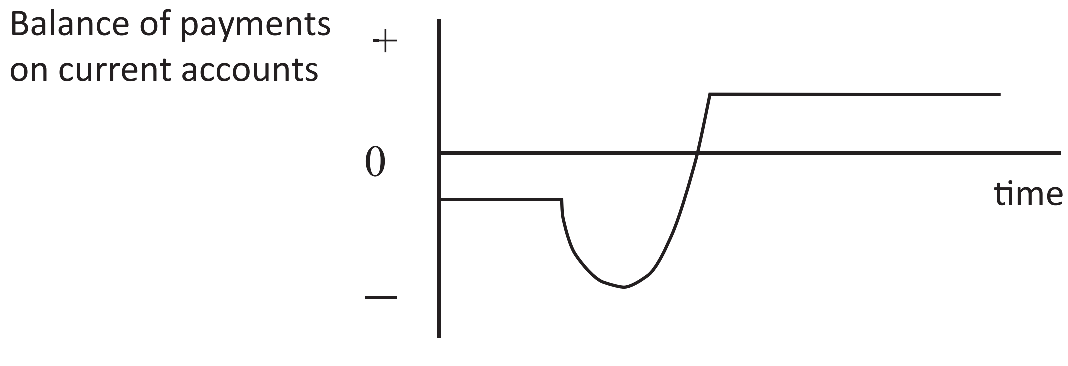
Human Development Index: the United Nations Development Programme's attempt to quantify development as opposed to solely growth. It includes data on standards of health and education as well as gross national income.

Inflation: a significant and persistent rise in the general level of prices resulting in a fall in the value or purchasing power of money.

Interest rate: interest is payment for the use of someone else's money. For example, it may be charged by financial institutions on loans to customers or offered by them to depositors. The interest rate is the actual charge per period of time and varies according to the length of time before the money is withdrawn or repaid and the riskiness of the transaction.

International Monetary Fund (IMF): the IMF attempts to coordinate the international monetary system and ensure that there is sufficient liquidity to finance the growth of world trade. Member countries make financial contributions to the fund in proportion to the size of their economies. The IMF will provide loans to countries which are experiencing persistent balance of payments problems but will usually impose conditions as to how the underlying economic problems of the country are addressed.

The J-curve: a diagrammatic representation of the short- and long-term consequences of a fall in the value of a country's currency on that country's balance of payments on current account. At first, while demand and supply are relatively less elastic, dearer imports and smaller earnings from lower-priced exports will cause the balance to worsen (the curve dips), but later **X** should increase and **M** reduce, causing the line to climb to a more healthy balance than before the devaluation or depreciation.



Keynesian economists: in very simple terms, "Keynesians" are those who favour the ideas of John Maynard Keynes who was very influential after the Second World War until the 1970s. The term is generally used as a "shorthand" for those who argue that some public sector intervention, including use of demand-side policies, is essential for economic stability.

Lender of last resort: the role assumed by the Bank of England in the UK as a "safety net" when important financial institutions are in danger of collapse and cannot obtain funds from normal market sources.

Less developed country (LDC): A country which has a relatively low Gross National Product (GNP), a poorly developed economic infrastructure and which tends to be economically dependent on agricultural production.

Liability: something owed by an organisation or individual - an obligation to transfer assets at some time in the future to someone else.

Liquidity: the ease of converting an asset into spending power (cash)

Macroeconomic stability: the aim of keeping the economy growing in a sustainable way which avoids, as far as possible, a cycle of booms and recessions.

Marshall-Lerner condition: this states that a devaluation of a currency will only improve a country's balance of payments situation if the sum of the price elasticities of demand for its exports and imports is greater than one.

Maturity (in financial terms): the point at which a bond or other security becomes due to be repaid to an investor.

Monetary policy: policy designed to influence the cost and availability of credit in an economy. In an increasingly open global economy, the operation of monetary policy may require international cooperation and coordination if it is to be effective in combating problems like the credit crunch and recession. In the UK, monetary policy is operated by the Bank of England. In the Eurozone, it is operated by the European Central Bank (ECB).

Monetary Policy Committee: this BoE committee plays an important role in the implementation of government monetary policy. It meets monthly and sets interest rates to help maintain the target rate of 2% annual inflation (in 2016).

Moral hazard: a situation in which a person or group may act recklessly, selfishly or immorally, knowing that they are protected from bad consequences.

National Debt: this is the total amount of money owed by the UK Government - mainly to holders of gilts. It has accumulated over time, and fluctuates depending on the will and ability of any particular government to pay parts of it off. It must be differentiated from fiscal deficit. When a government spends less than it earns, national debt may be reduced, but it is much too great to be wipedout by any single year's surplus. In early 2016 UK national debt was more than £1.5 trillion - that's a 1 followed by a 5 and eleven zeros.
However, as a context, UK GDP in 2014 was not too far short of £2 trillion.

Neoclassical economists: in very simple terms, neo-classicists are those who most influenced economic policy in developed market-oriented economies since the 1980s. The term is generally used as a "shorthand" for advocates of supply-side policies who believe that welfare is maximised by leaving the economy as far as possible to be steered by the operation of free markets.

Open economy: an economy which has few trade barriers and depends heavily on international trade and the free movement of people and capital. Government macroeconomic policy in open economies may be difficult to operate without coordination with trading partners as the economy may be destabilised by unanticipated capital movements.

Opportunity cost ratio: the cost of producing one unit of a particular good or service expressed in terms of the amount of another good that has to be foregone.

Protectionism: support for policy measures designed to protect domestic producers from foreign competition. These include overt measures, such as tariffs or quotas and covert measures such as administrative barriers.

Prudence: behaving with care, responsibility and foresight

Prudential Regulation Authority: one of the departments of the Bank of England, charged with supervising the asset structures of financial businesses involved in lending and enforcing responsible levels of liquidity.

Purchasing Power Parity: the rate at which currencies exchange for each other in international markets does not necessarily reflect their actual domestic purchasing power. When making international comparisons, corrections must be made for what a currency will buy in real terms within the country.

Quango: a public body responsible for implementing some aspect of government policy, but ‘at arm’s length’ from political control - as if it were independent.

Quantitative Easing: this is a monetary tactic used by a central bank, normally in economic conditions where interest rates are so low as to leave no room for manoeuvre, to stimulate the economy. It involves buying relatively less liquid assets from banks by electronic transfer of funds. Essentially this should increase their capacity and enthusiasm for lending.

Quantity theory of money: an idea exemplified by Irving Fisher’s “equation of exchange” that changes in the price level are associated with changes in the supply of money. This assumes that “velocity of circulation” (V) is constant. (“V” is the rate at which money changes hands - ie, one £10 note may be spent four or five times during a period of time). The equation, $MV \equiv PQ$, suggests that the amount of spendable money available × V = the total amount of goods and services traded multiplied by the prices paid for them.

Quota: An import control which imposes a limit on the quantity of goods that can be imported.

Recession: a situation in which real gross domestic product is falling over a prolonged period of time. In the UK, a recession is officially defined as two consecutive quarters of negative economic growth. In a recession (or slump), business and consumer confidence declines, there is a fall in investment and consumer expenditure, and unemployment tends to rise.

Recovery: (in the economic cycle) the phase following recession during which there are small, gradual increases in investment, output and employment.

Regulatory capture: the situation in which a body responsible for supervision of an industry loses it focus on its duty to protect the public interest and represents the industry instead.

Reserves: in the case of the Bank of England, a stock of precious metals and foreign currencies held in the Exchange Equalisation Account, which can be sold in open-market operations to increase the external value of the pound; in the case of financial institutions, less profitable, more liquid assets held as insurance against the risk of unanticipated withdrawals or other difficulties.

Securities: forms of financial investment intended to provide a return to the holder - these include stocks, shares or debentures; or corporate or government bills and bonds.

Stabilisation (of an exchange rate): an open-market operation involving use of central bank's foreign exchange reserves to maintain a currency's exchange rate within a given band. If the exchange rate is considered to have fallen too low, the currency can be purchased by the central bank on the foreign exchange market using its reserves of other currencies. If the exchange rate is considered to have risen too high, then the currency can be sold and the proceeds added to the foreign currency reserves.

Structural unemployment: this is a long-term problem, arising when changes in technology or relative efficiency internationally cause the decline of some of a country's established industries. Workers may find traditional skills are not transferable to such fresh opportunities as may be arising. Subsidy (as a trade protection strategy): an interference with trade through payments to domestic producers intended to make a country's exports relatively cheaper abroad or imports from abroad relatively more expensive.

Supply-side policy: measures designed to encourage economic growth by helping markets to work more efficiently and thereby increasing total production from a given amount of resources. This allows long-run aggregate supply to increase and national income to rise without creating inflationary pressures.

Surplus: a situation in which earnings are greater than expenditure.

It is important not to confuse trade and fiscal (budget) deficits.

A surplus on the current account of the balance of payments occurs when earnings from exports of goods and services are greater than expenditure on imports. A fiscal surplus occurs when government revenue (its income from all sources) exceeds its total expenditure.

Sustainable economic development: development of an economy which occurs at a pace which can be maintained over the long term because it does not produce shortages of factors of production which will lead to high levels of inflation or lead to the over-use of finite or non-renewable resources.

Tariff: a tax on imports or customs duty normally designed to raise the price of imports and thereby reduce foreign competition to domestic production.

Trade barriers (or controls): measures such as tariffs and quotas designed to protect domestic producers from foreign competition.

Trade creation: the increased specialisation and trade brought about by the formation of a trading group or bloc that abolishes or reduces trade barriers between member countries. Domestic consumers will tend to switch some expenditure from higher cost domestic producers to lower cost imports.

Trade diversion: the effect of a trading group or bloc imposing a common external tariff on goods entering from non-member countries whilst abolishing or reducing trade barriers between member countries. Domestic consumers will tend to switch expenditure away from the production of non-member countries to the production of member countries.

Trade liberalisation: the process of making world trade more free by the reduction and, where possible, elimination of trade barriers.

Trade-off: a situation in which some policy target must be modified or (partly) sacrificed because the means of achieving it adversely affects another target.

Trade war: a situation in which protectionist measures introduced by one country or a trading bloc result in retaliatory measures being taken by other countries. In such a situation all countries involved tend to lose as the efficiency and welfare gains of specialisation and trade are lost.

Trade-weighted exchange rate index: a comparison of general changes in the external value of a currency over time. It involves weighting the effects of changes in value of other currencies according to the relative importance of those currencies in the country's overall pattern of international trade.

World Bank: the informal name commonly given to the International Bank for Reconstruction and Development (IBRD). It borrows money in international capital markets and lends this to developing countries to finance projects which are designed to improve areas such as infrastructure, health and education provision, agriculture and industry.

World Trade Organisation (WTO): the organisation which supervises and regulates international trade. It aims to promote trade liberalisation by negotiating the reduction of trade barriers between member countries. It also helps to resolve trade disputes between members.

Revision checklist:

Section 1: Trade and Globalisation		
You should be able to:	✓	**Notes**
explain and mathematically illustrate the concepts of comparative and absolute advantage		
explain the usefulness of the concept of comparative advantage		
analyse and evaluate the benefits and costs of free trade for different economic agents and in relation to macroeconomic objectives such as employment, inflation, economic growth and the balance of payments.		
explain and illustrate the role the World Trade Organisation in relation to trade liberalisation.		
analyse and evaluate the causes of increased globalisation and the impact on economic agents and macroeconomic objectives.		
analyse and evaluate the main forms of protectionism, including tariffs, quotas, subsidies, regulations and exchange rate manipulation.		
analyse and evaluate the benefits and costs of protectionism in relation to economic agents and macroeconomic objectives.		
explain the nature and analyse the significance of trade policies and negotiations and trading blocs.		
explain and illustrate the meaning and significance of Foreign Direct Investment (FDI).		

Section 2: Development		
You should be able to:	✓	**Notes**
explain and illustrate the meaning and features of economic development		
explain and illustrate the difficulties of measuring economic development		
analyse and evaluate the usefulness of national income statistics in comparing living standards and economic development over time and between countries.		
explain and interpret the Human Development Index (HDI).		
analyse and evaluate the benefits and costs of economic growth in Less Developed Countries (LDCs).		
analyse and evaluate ways and value of promoting growth in LDCs, including aid, the roles of the World Bank and the International Monetary Fund (IMF).		

Section 3: Balance of Payments and Exchange Rates		
You should be able to:	✓	**Notes**
explain and illustrate the basic structure and purpose of the balance of payments.		
analyse and evaluate the possible consequences of current account deficits and surpluses for economic agents and macroeconomic objectives.		
analyse and evaluate government policies to reduce current account deficits and surpluses.		
analyse and evaluate expenditure-switching and expenditure-reducing policies.		
explain how foreign exchange markets operate.		
explain and evaluate fixed and floating exchange rates.		
analyse the Marshall Lerner condition and the J Curve effect.		
calculate and interpret a basic trade weighted exchange rate index.		
explain and illustrate purchasing power parity (PPPs).		
analyse and evaluate the effect of exchange rate changes on the balance of payments.		
analyse the influences on supply and demand in foreign currency exchange markets.		

analyse and evaluate how monetary policy might influence the exchange rate.		
analyse and evaluate the value and effectiveness of exchange rate policies in relation to macroeconomic objectives such as employment, growth, inflation and balance of payments.		

Section 4: The European Union		
You should be able to:	✓	**Notes**
analyse and evaluate the advantages and disadvantages of membership of the European Union (EU) for member states and prospective members.		
evaluate the effect of the expansion or contraction of the EU on the UK economy as well as the effects of any changes in its structure that may occur.		
analyse and evaluate the potential advantages and disadvantages of the Eurozone for member states and prospective members.		

Section 5: Monetary Policy and the Financial Sector		
You should be able to:	✓	**Notes**
analyse and evaluate the role of central banks, including the Bank of England and European Central Bank, and their impact on the banking sector and money supply.		
analyse the factors that influence the setting of the base rate.		
analyse and evaluate the effect of changes in the money supply and monetary policy in a global economy, including the effect on inflation, output, unemployment and the balance of payments.		
explain and illustrate the Fisher equation of exchange and the quantity theory of money.		
analyse and evaluate the need for regulation of the financial sector.		
analyse and evaluate difficulties regulating the domestic financial system and controlling the money supply in a global economy.		
analyse and evaluate the impact and effectiveness of monetary policy in relation to the macroeconomic objectives and the impact on economic agents.		

explain and illustrate the role of the financial sector and its impact on the real economy.		
explain and illustrate the issue of moral hazard in relation to the financial sector.		
analyse and evaluate quantitative easing and other methods of expanding or contracting the money supply.		

Section 6: Fiscal Policy and Macroeconomic Policies and Objectives in a Global Economy		
You should be able to:	✓	**Notes**
explain and illustrate the difference between a fiscal deficit and the national debt.		
analyse factors that influence the size of fiscal deficits.		
analyse and evaluate how governments finance deficits (including government bonds) and the possible implications of this.		
explain and illustrate how deficits may result from either discretionary government policy or automatic government policy.		
analyse and evaluate the impact of fiscal policy on levels of output and employment, the price level and economic agents through both demand side and supply side policies.		
analyse and evaluate the benefits and costs of a fiscal deficit and the national debt.		
analyse and evaluate the impact and effectiveness of fiscal policy in relation to the macroeconomic objectives and the impact on economic agents.		
analyse the relative performance of different economies and the possible reasons for the difference in performance.		
analyse and evaluate the impact of global events on prices, output, employment, the balance of payments and on different economic agents.		
analyse and evaluate the use and impact of macroeconomic policies to respond to external demand and supply shocks to the global and domestic economy.		
analyse and evaluate problems and constraints facing policymakers when applying policies to achieve macroeconomic objectives.		

analyse and evaluate the impact of supply side policies on levels of output and employment, the price level and economic agents.		
demonstrate awareness of the key changes in the priority of macroeconomic government objectives over time.		
analyse and evaluate the effectiveness of different government policies relative to each other in relation to macroeconomic objectives..		

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