This Course Companion is intended to be used alongside other resources such as textbooks, worksheets, class notes, websites, newspapers and TV programmes. It does not replace these resources. The Course Companion helps you to plot your way through the course and aids your revision once the course is completed.

The Course Companion provides:

• a brief overview of the course;
• a brief explanation of each of the main topic areas;
• additional guidance on content that tends to cause students particular problems;
• a brief description of the examinations and what they assess;
• some study tips and guidance on examination technique;
• information on other useful resources;
• a glossary of key terms and definitions; and
• a revision checklist.
1 What is the course about?

Economics is the study of how we use our resources.

These resources are the land, labour and capital that we can use to provide us with goods and services. As our resources are scarce or limited but our wants are unlimited, we have to make choices about how we use them.

If we use our resources in one way, we have to give up something else. Economics studies how individuals, firms, organisations and countries make these choices and tries to show how we can make the best use of our resources.

The CCEA GCSE Economics course is divided into five sections. All these sections link together so, by the end of the course, you should have a good understanding of how the economy works. This will provide you with a sound foundation to go on and study the subject at AS and A level and help to prepare you for a range of attractive careers in business, finance, government services, law and education.

In studying GCSE Economics, you will have opportunities to discuss many important and interesting issues that feature in the news. Economics tries to give you a way of looking at problems that helps you discuss them in an informed and thoughtful manner.

Some examples of the types of questions you might discuss during your course are listed below:

- What causes house, food and fuel prices to rise and fall?
- Why do some people earn so much more than others?
- How can we manage our money effectively?
- Should we pay more or less tax?
- What should be the government’s spending priorities?
- Do all countries benefit from international trade?

In looking at these types of issues, you will have an opportunity to develop your:

- communication skills;
- numerical skills;
- problem-solving skills;
- use of information and communication technology (ICT);
- thinking and study skills; and
- ability to work with other students in teams.
What are the main topics I need to study?

As mentioned earlier, the course is divided into five main sections.

This does not mean that your teacher will necessarily teach the course in this order. Teachers are free to organise the content as they wish. Whichever way the content is organised, by the end of the course, you should have covered the following topics:

- **Basic Economic Ideas.** This section examines the nature of the basic economic problem, opportunity cost, factors of production, specialisation, goods and services, the public and private sectors of the economy.

- **Producing and Consuming.** This section examines how prices are determined in markets by demand and supply, how firms compete and grow, concepts of cost, revenue and profit and how markets may sometimes fail to work properly.

- **Financial Capability.** This covers the nature of money and financial products, interest rates, managing personal finances, managing debt and the contribution of the financial services industry to the economy.

- **Managing the Economy.** In this section, you will learn how income and expenditure flow around the economy and look at key government economic objectives. You will examine the aims and operation of government economic policy in dealing with issues such as economic growth, unemployment, inflation, and consider the effectiveness of government policy.

- **The Global Economy.** This section looks at the nature of international trade, how countries gain from international trade, the impact of exchange rate movements, key development issues and the European Union.
What areas cause students particular problems?

Economics is an interesting subject to study because it deals with the kinds of issues and problems that people experience in their everyday lives.

Most students enjoy it and are able to cope well with most parts of the course. There are, however, a number of areas which students may find challenging. Some of these relate to topical issues, whilst other issues relate to the skills which the examiners expect you to demonstrate in the examinations. The following sections offer some more detailed guidance on these areas.

3.1 Basic Economic Ideas

Production possibility frontier (PPF)

One of the basic economic ideas that some students have difficulty in understanding and using is the production possibility frontier. This is a simplified model of the economy in the form of a diagram. It shows the maximum combinations of two or more goods that an economy can produce over a given period of time if it uses all its resources efficiently. For example, assume that a country’s factors of production can only produce two goods; televisions (TVs) and personal computers (PCs). Its production possibility frontier would show all the combinations of these two goods that could be produced in a year if all its land, labour and capital were fully employed.
The production possibility frontier shows that if the economy uses all its resources to produce TVs, it would produce 600,000 TVs and no PCs. At the other extreme, if it uses all its resources to produce PCs, then it would produce 1,200,000 PCs and no TVs.

If the economy is producing at point A, it can produce 300,000 TVs and 600,000 PCs. As all its resources are fully employed, it can only produce more TVs by switching resources from producing PCs.

Therefore if it wants to produce 50,000 extra TVs (point B on the production possibility frontier), it can only do so by producing 100,000 fewer PCs. This is the **opportunity cost** of producing the extra TVs.

Point C, which is inside the production possibility frontier, illustrates a situation in which the economy has unemployed resources and therefore is not achieving its productive potential. Point D is outside the production possibility frontier and illustrates a combination of goods that cannot be produced unless the economy grows through extra resources becoming available or through an improvement in the quality of existing resources that allows them to work more efficiently. This might happen as a result of better training for workers or technological advances.

If you have problems with this idea, it may be helpful to think about it first in personal terms. In any week, you have a certain amount of free time, say 30 hours, after you have attended school, eaten meals, slept and carried out your chores at home.

You might use this free time (your resources) to listen to music or study. If you use all your 30 hours free time listening to music, you won’t have any time to study.

If you spend all your time studying, then you won’t be able to listen to any music. Based on this information, you could draw your own production possibility frontier.

Assume to start with that you divide your time equally between listening to music and studying. If you then increase the time you spend listening to music, the opportunity cost to you is that you have less time to study.
3.2 Producing and Consuming

Break-even analysis

Most students find explaining the break-even position for a firm quite straightforward but some confuse it with demand and supply. This is most evident in diagrams which are incorrectly labelled.

- Break-even diagrams illustrate the costs and revenue for a firm.
- Demand and supply diagrams illustrate demand and supply in a market and the market or equilibrium price.

The break-even position for the firm is where total costs are equal to total revenue. Revenue from sales is just enough to cover all the costs of production. The firm aims to sell above the break-even level of sales so that it will make a profit. This is illustrated in the diagram below.

Some students have problems analysing what happens to the firm’s break-even position if there is a change in costs or revenue.

A firm’s total costs are the fixed plus variable costs. Fixed costs remain the same whatever the level of output, while variable costs vary with output.

If either fixed or variable costs change, total costs will also change and this will be reflected in a change of position of the total costs curve and the break-even position. If costs rise, the total costs line will move upwards and the firm will now need to sell more units to break even. If costs fall, the total costs line will move downwards and the firm can now break even at a lower level of sales.
The firm’s total revenue is calculated by multiplying sales by price. If price rises, then the total revenue line moves upwards and the firm can break even by selling fewer units. If price falls, then the total revenue line will move downwards and the firm will need to sell more units to break even. You should practise making changes to costs and revenue in the diagram and working out the effects on the break-even level of sales.

Though a firm may be able to operate at a loss for a time, in the long run it must at least break-even if it is to remain in business.

**Economies and diseconomies of scale**

Most students understand the basic concept of economies of scale, that is, that firms may gain certain benefits as they grow in size and that these allow them to reduce their average costs of production. Students tend to have more problems in:

- Applying the idea to particular businesses which may be involved in internal expansion or a merger, for example in 2016 Mitsubishi and Nissan completed a merger;
- distinguishing between the different types of internal economy, that is, the factors that give rise to the reductions in average cost;
- distinguishing between internal and external economies;
- and explaining why firms may sometimes experience diseconomies of scale if they grow too large.

Economies of scale happen when firms are able to produce goods or services at a lower average cost as a result of growth. Producing goods or services on a larger scale usually results in greater efficiency and this can be passed on to consumers in the form of lower prices or more efficient services. Economies are often classified as internal or external. Internal economies of scale result from actions taken by the individual firm and these, in turn, may be described as technical, managerial, buying or purchasing, risk-bearing and financial.

External economies refer to falls in average costs that result from the expansion of a particular industry rather than an individual firm. All firms in the industry benefit, regardless of their individual size. For example, labour costs may fall if workers in a particular geographic area are being better trained. If training for restaurant staff in Northern Ireland improves, all restaurants in the region will have access to better skilled workers.

Diseconomies of scale may happen if average costs start to rise as a firm becomes larger. As firms grow larger, communication may become more difficult across the various layers of management or they may respond less quickly to changing market conditions. In such instances, smaller firms may be able to take advantage of new market opportunities.
Social costs and benefits

A common error made by many students is to confuse social costs and benefits with externalities, that is, external costs and benefits. They generally understand the concept of an externality as a positive or negative ‘spill-over’ effect of production or consumption that affects people other than those directly involved. For example, factory pollution may have negative effects on people who live nearby even though they do not work in the factory or buy its products. Social costs and benefits, however, refer to the costs and benefits to society as a whole. Therefore, they include both private and social costs and benefits.

Social costs = private costs + external costs.

Social benefits = private benefits + external benefits.

The social costs of smoking include the private costs to the individual such as lung damage plus the negative spill-over or external costs that smoking has on others for example, costs to the NHS of treating smoking related illness. The health problems associated with the externalities caused by smoking (passive smoking) have received a lot of attention in recent years. The government introduced a ban on smoking in public places in July 2007 to limit the impact of passive smoking. Other policies to reduce demand for cigarettes include health awareness campaigns and high levels of indirect taxation.

The social benefits of education include the private benefits to the individual such as improved job prospects. In addition, the positive spill-over or externality of is that a well-educated workforce may make the economy as a whole more productive and raise living standards generally.

Well educated workers can be easily trained and are likely to be more efficient and adaptable than less well educated workers, therefore improving the productive potential of the economy. Most governments therefore provide free school education or subsidise the price that parents have to pay to send their children to school.

Demerit goods

Demerit goods are goods which are over consumed as individuals underestimate the true harm associated with the consumption of these goods. Consuming demerit goods often produces negative externalities. If left to free market forces, these goods would be over-consumed. The government therefore may take action to reduce our consumption of these goods. Most students can give good examples of demerit goods, such as cigarettes and alcohol, but they sometimes struggle to give a clear definition and to explain government responses. Government policies to reduce alcohol consumption for example might include imposing high levels of indirect tax, imposing a minimum price per unit, outlawing ‘below cost prices’, banning ‘happy hour’ discounts, public information and education programmes and controls on advertising.
3.3

Financial Capability

Financial products and services

Students generally have a good understanding of the main financial services that consumers can use to make payments. You are also expected to understand the main types of financial products and services that can be used on a daily basis to borrow and save money. Financial Services Providers (e.g. banks, credit unions, insurance companies, the Post Office and others) frequently update the products and services they offer customers, however, you are not expected to have a detailed knowledge of all of the products provided by particular firms.

You should, however, be able to compare alternative choices in terms of cost, risk and return when information is provided to an individual in making key financial decisions.

You should appreciate that riskier financial products tend to have higher potential returns whereas safer ones tend to provide lower returns. Sometimes you may be asked to identify suitable financial products and services for individuals in different situations, for example, a student in higher education, a first-time house buyer, a high income earner with substantial savings or a pensioner.

The Stock Market

Many students enjoy learning about the Stock Market and following share prices. Shares are literally a share of the ownership of a company.

There are challenges in explaining the role of the Stock Market and financial risks involved in buying and selling shares.

When large firms known as public limited companies want to raise capital, they sell shares to investors who could be individuals but may also be institutional investors such as financial institutions and pension funds. By the end of 2014, UK individuals owned approximately 12% of the shares that could be traded on the London Stock Exchange, whilst the remainder were owned by unit trusts, insurance companies and other institutional investors (source: Office For National Statistics, www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/ownershipofukquotedshares/2015-09-02).

The Stock Market provides a second-hand market where shares and other securities can be bought and sold. Share prices rise and fall in response to changes in their demand and supply.
Many large firms or organisations with spare financial capital such as banks or insurance companies, or money that they manage on behalf of other people, for example, pension funds, invest in shares as a way of making this capital grow. Such institutional investors specialise in following the movements in share prices very carefully and can influence these prices when they buy and sell. You should be aware that investors earn a share of the profit, called a dividend, and that this is a source of income for many long-term investors.

If a firm is not making enough profit to share with the owners, dividends may not be paid so there is more risk associated with this type of investment. Share prices will tend to fall if the shares do not represent a good investment.

**Supervision and regulation of financial institutions**

Since the ‘financial crisis’ in the UK Banking Sector in 2008, students tend to have a better understanding of the need to supervise and regulate financial institutions. New laws introduced in the UK during 2012 mean that this role has been carried out jointly by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

Both the Financial Conduct Authority and the Prudential Regulation Authority were set up in 2012 as independent bodies to supervise and regulate all aspects of the financial services industry in the UK. A key aim of the Prudential Regulation Authority is to minimise the probability of another ‘financial crisis’ within the UK Financial Services Industry. The role of the Financial Conduct Authority is to supervise the operation of the Financial Services Industry and promote efficient, orderly and fair markets and to protect consumers. To achieve these objectives, both the Financial Conduct Authority and the Prudential Regulation Authority have been given a wide range of rule-making, investigatory and enforcement powers.

Part of the job of the Prudential Regulation Authority is to set down standards of good practice which financial institutions are expected to follow. Without regulation there would be a danger that financial institutions might exploit consumers by encouraging them to buy financial products not suitable for their needs, not providing them with complete information or not adequately protecting money deposited. Without strong supervision and regulation there is a risk that consumers will lose confidence in the financial system and this could have a severe effect on the economy as a whole.

Students should also appreciate that the Financial Services Industry makes a substantial contribution to the UK economy as a whole (including regional economies) and could provide career opportunities to students from an economics discipline.
3.4

Managing the Economy

Government economic objectives and policies

Students should have a good grasp of the government’s economic objectives and types of policy. Students should be able to decide which policy is most appropriate to deal with a particular economic situation.

The government has the difficult task of trying to manage the economy as a whole and to ensure that it is performing well. There are key areas of the economy’s overall performance that indicate whether the economy is growing – economic growth is important. The Office for National Statistics (ONS) collects information for the government about the economy and measures how well it is performing.

Key indicators or signs of how well the economy is performing are:

**Economic growth:** Students should understand that the economy should be capable of producing more goods and services. This is known as gross domestic product (GDP). Economic growth is measured by the annual percentage change in real GDP. When this is measured per head of population, called GDP per capita, it gives an indication of whether the average standard of living is rising or falling.

**Employment:** In 2010, around 4.8% of the working population was unemployed. While there are around 60 million people in the UK, not all are available for work. They may be too young, too old, or do not participate in the workforce because they are students, are looking after young children or elderly relatives, suffer from ill-health or because they do not wish or need to work. Around 21.7% of the population was not available for work in 2016. Whilst unemployment rose during the economic downturn in 2008, it has been falling in recent years.

Unemployment is a problem as it costs the economy money. Welfare benefits are paid to most people who are out of work and there is also the cost of lost output and reduced tax revenue as these individuals rarely earn enough to pay income tax. Unemployment can also result in serious social and health problems that represent significant costs to individuals and the economy as a whole. Unemployed workers can experience a loss of skills during the time they are unemployed and the long-term or structurally unemployed (those without a job for over 6 months) often need to be retrained before they can find work again. This can be time consuming and expensive.

**Inflation:** This means a persistent rise in the general level of prices. The Government’s preferred measure of inflation is now the percentage rise in the Consumer Prices Index (CPI).

It used to be the Retail Prices Index (RPI) which includes housing costs which are not included in the CPI. Both are still measured, but the CPI is the one more frequently quoted. The CPI measures the average price rise in a representative sample of goods. If one product alone increases in price, this does not mean in itself that there is inflation.
The rate of inflation measures the rise in the average price level. The government now sets a target that the price level should not increase by more than 2% in a year. The monetary policy committee use monetary policy tools such as interest rates to control the rate of inflation within an economy.

**Balance of payments:** The current account of the balance of payments is essentially a measure of the country’s trade in goods and services with the rest of the world.

The UK imports a good deal of food and raw materials and it also buys a lot of consumer goods from abroad. We therefore tend to spend more on imports from abroad than we earn from our exports. On the other hand, the UK tends to achieve a surplus in its trade in services such as banking and finance. Overall, if a country is running a persistent balance of payments current account deficit, this shows that it is not paying its way in its trade with other countries. The UK has had a persistent balance of payments current account deficit since 1999. Between July and September 2016 the UK had a Balance of Payments Current account deficit of £25.494m. The government may therefore have to take action to try and make our economy more competitive. Our membership of the European Union and the World Trade Organisation’s (WTO’s) attempts to promote freer trade throughout the world, though Britain’s planned exit from the EU may have uncertain future impacts.

**Market efficiency and fairness:** In a market economy in which most goods and services are produced for profit by privately owned businesses, the government wants to ensure that markets work efficiently and do not operate against the interests of consumers and the wider community. In situations in which markets are considered to be ‘failing’ (not operating efficiently or in the best interests of consumers or society as a whole), the government or the EU may intervene. This may take the form of:

- government regulation of businesses;
- influencing the way price mechanism works, for example, through indirect taxes and subsidies; and, in extreme cases;
- government attempts to affect the distribution of income through the tax and benefits system; and
- the government taking over a firm or industry and running it itself (nationalisation)

Rules and regulations cover many aspects of business activity including:

- the environment;
- competition;
- consumer protection;
- minimum wage rates;
- conditions of employment; and
- health and safety at work.
Industries and businesses that have been privatised are usually heavily regulated because many are now privately owned monopolies, or because competition is very limited. Regulators are set up by government but work independently to look after the interests of consumers, especially in relation to pricing. For example, Office of Communications (Ofcom), is the government-approved regulatory and competition authority for the broadcasting, telecommunications and postal industries.

Government economic policies are usually classified under three main headings: fiscal policy, monetary policy and supply-side policy.

**Fiscal policy** includes the use of taxation and government spending in order to influence the macroeconomic objectives. For example, the government can boost spending in the economy by reducing direct and indirect taxes or by increasing its own spending. This will help to create jobs and reduce unemployment, promoting growth within the economy.

If the government runs a budget deficit, this means that it has to borrow the difference and this adds to the National Debt. As the government accounts for more than 40% of total spending in our economy, its fiscal policy can have a significant influence on the total demand for goods and services.

The Office for Budget Responsibility (OBR) is responsible for making independent assessments of the public finances and the economy. It is responsible for making the key economic forecasts on which government fiscal policy is based, for example, on economic growth. It has full access to all the economic information produced by the government’s civil servants.

The OBR will also confirm each year whether the Government’s fiscal policy is likely to achieve its long-term economic aims set out by the Chancellor of the Exchequer. Besides helping to manage the economy as a whole, fiscal policy can be used to help deal with a range of other economic issues. For example, ‘green taxes’ can be used to discourage production and consumption that damage the environment whereas subsidies can be used to encourage energy efficiency. High indirect taxes can be used to discourage the consumption of demerit goods such as cigarettes and alcohol. A progressive income tax system can also be used to try and produce a more equal distribution of income. For example in October 2016, the basic rate of income taxation was 20%, where the additional rate of income tax was 45% for earnings above the value of £150,000.

**Monetary policy** refers to measures designed to affect the cost or availability of credit. In the UK, the main way of influencing the cost of credit is control of interest rates. The government has given the task of setting interest rates to the Bank of England’s Monetary Policy Committee (MPC). It sets the government’s official interest rate every month to try and ensure that the government’s inflation target is met. Other interest rates tend to move in step with the MPC’s decision. If interest rates rise, people in general will have less disposable income as repayments on loans and mortgages will increase. In January 2017, the base rate of interest is 0.25%.
Higher interest rates reduce consumer expenditure and therefore aggregate demand which may increase unemployment. Lower interest rates are intended to boost spending and create employment. Changes in interest rates also affect savers: higher interest rates encourage saving by increasing the opportunity cost of holding cash whereas lower interest rates have the opposite effect.

**Supply-side policy** is designed to increase the productive potential of the economy.

It includes a wide range of measures that are:

- designed to make the economy operate more efficiently;
- promote competition;
- lay the foundations for the economy to increase its output in the future; and help the UK to compete in the global market.

Examples include the reform of the tax and benefits system and government investment in improving education. Critics of the UK’s tax and benefits system say that it removes incentives to work. Some benefits, such as Working Tax Credit, provide incentives to help people on lower incomes get back into the workforce without losing benefits.

An educated and better trained workforce can help UK businesses to compete internationally, especially with those in lower wage economies that may have much lower costs of production.

**Policy conflicts:** Policies that the government could use to tackle one problem may conflict with other objectives. For example, if the government decides to reduce income tax to boost economic growth and create more jobs, it may produce too much demand that pushes up prices and is inflationary. People may also buy more imported goods, due to having more disposable income. This may make our international trading position worse and increase the deficit on the Balance of Payments current account. Increased demand may also put extra pressure on resources and make it more difficult to meet environmental targets like reducing carbon emissions.

If you are asked about the effects of a particular event on the economy as a whole, it may be helpful to think about the effects on each of the government’s economic objectives.

Supply side policies can in the long-run reduce conflicts between objectives as they can lead to long-run economic growth, whilst reducing inflationary pressures.
Real and money values

When interpreting economic information over a number of years, it is important to consider the effect of changes in the general price level as just looking at money values can give a false impression.

For example, if the rate of inflation is 2% a year and a group of workers receives an annual pay increase of 1.5%, then its real income, that is the amount of goods and services the workers can buy with this income, will actually fall as their income is not rising as quickly as prices in the economy. For there to be a real rise in income, money income must rise faster than prices.

Budget deficit and surplus/balance of payments deficit and surplus

Students frequently confuse these concepts. A budget deficit or surplus refers to the state of the government’s finances, that is, the difference between its revenue (mainly from taxation) and what it spends. A balance of payments deficit or surplus is a record of all of a country’s trading and financial transactions with other countries.

In recent years, the government has been running a very large budget deficit – government spending on services such as health, education, social security and defence is far greater than the income it receives from taxes. Like any individual whose spending is greater than income, the government must borrow to pay for any spending that it cannot immediately finance. This adds to the total debt that the government owes. This is referred to as the National Debt. In January 2017, the National Debt of the UK was estimated at approximately £1.8trillion.

When the National Debt becomes very large, the government has to spend a lot of its revenue on simply paying the interest on what it has borrowed and on making capital repayments. In 2014 the government’s fourth highest area of spending was to repay debt interest. In the UK, this has raised considerable concern about how government fiscal policy will have to change in order to reduce the size of the debt. Taxes may have to rise or spending may have to be cut. This has been the reality in the UK in recent years where policies of fiscal austerity have been implemented. These are developments that you can follow throughout your course.

In recent years, the current account of the balance of payments in the UK has also been in deficit. This is because the UK tends to spend a lot more on imports of goods from abroad than it earns from exports of goods and this is not offset by surpluses from trade in services and other sources such as investment income.
3. 5

Trade, Aid and Development

Free trade

Students are required to have a good understanding of the term ‘free trade’ and explain that it is trade without barriers or restrictions (such as tariffs and quotas). It is important to appreciate that free trade is needed for countries to obtain the maximum benefits from globalisation by specialising in the goods in which they have a comparative advantage and trading their surpluses.

Students should understand that differences between free trade and fair trade (see glossary). Free trade may not necessarily be fair to producers in less developed countries. For example, large multi-national companies may be able to use their market power to keep prices and wages low for producers in these countries.

Globalisation

Students will be expected to define globalisation and have a general understanding of its causes and effects. Globalisation is the process by which the international economy has become more open and world markets for goods, services and capital have become more integrated. It is normally associated with a rapid growth in world trade, economic growth and economic development. Factors that have helped international trade to expand include:

- the removal of trade barriers;
- improvements in technology, especially in communications; and
- the influence of multinational companies.

Another feature of globalisation is the way in which international finance is increasingly mobile and capital markets are becoming increasingly integrated. The effects of the recent global financial crisis should students to understand how events in one country can quickly have major repercussions across the financial world.
Exchange rates

Students should be familiar with key issues related to the management of exchange rates between various national currencies.

It is essential to have a good understanding of the basic concept that an exchange rate is the price of one currency in terms of another. The rate of exchange (or ‘price’) between two currencies, is determined by a range of factors including the demand and supply of specific currencies, government policy and other global events – therefore any change in the exchange rate will have knock-on effects for various stakeholder groups. The demand for sterling (£’s) on the foreign exchange market comes from traders whose clients abroad need them to buy UK goods and services or to invest in the UK. The supply of sterling (£’s) comes from traders whose UK clients want to buy foreign currencies in order to purchase goods from other countries or invest abroad.

Students must understand key terms such as ‘appreciation’ and ‘depreciation’ of the currency. It is important to understand that, when the exchange rate rises (appreciates), this has the effect of raising the price of exports and reducing the price of imports. Demand for our more expensive exports will tend to fall while demand for cheaper imports will rise. Students should be competent in working out the potential impacts of such currency movements and understand the causes and effects of changes in the exchange rate.

For example, the following table gives some information about the Sterling (£): Euro (€) exchange rate at various points in time during 2016 and 2017:

<table>
<thead>
<tr>
<th>Date</th>
<th>£ (pound): €(euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 February 2016</td>
<td>1: 1.3142</td>
</tr>
<tr>
<td>16 January 2017</td>
<td>1: 1.1374</td>
</tr>
</tbody>
</table>

Over this period, sterling (£) has fallen in value. This change is likely to have significant effects on traders, UK businesses trading with partners in the Eurozone and tourists, since it will also depend on the size of the transaction. Goods that cost £100 in the UK in February 2016 would cost someone in the Eurozone €131.42. In January 2017, the same goods would cost €113.74. Importers in Eurozone countries will have to exchange more euros to pay less for the same UK good – therefore exports are cheaper.
Government policy and trade

The UK’s trade may be affected by a wide range of government policies. Sometimes these policies may be directly aimed at affecting trade, for example, government subsidies to UK exporters. In 2015, India implemented export subsidies for the export of raw sugar. On other occasions, the policy may be mainly aimed at another objective, but have side effects for the UK’s trading position. For example, a policy aimed at boosting domestic demand to reduce unemployment may also have the effect of increasing demand for imports and adversely affect the balance of payments. Therefore this creates a conflict between objectives which can be difficult to avoid.

Students must ensure that their exam answers are relevant to the particular context of an examination question. For example, a student may discuss the UK using tariffs and quotas to correct a trade deficit without explaining that around half of the UK’s trade is with other EU countries who, whilst we remain members of the EU, will not be impacted by these policies. The impact on trade with the EU is extremely uncertain for the future as when the UK leaves the EU, they will have to renegotiate all trade deals with the EU and its members.

It is important that students recognise that globalisation has important implications for government policy on trade. In a world in which goods, people and finance move freely around the world without major barriers, policies which strengthen the national economy and help UK firms to become more competitive in a global market are particularly relevant.

The European Union

Students must be competent in understanding the aims and role of the European Union (EU) and have confidence in discussing aspects of the relationship between the UK and the EU.

Students must understand the key knowledge points about the EU in the specification:

- the aims and role of the EU;
- the effects of EU enlargement;
- the effect of the EU on the UK economy;
- the impact of the Euro on the UK and Eurozone economies; and
- the costs/benefits of EU membership for the UK economy.

The initial reasons for economic co-operation between European countries date back seventy years when European countries needed help to recover from the effects of the Second World War. Beside the economic benefits of greater cooperation, the founders of the European Economic Community (the forerunner of the EU) also saw the political benefits of closer ties between countries that had previously been at war.

The main economic features of the EU are that it forms both a free trade area and a customs union.
There are now twenty-eight member countries in the EU; the joint population of these is approximately 500 million people. Member countries can trade freely with one another and this significantly increases the size of the market available to firms. It provides greater opportunities for countries to specialise in the production of goods and services in which they have a comparative advantage. This is particularly helpful for small or specialist businesses as it helps these firms to expand and to take advantage of economies of scale.

A customs union means that a common external tariff or tax is placed on goods imported to the EU from countries that are not members. This tax makes such imported goods more expensive and it therefore helps EU producers to be protected from foreign competition.

However, this is not necessarily an advantage for consumers as, without this tariff, it might have been possible to import some goods from outside the EU at a lower price than is charged by EU sellers. For example, some EU produced agricultural goods are more expensive than those that could be imported freely from outside the EU.

In addition to the effects that free trade and the operation of a customs union have on the UK and other economies, the EU operates as a single market. There is a standardised system of laws and free movement of key factors of production, namely people, finance and enterprise. Nineteen of the twenty-eight member countries use the euro as their common currency. This means that trade can take place without the need to change currencies or pay commission to convert currency. Prices are understood in each trading country. Along with a common currency, the Eurozone countries also have a common monetary policy which is set by the European Central Bank. This means that these countries give up their right to decide on their own interest rate policies. This can cause problems if economic conditions vary between member countries, for example, if inflation is much higher in one country than another. A single currency also means that Eurozone countries are restricted in their ability to deal with balance of payments problems. For example, they cannot individually allow the external value of their currency to float downwards to make exports cheaper and imports dearer.

Since the UK does not use the euro, it does not experience these benefits or drawbacks.
Pounds still need to be converted into euros and vice versa when trade takes place but the UK retains control over its monetary and exchange rate policy. Many people in Northern Ireland have first-hand experience of the issues associated with trading with a Eurozone country. Since the Republic of Ireland uses the euro, all trade involves converting currency and comparing relative prices. The volume of trade between ‘North’ and ‘South’ is affected by fluctuations in the exchange rate of the pound and the euro. The EU has several policies that affect the UK and other countries. These include agricultural and fisheries policies where decisions have a far-reaching impact across the EU. The Common Agricultural Policy is a system that provides a subsidy to producers of certain goods. These subsidies account for a substantial proportion of the EU’s budget. The purpose of the policy is to:

- guarantee supplies of food;
- stabilise prices in markets where prices tended to fluctuate;
- provide food at reasonable prices;
- raise the incomes of agricultural workers, a sector with traditionally low pay; and
- increase productivity and ensure the best use of resources.

The Common Fisheries Policy operates through a system of imposing quotas on the quantity and type of fish that can be caught. The EU is concerned about conserving fish stocks.

In addition to the economic effects of EU membership, there are many social and cultural effects of EU membership. The EU invites applications from member countries for investment projects and education programmes.

The EU has grown in recent years as more countries have successfully applied to join. More countries, most notably eastern European countries, also want to join. The EU enlargement has many economic, social and political effects. Many of the new member countries are small. Malta, for example, is an island with a population of less than half a million. Many economies are less well developed and are more reliant on agriculture than those of the founder member countries. Enlargement may increase migration of workers from poorer to richer countries. It may also open up new markets and opportunities to existing members. However, as the EU has grown larger it is expected that more of its central budget spending will be diverted to poorer countries.
**Reasons why some countries are better off than others**

Students must be confident in explaining why some countries have much higher living standards than others. The application of a few basic economic ideas and concepts can provide at least part of the answer. However, some political factors may also be relevant.

For example, the effects of colonisation of other countries and the presence of stable government may also help to explain why some countries have a head start over others in terms of economic development.

In economic terms, the following factors are important.

- **Factors of production:** The different endowments, both the quantity and quality of land, labour and capital, affect a country’s ability to produce goods and services. Countries with better factor endowments will have production possibility frontiers that are further from the origin.

- **Efficiency:** Countries that make more efficient use of their resources can increase their outputs of goods and services by moving nearer to their production possibility frontiers.

- **Primary, secondary and tertiary sectors of the economy:**

- **Less developed economies tend to depend heavily on primary production methods.** The more economically developed a country, the higher the proportion of output tends to come from the secondary and tertiary sectors.

- **Specialisation:** Developed economies tend to specialise in particular economic activities in which they have a comparative advantage. By concentrating their production on these activities, countries are able to become very efficient at producing them and can trade their surpluses for other goods that they need. For example, Japan has concentrated on producing cars and electronic consumer goods. In recent years, the increasing globalisation of markets has increased the opportunities for countries to benefit from specialisation and trade.
4.0 Skills

Assessment objectives

Examinations are designed to assess both knowledge and skills. The three assessment objectives for Economics are set out in Section 4.2 of the specification. These outline how, in addition to knowing and understanding the content of the course and being able to recall this, you must be able to:

- recall, select and communicate the most appropriate information to illustrate points you want to make in answers. This is particularly relevant to the ‘extended writing’ task set for Paper 1. It is also important for the data response and essay questions in both Paper 1 and Paper 2.

- apply skills, knowledge and understanding in a variety of contexts. You need to draw on your bank of knowledge, understanding and skills (for example, the ability to interpret data and draw clear and accurate diagrams) in all exam questions, particularly those for which higher marks are available.

- analyse and evaluate evidence, make reasoned judgements and present appropriate conclusions. Paper 1 requires you to use these skills to weigh up the source materials presented to you in the examination. You also need to demonstrate these skills in Paper 2, typically in parts (b) and (c) of the essay questions.

The guidance on ‘command words’ in Section 5 should help you to work out what different types of questions are asking you to do.

Graphs, charts, tables and diagrams

Graphs, charts, tables and diagrams are often used in economics so that quite complicated information or trends can be shown more clearly. Exam papers often include information presented in these formats and you may be asked to interpret this information. This means that you are being asked to explain what it shows. This may involve more than a simple description; for example, it may require a comparison between the position in different years or between different firms, regions or countries. It may also require you to summarise a trend over a period of time.
If you are asked to interpret information on a graph, chart or table, it is often helpful to do the following for any relevant variable:

- identify the lowest value;
- identify the highest value;
- estimate the range (the difference between the highest and lowest values);
- identify the general trend (try to imagine a line of best-fit if the information is presented in a graph);
- identify any outlying or extreme values (those which don’t fit in with the general trend); and
- calculate percentage changes where appropriate over a time period (the percentage change is the change in the value of a variable divided by its original value multiplied by 100).

**Annual UK CPI rate of inflation (%)**

![Annual UK CPI rate of inflation chart]

*Source: Adapted from ons.gov.uk*

For example, in the above bar graph of UK inflation from 2007 to 2016, the annual rate of inflation fell from around 2.3% in 2007 to 0.7% in 2016. The highest rate of inflation was in 2011 at a rate of 4.5% which is above the government’s target rate of inflation of 2% and the lowest rate of inflation was in 2015 at a rate of 0%. Over the full period covered, the annual rate of inflation has fallen by $1.6 /2.3 \times 100 = 69.57\%$. You should note that this does not mean that the general level of prices has fallen. It just shows that on an annual basis, it was rising a lot more slowly in 2016 than it was in 2007.
Some questions may require you to draw a diagram or graph and this will be clearly stated in the question. In responding to other questions which don’t include this type of instruction, you may still decide to include a diagram in your answer, where relevant, to help illustrate a point.

Some of the diagrams you should be familiar with include:

- the production possibility frontier;
- demand, supply and equilibrium price;
- costs, revenue and break-even; and
- the circular flow of income, including injections and leakages from the circular flow.

Make sure you:

- draw your diagrams clearly – use a ruler and a pencil (it is better to draw diagrams in pencil so that you can easily correct a mistake without having to start again);
- draw them a reasonable size (postage stamp size is far too small!);
- clearly label them; and
- support your diagrams with a written explanation of what they show. Your analysis should refer to diagram labels where appropriate.

In GCSE Economics, the exams which contribute to your final grade take place at the end of each year of your course.

This means that during your course you can concentrate on learning about the subject and developing the skills you need to be successful. By the end of the course, you should be ready to sit the exams and be confident about performing to the best of your ability. This is because you will have had time to develop a good understanding of economics and the links between different aspects of the subject.

You have to sit two examination papers. Each paper can assess any aspect of the content.

**Paper 1:** This lasts one hour 45 minutes and accounts for 60% of your overall marks. You are required to answer all three short response questions/short response questions and one extended writing question.

**Paper 2:** This lasts one hour 15 minutes and accounts for 40% of your overall marks. A student is required to answer two data response questions.

Exams in economics are not just tests of your ability to recall knowledge and demonstrate understanding of ideas, issues and terms. They also assess your ability to:

- select and communicate this knowledge and understanding;
- use your knowledge, understanding and skills in a range of different economic contexts; and
- analyse and evaluate evidence, make reasoned judgements and present suitable conclusions.
In any essay question, you will be expected to write reasonable length answers which will also assess your quality of written communication.

This means that you must:

• write legibly and use correct spelling, punctuation and grammar so that the examiner can easily understand what you mean to say;
• write in sentences and use paragraphs for separate points that you make (don’t use ‘text-speak’ which examiners may not understand!); and
• use economic terms precisely and organise information properly so that your answers flow clearly and logically,
• reference diagrams appropriately and use labels to identify which parts of the diagram are being explained.

You can view specimen papers and mark schemes on the CCEA Economics micro-site by following this link: www.ccea.org.uk/economics/.
5. **How can I make the most of my ability?**

Economics is a subject that affects everybody. To develop real understanding, you need to relate what you study in class to economic events and issues in the world around you. Following the tips below will help to develop your interest and understanding of the subject.

**Follow the news:** Economics features 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. The best answers often include real life examples.

**Use the internet:** There is a great deal of valuable information about the economy on the internet but you need to be selective in how you use websites. Tutor2u (www.tutor2u.net) has very useful sections for GCSE Economics students and good discussions in its Economics Blog. It also posts blog entries by topic area and includes revision presentations and quizzes for many topics.

The BBC and Guardian economics sites are also very helpful with interesting discussions, articles and video clips. There are many other useful web addresses in the CCEA Resource List.

**Study/Read around the subject:** There are a number of useful books suitable for GCSE Economics students. The resource list that follows covers some of the most commonly used books and other sources of information which are available. For more advice, consult your teacher. Reading around what you discuss in class is an excellent way of improving your understanding.
Study effectively:

- Quiet Study Time: Find a quiet spot at home where you can work without interruption on a regular basis.

- Manage your time: Work out how much time tasks are likely to take you (for example, reading, internet research, homework, writing notes, test revision, exam revision) and set that time aside in a study timetable.

- Be organised: Try to keep all your economics material (textbooks, notes, handouts, newspaper cuttings, internet downloads, homework, tests) together in one place. Organise your notes effectively so that you cover each of the main sections of the specified content. Whether you are dealing with paper or computer files, good organisation is important if you are going to study effectively.

- Make revision notes: The more times we hear, see, or repeat something to ourselves, the more likely we are to remember it. Simply re-reading your notes again and again, however, does not tend to be very effective. Rewriting your notes in a more concise form for revision purposes helps to make study more active and useful.

- Use memory tools: flashcards, mind maps and mnemonics. Flashcards allow you to study anywhere at any time. Don't put too much information on them. Instead, put a question on the front with the answer on the back.

For example:

| WHY DO COUNTRIES TRADE? | • Specialising in goods of comparative advantage reduces costs per unit  
| | • Increases choice for consumers  
| | • Increases real incomes and living standards  
| | • May allow better quality of goods to be obtained from abroad |

Mind maps are diagrams which make connections between key ideas about a particular topic. For example:

| WHAT IS THE TOPIC? | WHAT FACTORS OF PRODUCTION | CHOICES AND DECISIONS |
| Scarce resources produce | Land | What to do |
| Unlimited wants produce | Labour | How to do |
A mnemonic is a verbal memory aid like a saying, rhyme or special word which can help you to remember things. For example, to help you remember different types of economies of scale, you could use the saying Ten Men Bury Rotten Fish to represent:

- Technical
- Managerial
- Buying
- Risk-bearing
- Financial.

**Develop good examination technique:** Exams can be stressful but by being well prepared and confident of how you are going to approach the paper, you can make sure you give of your best on the day. Following the advice below will help.

- Make sure that you thoroughly revise all aspects of the content. Do not avoid studying difficult topics or try to ‘spot’ questions. This might mean that you cannot answer some questions and restrict your choice.

- Understand fully what the examiners expect you to be able to do. Familiarise yourself with the specimen papers and mark schemes that CCEA has produced.

- Use past paper questions. After you have spent time revising your notes, it is important to test yourself to see how much you know and how well you can use this knowledge. Write practice answers to the different types of question and check them against your notes, add in any parts which are missing from your answer, perhaps in a different colour, to make these parts stand out. Make sure you practise using examples to illustrate the points you make.
Initially you should spend as much time as you feel is necessary to complete each question. However, as exam time approaches you should try to complete the question in the time you will be given in the exam. This will help you develop the timing skills required in the examination. Remember practice makes perfect!

Remember that the time spent on each question in each exam paper should reflect the mark allocation. Don’t spend half an hour on a five mark question and leave yourself short of time to answer questions with much higher mark allocations.

Remember! To score highly, you must do what the examiner asks you. Carefully read the instructions, information and advice on the front of the examination before you start the exam, they are there to help you. Read and re-read the questions and make sure you know exactly what they are asking before you start writing. Think carefully about the command words and what they require you to do (recheck the command words and ensure your understand them).

**Command words:** To perform well in examinations, it is important that you correctly interpret the command words in the question: the ones which tell you what you have to do. Listed below are some of the most frequently used command words in GCSE Economics examinations, together with suggestions on how you should interpret them.

<table>
<thead>
<tr>
<th>Command Word</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What is meant by ...?</strong></td>
<td>Provide a clear definition or brief explanation of a particular economic idea, issue or event.</td>
</tr>
<tr>
<td><strong>Explain what is meant by...</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Define...</strong></td>
<td></td>
</tr>
<tr>
<td><strong>What is/are...?</strong></td>
<td></td>
</tr>
<tr>
<td><strong>What happened to ...?</strong></td>
<td>This requires the interpretation of information or data from a source, for example, a newspaper extract, a table, chart or graph.</td>
</tr>
<tr>
<td><strong>Describe...</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Outline...</strong></td>
<td>This is an instruction to provide a brief description or to summarise the main points without detail.</td>
</tr>
<tr>
<td><strong>Calculate...</strong></td>
<td>Work out numerically. You should always show your working where more than one mark is allocated to calculation questions so that you can get some credit for your method even if you make a mistake with your calculation.</td>
</tr>
<tr>
<td><strong>Give reasons why…</strong></td>
<td>These command words require you to clarify why a particular event or trend has occurred. Sometimes you may be asked for a specific number of reasons.</td>
</tr>
<tr>
<td><strong>Explain why…</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Account for…</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Illustrate…</strong></td>
<td>Give examples of a particular idea or situation or, where appropriate, draw a diagram to show how it comes about.</td>
</tr>
<tr>
<td><strong>Identify…</strong></td>
<td>Point out or provide instances/examples of when a particular event or situation has occurred.</td>
</tr>
<tr>
<td><strong>Analyse…</strong></td>
<td>Break a particular event or situation down into its main parts in order to identify the causes and/or effects.</td>
</tr>
<tr>
<td><strong>Explain how…</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Compare…</strong></td>
<td>Examine the differences and similarities between two situations or ideas.</td>
</tr>
<tr>
<td><strong>Distinguish…</strong></td>
<td>Explain the difference between two situations or ideas.</td>
</tr>
<tr>
<td><strong>Discuss…</strong></td>
<td>These instructions require you to look at the arguments and evidence for and against a particular view, course of action or policy. You should try and weigh up the relative strengths of different sides of the argument and come to a reasoned conclusion. Answers to questions that use these command words should be written in sentences and paragraphs and not just be a list of brief points.</td>
</tr>
<tr>
<td><strong>Evaluate…</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Examine…</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Consider…</strong></td>
<td></td>
</tr>
</tbody>
</table>
6. **Useful resources**

**Textbooks:**


**Websites**

Tutor2U  
www.tutor2u.net/

BBC  
www.bbc.co.uk

The Guardian  
www.guardian.co.uk

UK Treasury  
www.hm-treasury.gov.uk

The Bank of England  
www.bankofengland.co.uk

The World Bank  
www.worldbank.org

Competition Commission  
www.competition-commission.org.uk/

Department of Enterprise, Trade and Investment  
www.detni.gov.uk/cgi-bin/ghome

Office for National Statistics  
www.ons.gov.uk

OPEC  
www.opec.org/home/

The International Monetary Fund  
www.imf.org

The OECD  
www.oecd.org

PFEG  
www.pfeg.co.uk

S-cool (A level Economics section contains some topics also useful for GCSE)  
www.s-cool.co.uk

Nationmarker  
www.nationmarker.com
7. 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.

Absolute poverty: When individuals do not have enough resources to allow them to consume the basic necessities of life, for example, food, clothes and shelter.

Appreciation (1): A rise in the exchange rate of a currency so that a given amount of this currency now buys more of another currency.

Appreciation (2): An increase in the value of an asset such as property or shares.

Assets: Things that people, businesses or organisations own or are owed to them. Assets may be physical such as buildings, vehicles and electrical goods or financial such as cash, bank accounts, shares and bonds.

Average cost: The cost per unit of production. It is calculated by dividing total costs by output.

Average revenue: The revenue obtained per unit sold. It is calculated by dividing total revenue by sales.

Balance of payments: A statement of all financial payments into and out of a country over a given period of time such as a year.

Bank of England: The central bank or government’s bank. The Bank of England is responsible for the printing of bank notes, holding the government’s bank accounts and managing monetary policy.

Break-even: The point at which a firm’s revenue just covers its costs of production.

Budget: A financial plan for managing income and expenditure. The Government’s Budget is normally presented annually to Parliament each year, when the Chancellor of the Exchequer makes his major speech setting out tax changes for the coming year.

Budget Surplus: A situation in which earnings are greater than expenditure. A government budget surplus would occur if receipts from taxation were greater than government expenditure.
**Budget Deficit:** A situation in which expenditure is greater than earnings. A budget deficit occurs when government spending is greater than revenue from taxation and other sources.

**Circular flow of income:** This describes the process by which income and expenditure flows around the economy between firms and households and vice-versa.

**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.

**Comparative advantage:** A situation in which one country is able to produce a good more efficiently than another country.

**Competition Commission:** An independent public body which carries out investigations into monopolies and mergers in the UK.

**Complementary goods:** Goods in joint demand, for example, bread and butter. If the price of one good rises, the demand for the other good falls.

**Consumer Council:** An organisation that represents consumers and tries to ensure their views and interests are taken into account when important private and public sector decisions are made.

**Consumer Prices Index (CPI):** The CPI is the government’s preferred measure of inflation and the one on which its inflation target is based.

**Contraction (of demand):** An upward movement along a demand curve caused by a fall in price.

**Credit crunch:** A period of financial difficulty in which banks are reluctant to lend to each other, business and individuals.

**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 between one country and the rest of the world.

**Current Account Deficit:** A deficit on the current account of the balance of payments would occur when expenditure on imports of goods and services is greater than earnings from exports.

**Current Account Surplus:** A surplus on the current account of the balance of payments would occur when earnings from exports of goods and services are greater than expenditure on imports.

**Decrease in demand:** A shift to the left of the demand curve caused by a change in the conditions of demand, that is, a change in a factor other than the price of the good itself.
Decrease in supply: A shift to the left of the supply curve caused by a change in the conditions of supply, that is, a change in a factor other than the price of the good itself.

Deflation: A sustained fall in the general level of prices. Businesses and consumers tend to put off spending as they expect further falls in prices. This in turn may lead to businesses cutting output or closing and to a further rise in unemployment.

Demand: The quantity of a good or service that consumers are willing and able to buy at a given price in a given time period.

Demand curve: A line on a graph showing the relationship between price and quantity demanded. Price is shown on the vertical axis and quantity demanded on the horizontal axis so the demand curve slopes downwards from left to right showing that as price falls so the quantity demanded rises.

Demerit good: A good which the government believes we would over-consume under free market conditions. Demerit goods often confer negative externalities on society and therefore would be over-consumed if provided through the market.

Depreciation (1): A fall in the exchange rate of a currency so that a given amount of that currency now buys less of another currency.

Depreciation (2): A fall in the value of an asset such as property, shares or capital equipment.

Depression: A fall in economic activity that is far more severe and long-lasting than a recession.

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

Diseconomies of scale: The disadvantages of a firm increasing its size which lead to increasing average costs in the long-run.

Distribution of income: The way in which the national income is divided between different groups of earners within a country.

Dividend: A share of the profits of a company paid to shareholders once or twice a year. Dividend payments are not guaranteed and depend on the profitability of the company.

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

**Economic welfare:** The extent to which the economy is able to provide people with the resources required to lead satisfying lives.

**Economies of scale:** The advantages of a firm increasing in size which lead to falling average costs in the long-run.

**Efficiency:** When a good or service is produced with the least cost combination of resources. Production takes place at the lowest possible average cost.

**Enlargement (of the EU):** The expansion of EU membership to include some of the former Eastern bloc countries and other countries within Europe.

**Entrepreneur:** A risk-taker who sets up a business with the intention of making a profit. Entrepreneurs take risks because there is so much uncertainty in business, for example, demand for the product or service may fall, competitors may set up or costs may rise.

**Equilibrium (market clearing) price and output:** A situation in which there is nothing causing the price and output in a market to change. This occurs when the quantities demanded and supplied are equal.

**Euro:** The single European currency used by nineteen of the member countries of the European Union.

**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):** The European common market through which goods and people can travel between member countries relatively unhindered by regulation and border controls. Members also agree to impose a common external tariff on imports from non-member countries.

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

**Exchange rate:** The rate at which one currency exchanges for another, that is, the price of one currency in terms of another.
**Expansion of demand:** A downward movement along a demand curve caused by a fall in price.

**Factors of production:** The economic resources of land, labour and capital which can be combined to produce goods or provide services.

**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):** The independent regulator of the financial services industry. It is responsible for seeing that the industry operates fairly in the interests of consumers.

**Financial services industry:** All the people and organisations that sell financial products and services.

**Fiscal policy:** Government policy on 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.

**Fixed costs:** Costs of production that remain the same when output changes.

**Fixed exchange rate:** When the price of a currency is set at a particular level in terms of another currency.

**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 or loans.

**Free market economy:** An economic system in which resources are owned privately and markets allocate them through the price mechanism.

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

**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.
Gross domestic product (GDP): This is the total value of all goods and services produced by an economy over a period of time such as a year.

Gross national product (GNP): This is a measure of total spending power in the economy. It is obtained by adding net property income from abroad to GDP.

Horizontal integration: When firms which produce similar products or provide similar services join together. The firms are involved in the same stage of production in the same industry.

Increase in demand: A shift to the right of the demand curve caused by a change in the conditions of demand, that is, a change in a factor other than the price of the good itself.

Increase in supply: A shift to the right of the supply curve caused by a change in the conditions of demand, that is, a change in a factor other than the price of the good itself.

Index number: A measure of changes in an economic variable like prices or wages from a base year of comparison which is normally given the value of 100. A 2% rise from the base year would therefore be represented by an index number of 102.

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

Injections: Money flows into the circular flow of income. The main injections are investment, government expenditure on goods and services and exports.

Insurance: The pooling of risks to protect against losses. In return for the payment of regular premiums, insurance companies agree to pay financial compensation if the event insured against happens.

Integration: The process of firms joining together to create a larger business. Integration may be horizontal, vertical or lateral.

Interest: The reward earned when money is lent by one person, business or financial institution to another. Interest is paid by the borrower to the lender on top of the sum borrowed. The rate of interest is expressed as an annual percentage of the total amount borrowed.

International Monetary Fund (IMF): The IMF attempts to coordinate the international monetary system and encourage the growth of world trade. The IMF will provide loans to countries which are experiencing persistent balance of payments problems but will usually impose conditions.

Investment (1): The purchase of capital equipment which can be used to produce goods or provide services.
Investment (2): The purchase of financial assets in order to achieve a return.

Lateral integration: When firms in unrelated industries join together to form a larger, more diversified business.

Leakages: Withdrawals of money from the circular flow of income in the form of taxation, savings and the purchase of imports.

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

Liabilities: Money or property which a person or firm owes to someone else.

Living Wage: Introduced in April 2016 to replace the National Minimum wage for individuals over the age of 25, with a higher rate of hourly pay.

Low Pay Commission: The organisation responsible for recommending the level of the National Minimum wage.

Market: A place or means by which buyers and sellers come together to exchange goods and services.

Market failure: When the price mechanism results in an inefficient or unfair allocation of resources.

Market share: The proportion of total sales in a market that is held by a particular brand, product or company.

Merger: When two firms agree to join together to form one larger business.

Merit good: A good which the government believes we should consume in greater quantities than would occur under free market conditions. Merit goods often confer positive externalities on society and therefore would be under-consumed if provided through the market.

Monetary policy: Government policy on the cost and availability of credit in the economy mainly through control over the rate of interest. The Bank of England’s Monetary Policy Committee has independent control over the official interest rate in trying to achieve a target rate of inflation set by the Chancellor of the Exchequer.

Monopoly: Literally, a single seller of a good or service with no close substitute. In the UK the Competition Commission which regulates competition considers any firm having more than a 25% market share to be a monopoly.

Mortgage: A major loan from a bank or building society to finance the purchase of property. The property normally provides the lender with security in the event of the borrower being unable to repay the loan.
National income: The total income of a country over a period of time such as a year. It is obtained by deducting capital consumption (the amount of capital that has worn out during the year) from GNP.

National Minimum Wage (NMW): The legal minimum hourly wage rate payable to employees by an employer. In the UK the minimum wage paid to each individual depends on their age group, with younger employees being paid less.

Negative externality: When the activity of one person or firm has a negative effect on the well-being of a third party not directly involved in the production or consumption of the good or service concerned.

Non – price competition: This refers to all forms of competition other than through price, for example, through branding and promotional activities.

North American Free Trade Association (NAFTA): An agreement between the USA, Canada and Mexico that allows for free trade between member countries but allows members to impose their own trade barriers on other countries.

The Office for Budget Responsibility (OBR): The body set up by the UK Government in May 2010 to make independent assessments of the public finances and the economy.

Office of Fair Trading (OFT): An independent agency which acts as the UK’s primary competition and consumer protection authority.

Opportunity cost: The next best alternative given up when a choice is made about how to use scarce resources.

Organic growth: The growth of a firm that occurs naturally through increasing sales or turnover. This excludes any growth acquired as a result of any takeover, merger or acquisition.

Pension: Income for those who have retired from work. The government provides a basic state pension out of the National Insurance contributions that people pay but most employers and employees also contribute to occupational pension schemes.

Policy conflict: When one policy objective can only be achieved at the expense of another. For example, controlling inflation by increasing interest rates may increase unemployment and reduce economic growth.

Positive externality: When the activity of one person or firm has a positive effect on a third party not directly involved in the production or consumption of the good or service concerned.
**Price mechanism:** In a market economy, price acts as a signalling mechanism to producers and consumers to change their economic behaviour. It also acts as a rationing mechanism in allocating scarce goods and resources between those who want them.

**Private Sector:** The sector of the economy where businesses are owned and controlled by private individuals and shareholders. Businesses in this sector often aim to maximise their profits.

**Production:** Any economic activity that satisfies human wants.

**Production possibility frontier:** A diagram which shows the maximum combinations of two or more goods that can be produced using all resources efficiently.

**Progressive tax:** A tax for which the percentage of income paid in tax increases as income increases.

**Promotion:** The activities a firm engages in to communicate with potential consumers and encourage sales. These include advertising, personal selling, sales incentives and public relations.

**Proportional tax:** A tax for which the percentage of income paid in tax remains the same as income increases.

**Protectionism:** Policy measures which are designed to protect domestic producers from foreign competition. These include tariffs, quotas and administrative barriers.

**Prudential Regulation Authority (PRA):** A regulatory body in the UK responsible for oversight of the activities of financial services providers and ensuring that the probability of a financial crises is minimised and any potential impact on consumers is negated.

**Public good:** A good which could not be provided profitably by the market because people could benefit from it without paying, for example, street lighting.

**Public Sector:** The sector of the economy owned and controlled by the government. This includes organisations run by both national or local governments, such as the NHS or local leisure centres.

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

**Rate of inflation:** The percentage rise in the general level of prices measured over a given period of time, normally a year. This is usually measured by the percentage increase in the CPI.

**Real value:** The value of an economic variable, for example, wages after inflation has been taken into account.
Recession: A situation in which the economy shrinks rather than grows for a significant period of time. It is normally associated with falling output and rising unemployment. In the UK, the economy is officially regarded as being in recession if there are two successive quarters (a quarter is a period of three months) of negative growth.

Regressive tax: A tax for which the percentage of income paid in tax decreases as income increases.

Regulation: Rules which govern how firms operate. Some of these have the force of the law because they are imposed by the government or EU. Others are voluntarily agreed by members of trade associations. These rules can cover a variety of areas such as health and safety of consumers, employees’ rights, competition, standards, prices and value for money.

Regulators: Independent bodies set up by the government to make sure that consumers in certain industries are treated fairly and not exploited. Many of the industries concerned are those which have been privatised and do not have a great deal of competition.

Relative poverty: This is a measure of the degree of poverty when compared to average income. The EU defines the poverty line as 50% of a nation’s average disposable income.

Return: The amount by which savings or investments increase in value. The rate of return is usually quoted as a percentage of the sum saved or invested.

Risk: The possibility of losing money when it is invested or lent to someone else. Riskier investments normally also have the potential to earn higher rates of return. Investors therefore need to balance risk and return.

Savings: The part of income that people and businesses do not spend. Savings can be invested in a range of financial products in order to earn a return.

Share: A share of the ownership of a company. If the company is profitable, shareholders will receive a share of the profits in the form of a dividend. They may also benefit from the value of the shares rising. If the company does badly, however, the value of the shares may fall.

Shortage: A situation in which, at a certain price, consumers demand more goods than producers are prepared to supply.

Social benefits: The total of the private and external benefits of any economic activity.

Social costs: The total of the private and external costs of any economic activity.

Substitute goods: Goods which are in competitive demand, for example, apples and pears. If the price of one good rises, the demand for the other good also rises.
**Supply:** The quantity of a good or service that producers are willing and able to supply to a market at a given price in a given time period.

**Supply curve:** A line on a graph showing the relationship between price and quantity supplied. Price is shown on the vertical axis and quantity demanded on the horizontal axis so the supply curve slopes upwards from left to right showing that as price rises so the quantity supplied also rises.

**Surplus (1):** A situation in which supply is greater than demand. At a certain price, producers supply more goods than consumers are prepared to purchase.

**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 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 tariffs and quotas designed to protect domestic producers from foreign competition.

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

**Trade union:** An organisation of workers that represents its members’ interests and tries to secure for them the best possible pay and working conditions.

**Trade war:** A situation in which protectionist measures introduced by one country or group of countries result in other countries retaliating by taking similar measures.

**Trading Standards Services:** Trading Standards Services operate throughout the UK. They try to promote and maintain fair trading and protect consumers and reputable businesses. They are responsible for enforcing a wide range of consumer legislation and offer advice to businesses to help them comply with the law.

**Variable costs:** Costs of production that vary with output.

**Vertical integration:** This occurs when firms which are in the same industry but at different stages in the production process join together. Vertical integration can be forwards towards the market or backwards towards the source of raw materials or components.

**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.
### 8 Revision checklist

You can use this checklist during your revision to tick off when you are happy that you fully understand each part of the course. If you are unsure about any particular topic, you can make a short note for yourself in the right hand column, for example, ‘More revision needed’, ‘Need more practice drawing diagram’ or ‘Practise essay writing on this’.

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