

**ECONOMICS 9708  
GCE A/AS Level  
2007**

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# ECONOMICS

## GCE Advanced Subsidiary Level and GCE Advanced Level 9708 for examination in June and November 2007

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### NOTE

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Copies of syllabuses, past papers and Examiners' reports are available on CD-ROM and can be ordered using the Publications Catalogue, which is available at [www.cie.org.uk](http://www.cie.org.uk) under 'Qualifications & Diplomas' – 'Order Publications'.



## INTRODUCTION

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- 1 The aim of this syllabus is to enable Centres to develop Economics courses that are suitable both for Advanced Level candidates and for those seeking a more limited study of the subject.
- 2 In order to increase flexibility of assessment to Centres, the content has been divided into two roughly equal halves. The essential unity of the subject is preserved by the fact that the papers on the second, or Supplement, part of the syllabus presuppose previous study and understanding of the first, or Core, part of the syllabus, and questions may involve the demonstration of this knowledge and understanding.
- 3 There are three pathways available to candidates:
  - (a) Those candidates who wish to take the whole of the Advanced Level qualification at the end of a course of study take all four papers together.
  - (b) Satisfactory performance on the two Core papers (Papers 1 and 2) makes a candidate eligible for an Advanced Subsidiary Level qualification.
  - (c) Candidates who wish to follow a **staged** assessment route to the A Level qualification take the Advanced Subsidiary Level qualification first. They then need take only the two remaining papers (Papers 3 and 4) in order to complete the A Level.
- 4 No previous study of the subject is assumed by the syllabus.

## AIMS

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The syllabus is intended to encourage courses that will:

- (a) provide a basis of factual knowledge of economics,
- (b) encourage the development in the student of:
  - (i) a facility for self-expression, not only in writing but also in using additional aids such as statistics and diagrams where appropriate,
  - (ii) the habit of using works of reference as sources of data specific to economics,
  - (iii) the habit of reading critically to gain information about the changing economy in which we live,
  - (iv) an appreciation of the methods of study used by the economist and of the most effective ways in which economic data may be analysed, correlated, discussed and presented.

## ASSESSMENT OBJECTIVES

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Candidates are expected to:

- 1 DEMONSTRATE KNOWLEDGE AND UNDERSTANDING of the specified content,
- 2 INTERPRET economic information presented in verbal, numerical or graphical form,
- 3 EXPLAIN AND ANALYSE economic issues and arguments, using relevant economic concepts, theories and information,
- 4 EVALUATE economic information, arguments, proposals and policies, taking into consideration relevant information and theory, and distinguishing facts from hypothetical statements and value judgements,
- 5 ORGANISE, PRESENT AND COMMUNICATE economic ideas and informed judgements in a clear, logical and appropriate form.

The Multiple Choice components (Papers 1 and 3) will seek to test particularly Assessment Objectives 1, 2 and 3.

The Data Response part of Papers 2 and 4 will seek to test particularly Assessment Objectives 2 and 3, and to a lesser extent Assessment Objectives 1, 4 and 5.

The Essay part of Papers 2 and 4 will seek to test particularly Assessment Objectives 1, 3, 4 and 5, and to a lesser extent Assessment Objective 2.

## SCHEME OF ASSESSMENT

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### Advanced Subsidiary Level

Paper	Type	Duration	Number of questions	Maximum mark	Weight (% of total marks for syllabus)
1	Multiple Choice (Core)	1 hour	30	30	40
2	(a) Data Response (Core)	1 hr 30 mins	1	20	30
	(b) Structured Essay (Core)		1 from a choice of 3	20	30

**Advanced Level**

<b>Paper</b>	<b>Type</b>	<b>Duration</b>	<b>Number of questions</b>	<b>Maximum mark</b>	<b>Weight (% of total marks for syllabus)</b>
<b>1</b>	Multiple Choice (Core)	1 hour	30	30	20
<b>2</b>	(a) Data Response (Core)	1 hr 30 mins	1	20	15
	(b) Structured Essay (Core)		1 from a choice of 3	20	15
<b>3</b>	Multiple Choice (Supplement)	1 hour	30	30	15
<b>4</b>	(a) Data Response (Supplement)	2 hrs 15 mins	1	20	10
	(b) Essay (Supplement)		2 from a choice of 6	50	25

Papers 1 and 2 for Advanced Level are the same as Papers 1 and 2 for Advanced Subsidiary Level.

Papers 3 and 4 will test the topics in the Supplement, but will also require a knowledge and understanding of the topics in the Core.

All of the question papers will be available for examination in both June and November.

# CURRICULUM CONTENT

## ADVANCED SUBSIDIARY (AS) LEVEL

The curriculum content for Advanced Subsidiary Level covers the Core curriculum.

	Advanced Subsidiary Level Syllabus	Examples of other concepts and terms included
<b>1 Core</b>	<p><b>Basic Economic Ideas [Core]</b></p> <p>(a) Scarcity, choice and resource allocation</p> <ol style="list-style-type: none"> <li>i. Meaning of scarcity and the inevitability of choices at all levels (individual, firms, governments)</li> <li>ii. Opportunity cost</li> <li>iii. Basic questions of what will be produced, how and for whom</li> </ol> <p>(b) Different allocative mechanisms</p> <ol style="list-style-type: none"> <li>i. Market economies</li> <li>ii. Planned economies</li> <li>iii. Mixed economies</li> </ol> <p>(c) Production possibility curve - shape and shifts</p> <p>(d) The margin: decision making at the margin</p> <p>(e) Positive and normative statements</p> <p>(f) Ceteris paribus</p> <p>(g) Factors of production: land, labour, capital, enterprise</p> <p>(h) Division of labour</p> <p>(i) Money: its functions and characteristics</p>	<p>barter</p> <p>cheques</p> <p>coincidence of wants</p> <p>command economy</p> <p>costs of production</p> <p>division of labour</p> <p>economic goods</p> <p>economic growth</p> <p>economic problem</p> <p>entrepreneur</p> <p>fixed capital</p> <p>fixed capital formation</p> <p>free goods</p> <p>interest</p> <p>investment</p> <p>law (economic)</p> <p>liquidity</p> <p>macroeconomics</p> <p>market</p> <p>market system</p> <p>maximisation</p> <p>measure of value</p> <p>medium of exchange</p> <p>microeconomics</p> <p>nominal</p> <p>other things being equal</p> <p>primary sector</p> <p>production frontier</p> <p>production</p> <p>transformation curve</p> <p>resources</p> <p>secondary sector</p> <p>Smith, Adam</p> <p>specialisation</p> <p>standard of deferred payments</p> <p>store of wealth</p> <p>tertiary sector</p> <p>unit of account</p> <p>wants</p> <p>working capital</p>



**ADVANCED LEVEL**

*The whole of the Core curriculum content opposite, plus the following:*

	<b>Additional material for Advanced Level Syllabus</b>	<b>Examples of other concepts and terms included</b>
<b>1 Supp</b>	<b>Basic Economic Ideas [Supplement]</b>  Efficient resource allocation  Concept of economic efficiency: productive and allocative efficiency	optimum resource allocation

	<b>Additional material for Advanced Level Syllabus</b>	<b>Examples of other concepts and terms included</b>
<b>2 Supp</b>	<b>The Price System and Theory of the Firm [Supplement]</b>  (a) Law of Diminishing Marginal Utility and its relationship to derivation of an individual demand schedule and curve Equi-marginal principle Limitations of marginal utility theory  (b) Budget lines Income and substitution effects of a price change.  (c) Short-run production function: fixed and variable factors of production, total product, average product and marginal product Law of diminishing returns (Law of variable proportions)  (d) Demand for labour: Meaning and factors affecting demand for labour Derivation of individual firm's demand for a factor using marginal revenue product theory  (e) Supply of labour - meaning and factors affecting supply Net advantages and the long-run supply of labour  (f) Wage determination under free market forces (competitive product and factor markets) The role of trade unions and government in wage determination Wage differentials and economic rent  (g) Long-run production function Returns to scale  (h) Economist's versus accountant's definition of costs Marginal cost and average cost Short-run cost function – fixed costs versus variable costs Explanation of shape of SRAC	average fixed cost average variable cost barriers to exit cartel closed shop collective bargaining decreasing returns diseconomies of scale economies of large dimensions financial economies of scale horizontal integration immobility of labour imperfect competition increasing returns industrial concentration integration marginal physical product mobility of labour monopsony natural monopoly non-pecuniary advantages occupational mobility paradox of value pecuniary advantages price agreements

	<b>Advanced Subsidiary Level Syllabus</b>	<b>Examples of other concepts and terms included</b>
<b>2 Core</b>	<p><b>The Price System [Core]</b></p> <p>(a) Individual demand curves</p> <p>(b) Aggregation of individual demand curves to give market demand</p> <p>(c) Factors influencing demand</p> <p>(d) Movements along and shifts of a demand curve</p> <p>(e) Price, income and cross- elasticities of demand</p> <p style="padding-left: 20px;">i. Meaning and calculation</p> <p style="padding-left: 20px;">ii. Factors affecting</p> <p style="padding-left: 20px;">iii. Implications for revenue and business decisions</p> <p>(f) Firms' supply curves Aggregation of individual firms' supply curves to give market supply</p> <p>(g) Factors influencing market supply, including indirect taxes and subsidies Movements along and shifts of a supply curve</p> <p>(h) Price elasticity of supply: determinants, implications for speed/ease with which businesses react to changed market conditions</p> <p>(i) Interaction of demand and supply: equilibrium price and quantity</p> <p style="padding-left: 20px;">i. Meaning of equilibrium and disequilibrium</p> <p style="padding-left: 20px;">ii. Effects of changes in supply and demand on equilibrium price and quantity</p> <p style="padding-left: 20px;">iii. Applications of demand and supply analysis</p> <p>(j) Consumer surplus</p> <p>(k) Prices as rationing and allocative mechanisms</p>	<p>ad valorem tax</p> <p>change in demand</p> <p>change in quantity demanded</p> <p>complementary goods</p> <p>composite demand</p> <p>demand conditions</p> <p>demand schedule</p> <p>derived demand</p> <p>direct taxation</p> <p>disequilibrium</p> <p>effective demand</p> <p>elastic</p> <p>equilibrium</p> <p>equilibrium price</p> <p>equilibrium quantity</p> <p>impact of tax</p> <p>incidence of tax</p> <p>income tax</p> <p>inelastic</p> <p>inferior good</p> <p>joint demand</p> <p>joint supply</p> <p>law of demand</p> <p>law of supply</p> <p>normal good</p> <p>perfectly elastic</p> <p>perfectly inelastic</p> <p>price mechanism</p> <p>rectangular hyperbola</p> <p>specific tax</p> <p>substitute goods</p> <p>supply conditions</p> <p>total revenue</p> <p>unitary elasticity</p>

	<b>Additional material for Advanced Level Syllabus</b>	<b>Examples of other concepts and terms included</b>
<b>2</b> Supp	<p><b>The Price System and Theory of the Firm [Supplement] - continued</b></p> <p>(i) Long-run cost function Explanation of shape of LRAC Relationship between economies of scale and decreasing costs Internal and external economies of scale</p> <p>(j) Survival of small firms Growth of firms</p> <p>(k) Relationship between elasticity, marginal, average and total revenue for a downward-sloping demand curve</p> <p>(l) Concepts of firm and industry</p> <p>(m) Traditional objective of firm – profit maximisation Normal and abnormal profit An awareness of other objectives of firm</p> <p>(n) Different market structures – perfect competition, monopoly, monopolistic competition, oligopoly Structure of markets as explained by number of buyers and sellers, nature of product, degree of freedom of entry and nature of information. Contestable markets</p> <p>(o) Conduct of firms – pricing policy and non-price policy, including price discrimination, price leadership models and mutual interdependence in the case of oligopolies</p> <p>(p) Performance of firms – in terms of output, profits and efficiency Comparisons with regard to economic efficiency, barriers to entry, price competition, non-price competition and collusion</p>	<p>risk-bearing economies of scale sales maximisation sales revenue maximisation satisficing profits second-best theory shares supernormal profit technical economies transactions demand for money transfer earnings vertical integration</p>

	<b>Advanced Subsidiary Level Syllabus</b>	<b>Examples of other concepts and terms included</b>
<b>3 Core</b>	<p><b>Government Intervention in the Price System [Core]</b></p> <p>(a) Externalities</p> <p>(b) Social costs as the sum of private costs and external costs Social benefits as the sum of private benefits and external benefits</p> <p>(c) Decision making using cost-benefit analysis</p> <p>(d) Private goods and public goods Merit goods and demerit goods</p> <p>(e) Government intervention via maximum price controls, price stabilisation, taxes, subsidies, direct provision of goods and services</p>	<p>excise duties</p> <p>external benefit</p> <p>external cost</p> <p>government expenditure</p> <p>imperfections</p> <p>negative externality</p> <p>non-excludability</p> <p>non-rivalness</p> <p>positive externality</p>

	<b>Advanced Subsidiary Level Syllabus</b>	<b>Examples of other concepts and terms included</b>
<b>4 Core</b>	<p><b>International Trade</b></p> <p>(a) Principles of absolute and comparative advantage, and their real-world limitations Other explanations/determinants of trade flows Opportunity cost concept allied to trade</p> <p>(b) Arguments for free trade and motives for protection</p> <p>(c) Types of protection and their effects</p> <p>(d) Economic integration: free trade area, customs union, economic union</p> <p>(e) Terms of Trade</p> <p>(f) Components of the balance of payments</p>	<p>capital account of balance of payments</p> <p>comparative costs</p> <p>current account of balance of payments</p> <p>current transfers</p> <p>deficit</p> <p>dumping</p> <p>exports</p> <p>external balance</p> <p>financial account of balance of payments</p> <p>globalisation</p> <p>imports</p> <p>infant industry argument</p> <p>invisible balance</p> <p>net errors and omissions</p> <p>quota</p> <p>surplus</p> <p>tariff</p> <p>trade creation</p> <p>trade diversion</p> <p>trading possibility curve</p> <p>visible balance</p>

	<b>Additional material for Advanced Level Syllabus</b>	<b>Examples of other concepts and terms included</b>
<b>3 Supp</b>	<p><b>Government Intervention in the Price System [Supplement]</b></p> <p>(a) Sources of market failure</p> <p>(b) Meaning of a deadweight losses Market imperfections – existence of monopolistic elements</p> <p>(c) Objectives of government microeconomic policy: efficiency, equity</p> <p>(d) Policies to correct market failure: regulation Policies towards income and wealth redistribution Effectiveness of government policies</p> <p>(e) Privatisation Problems of transition when central planning in an economy is reduced</p>	Supply-side economics

There is no supplementary material on Section 4 of the syllabus.

	<b>Advanced Subsidiary Level Syllabus</b>	<b>Examples of other concepts and terms included</b>
<b>5 Core</b>	<p><b>Measurement in the Macroeconomy [Core]</b></p> <p>(a) Employment Statistics            Size and components of labour force            Labour productivity            Definition of unemployment            Unemployment rate; patterns and trends in (un)employment            Difficulties involved in measuring unemployment</p> <p>(b) General price level: price indices</p>	<p>base date            consumer price index            cost of living            deflation            dependency ratio            household expenditure            participation rate            Retail Prices Index            weights            working population</p>

	<b>Additional material for Advanced Level Syllabus</b>	<b>Examples of other concepts and terms included</b>
<b>5 Supp</b>	<p><b>Theory and Measurement in the Macroeconomy [Supplement]</b></p> <p>(a) National income statistics</p> <ol style="list-style-type: none"> <li>i. Use of national income statistics as measures of economic growth and living standards</li> <li>ii. Money and real data; GDP deflator</li> <li>iii. Comparison of economic growth rates and living standards over time and between countries</li> <li>iv. Other indicators of living standards and economic development</li> </ol> <p>(b) Money supply Broad and narrow money supply Government accounts: government budget, deficit financing</p> <p>(c) The circular flow of income between households, firms, government and the international economy</p> <p>(d) Main schools of thought on how the macroeconomy functions - Keynesian and monetarist</p> <p>(e) Aggregate expenditure function (AE) Meaning, components of AE and their determinants Income determination using AE-income approach and withdrawal/injection approach Inflationary and deflationary gaps; full employment level of income versus equilibrium level of income The multiplier Autonomous and induced investment; the accelerator</p> <p>(f) Shape and determinants of AD Shape and determinants of AS Interaction of AD and AS: determination of level of output, prices and employment</p> <p>(g) Sources of money supply in an open economy (commercial banks / credit creation, central bank, deficit financing, total currency flow) Relationship between money supply, price level and output as explained by the Quantity Theory of Money</p> <p>(h) The demand for money Interest rate determination Liquidity Preference theory and Loanable Funds theory</p>	<p>active balances at constant prices at current prices average propensity balanced budget capital:output ratio closed economy consumption credit multiplier depreciation (of capital) dissaving distribution of income gross domestic product gross national product idle balances leakage liquidity trap marginal propensity National Debt net domestic product net national product net property income from abroad paradox of thrift precautionary demand for money quality of life saving speculative demand for money yield</p>

	<b>Advanced Subsidiary Level Syllabus</b>	<b>Examples of other concepts and terms included</b>
<b>6 Core</b>	<p><b>Macroeconomic Problems [Core]</b></p> <p>(a) Inflation</p> <ul style="list-style-type: none"> <li>i. Definition of inflation; degrees of inflation</li> <li>ii. Causes of inflation</li> <li>iii. Consequences of inflation</li> </ul> <p>(b) Balance of Payments Problems</p> <ul style="list-style-type: none"> <li>i. Meaning of balance of payments equilibrium and disequilibrium</li> <li>ii. Causes of balance of payments disequilibrium</li> <li>iii. Consequences of balance of payments disequilibrium on domestic and external economy</li> </ul> <p>(c) Fluctuations in Foreign Exchange Rates</p> <ul style="list-style-type: none"> <li>i. Definitions and measurement of exchange rates - nominal, real, trade-weighted exchange rates</li> <li>ii. Determination of exchange rates - floating, fixed, managed float</li> <li>iii. Factors underlying fluctuations in exchange rates</li> <li>iv. Effects of changing exchange rates on the economy</li> </ul>	<p>anticipated inflation</p> <p>appreciation</p> <p>cost-push inflation</p> <p>demand-pull inflation</p> <p>depreciation</p> <p>devaluation</p> <p>fiscal boost</p> <p>fiscal drag</p> <p>foreign exchange</p> <p>hyperinflation</p> <p>IMF</p> <p>J-curve</p> <p>Marshall-Lerner condition</p> <p>menu costs</p> <p>purchasing power parity</p> <p>Quantity Theory of Money</p> <p>reflation</p> <p>revaluation</p> <p>trade-weighted exchange rate</p> <p>unanticipated inflation</p> <p>velocity of circulation</p> <p>wage drift</p>

	<b>Advanced Subsidiary Level Syllabus</b>	<b>Examples of other concepts and terms included</b>
<b>7 Core</b>	<p><b>Macroeconomic Policies [Core]</b></p> <p>Policies designed to correct balance of payments disequilibrium or influence the exchange rate</p>	<p>exchange controls</p> <p>expenditure dampening</p> <p>expenditure switching</p>



	<b>Additional material for Advanced Level Syllabus</b>	<b>Examples of other concepts and terms included</b>
<b>6</b> Supp	<p><b>Macroeconomic Problems [Supplement]</b></p> <p>(a) Economic Growth and Development</p> <ol style="list-style-type: none"> <li>i. Definition of economic growth and development</li> <li>ii. Indicators of comparative development and underdevelopment in the world economy – economic, monetary, non-monetary and demographic indicators</li> <li>iii. Characteristics of developing economies: population growth and structure, income distribution, economic structure, employment composition, external trade and urbanisation in developing economies, the nature of dependency, including the role of multi-national corporations and external debt</li> <li>iv. Actual versus potential growth in national output</li> <li>v. Factors contributing to economic growth</li> <li>vi. Costs and benefits of growth, including using and conserving resources</li> </ol> <p>(b) Unemployment</p> <ol style="list-style-type: none"> <li>i. Full employment and natural rate of unemployment</li> <li>ii. Causes of unemployment</li> <li>iii. Consequences of unemployment</li> </ol> <p>(c) Inter-connectedness of problems: Links between macroeconomic problems and their interrelatedness, for example</p> <ul style="list-style-type: none"> <li>• relationship between internal and external value of money</li> <li>• relationship between balance of payments and inflation</li> <li>• relationship between inflation and unemployment; trade-off between inflation and unemployment</li> </ul>	<p>birth rate</p> <p>cyclical unemployment</p> <p>death rate</p> <p>demand-deficiency unemployment</p> <p>frictional unemployment</p> <p>general unemployment</p> <p>migration</p> <p>natural increase</p> <p>optimum population</p> <p>seasonal unemployment</p> <p>structural unemployment</p> <p>sustainability</p> <p>technological unemployment</p> <p>trade cycle</p> <p>voluntary unemployment</p>

	<b>Additional material for Advanced Level Syllabus</b>	<b>Examples of other concepts and terms included</b>
<b>7</b> Supp	<p><b>Macroeconomic Policies [Supplement]</b></p> <p>(a) Objectives of macroeconomic policy: stabilisation, growth</p> <p>(b) Policies towards developing economies; policies of trade and aid</p> <p>(c) Types of policy: Aims and instruments of each policy; how each is used to control inflation, stimulate employment, stimulate growth and development, correct balance of payments disequilibrium; the effectiveness of each</p> <ol style="list-style-type: none"> <li>i. Fiscal policy</li> <li>ii. Monetary policy</li> <li>iii. Exchange rate policy</li> <li>iv. Supply side policy</li> </ol> <p>(d) Conflicts between policy objectives and evaluating policy options to deal with problems</p>	<p>automatic stabiliser</p> <p>canons of taxation</p> <p>marginal tax rates</p> <p>open market operations</p> <p>poverty trap</p> <p>progressive taxation</p> <p>proportional taxation</p> <p>regressive taxation</p>

## APPENDIX

## RESOURCE LIST

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This is NOT a list of prescribed texts, but merely an attempt to provide a range of alternatives from which teachers may like to choose.

author	title	publisher	ISBN	date
Anderton, AG	<i>Economics AS Level</i>	Causeway	1902796128	2004
Bamford, Colin, et al	<i>Economics International AS and A Level</i>	Cambridge*	052100781X	2002
Beardshaw, J	<i>Economics: A Student's Guide</i>	Longman	0582303486	1998
Begg, David et al.	<i>Economics</i>	McGraw Hill	0077096150	2000
Gillespie, A	<i>Economics A Level Through Diagrams</i>	Oxford	0199134294	2001
Grant, Susan	<i>Stanlake's Introductory Economics</i>	Longman	0582405483	2000
Grant, Susan	<i>Workbook for Stanlake, Introductory Economics</i>	Longman	0582302560	1997
Ison, Stephen	<i>Economics</i>	FT Prentice Hall	0273634275	1999
Sloman, John	<i>Essentials of Economics</i>	FT Prentice Hall	0273651625	2001

\* This textbook is endorsed by University of Cambridge International Examinations.

### Dictionaries

Bannock, Graham et al. (eds)	<i>Penguin Dictionary of Economics</i>	Penguin	0141010754	2004
Cairns, John et al.	<i>Macmillan Dictionary of Modern Economics</i>	Palgrave	0333576934	1992
Wall, Nancy et al.	<i>The Complete A-Z Economics and Business Studies Handbook</i>	Hodder	0340872764	2003

Internet: Teachers will also find useful material on the websites <http://www.bized.ac.uk> and <http://www.tutor2u.net>.