

Cambridge Pre-U Teacher Guide

Cambridge International Level 3
Pre-U Certificate in
ECONOMICS

Available for teaching from September 2011

www.XtremePapers.com
Cambridge
Pre



UNIVERSITY of CAMBRIDGE
International Examinations

Teacher Guide

Economics (9772)

**Cambridge International Level 3
Pre-U Certificate in Economics (Principal)**

Available for teaching from September 2011

(For examination in 2013, 2014 and 2015)

University of Cambridge International Examinations retains the copyright on all its publications. Registered Centres are permitted to copy material from this booklet for their own internal use. However, we cannot give permission to Centres to photocopy any material that is acknowledged to a third party even for internal use within a Centre.

© University of Cambridge International Examinations 2011

Cambridge International Level 3 Pre-U Certificate

Economics

9772

Contents

	Page
Introduction	4
Aims of the Syllabus	5
Assessment Objectives	5
Scheme of Assessment	5
Syllabus Amplification	6
1 Microeconomics	6
2 The National Economy	19
3 International Economics	29
Investigation (Paper 3)	33
1 Planning an Approach to the Investigation	33
2 Delivery of the Investigation	36
3 Investigation Topics	38
Appendix 1: Guided Learning Hours (GLH)	53
Appendix 2: Sample Course Outline	54
Resources	56
List of Terms	59

Introduction

This document should be read in conjunction with the Cambridge Pre-U syllabus for Economics (9772).

This Teacher Guide is an expansion of the syllabus so that teachers understand what candidates will be expected to know in the various areas. However, what is here is not totally exhaustive of what *could* be covered. One of the main aims of the Pre-U Economics syllabus is that questions will be open-ended enough to allow candidates to demonstrate economic ideas that might not typically be covered by a 'strait-jacketed' syllabus. It will be the case that no questions will be set that rely on knowledge that is not explicitly mentioned in the syllabus.

Where the phrase '**as an extension**' is used in what follows, it should be taken that this means that this is an area where candidates can be guided into investigation, but that such knowledge, whilst it might well enhance an answer and gain extra credit, will not be specifically required.

Similarly, the list of terms included in this guide should be viewed as a good checklist for teachers to ensure that coverage of a topic is thorough, but again this does not mean that other terms could not be used very relevantly in an answer.

Resources

Specific resources are listed at the end of each sub-section where the letters refer to the following general texts:

A – Anderton, Alain	<i>Economics</i> , 5 th edition. Causeway Press, 2008
B – Begg, Fischer & Dornbusch	<i>Economics</i> , 9 th edition. McGraw Hill, 2008
L – Lipsey and Chrystal	<i>Economics</i> , 11 th edition. Oxford University Press, 2007
S – Sloman and Wride	<i>Economics</i> , 7 th edition. Prentice Hall, 2009

Numbers refer to whole sections or chapters unless specific pages are indicated by a 'p.'
General resources are listed at the end of this Teacher Guide.

No specific text book is recommended and the resource list is merely indicative of appropriate breadth and depth. These books are generally aimed at undergraduate students and, whilst the content should be accessible to Pre-U students, the written style may be challenging and more teacher guidance may be required if these texts are used. The use of web resources such as tutor2U (www.tutor2u.net) would also be helpful.

Teaching and Learning

In order to support the aims of the syllabus and prepare students for university study, some teaching and learning opportunities are suggested in the following categories:

- ES – evaluation skills
- PS – presentation skills
- QS – quantitative skills
- RS – research skills

It is likely that many research, quantitative and presentation tasks are also likely to provide opportunities for effective use of ICT.

These are merely indicative of the type of teaching and learning approaches that could be adopted.

Aims of the Syllabus

The purpose of the syllabus is to enable Centres to devise courses that will provide candidates with the opportunity to:

- analyse and evaluate the economic concepts and theories that underpin the workings of a modern-day economy;
- develop quantitative skills through the appreciation and use of various relevant statistics;
- understand and apply the concepts of causality and interdependence, on both a macro and a micro scale;
- critically and independently assess the effectiveness of policy decisions, both internal and external, that have influenced the UK economy over the past 10 years as far as areas contained within the syllabus are concerned (a longer-term perspective, where relevant, will clearly aid understanding);
- communicate their reasoning and conclusions fully and effectively.

Assessment Objectives

Candidates should:

AO1	demonstrate knowledge and understanding;
AO2	apply theoretical knowledge and understanding to real-life situations presented to them;
AO3	analyse economic problems and issues and have a good knowledge of statistical methods used within the discipline;
AO4	evaluate and reach well-informed and considered conclusions. Candidates must be able to make a critical assessment of the relevance and appropriateness of assumptions made within models.

Scheme of Assessment

For the Cambridge Pre-U Certificate in Economics, candidates take all three components in the same session.

Component	Component Title	Duration	Weighting	Type of Assessment
Paper 1	Multiple Choice, Short Answers and Data Response	2 hours 15 minutes	40%	Written paper, externally set and marked
Paper 2	Essay Paper	2 hours 15 minutes	40%	Written paper, externally set and marked
Paper 3	Investigation	1 ¼ hours	20%	Essay, written in examination conditions and externally marked

Syllabus Amplification

1 Microeconomics

(a) The Basic Economic Problem of Unlimited Wants and Limited Means

Factors of production

Candidates should understand the *nature* of the four factors of production and be able to apply this understanding in practice by categorising inputs to a particular industry or firm. An appreciation that the entrepreneur/enterprise can be viewed as the fourth factor of production should be understood and that, without this factor, output from the other factors is likely to be sub-optimal.

Resources

A2

Production possibility

Use should be made of Production Possibility Curves (PPC/PPF/PPB) to show feasible and non-feasible output combinations and also to demonstrate the concepts of short-run and long-run growth. It should be appreciated that points within the PPC may illustrate either unemployed resources, mis-allocated resources or a combination of the two.

Upon revisiting this concept later in the course, candidates should not worry about the apparent contradiction between the PPC and the Long Run Aggregate Supply Curve (LRAS) representing similar ideas and yet it being possible to be beyond the LRAS in the short run yet not outside the PPC. The idea of sustainable capacity versus unsustainable capacity (with overtime/no maintenance) is useful to introduce to help students. Similarly, candidates should not worry about the concept of 'frictional unemployment' and hence an economy's inevitable inability ever to be on its PPC.

Resources

A1

Opportunity cost

Candidates should have a thorough understanding of the link between the shape of PPC and the concept of opportunity cost. The existence of straight-line PPCs should be understood and will reinforce understanding of the curved PPC. More able candidates will appreciate that there is a potential conflict between the traditional convex PPC and the principle of benefits from specialisation of labour – particularly with regard to 'practice makes perfect'. The concept of specialisation should be understood and both advantages and disadvantages should be appreciated. Specialisation can also be linked with productivity, seen as a driver of economic growth and likely to be part of the solution to the economic problem.

Resources

A1

Types of economies

This may be a useful vehicle for considering the questions of ‘what, how and for whom?’ Whilst it is appreciated that the traditional approach of looking at pure command economies and laissez-faire economies, as well as mixed economies, probably has less direct relevance in today’s world, it is important that candidates have an appreciation of the extremes so that issues such as market failure and government intervention/failure can be analysed when looking at why we have the economies that we do.

This approach can also be used to consider the issue of maximising social welfare and potential conflicts between objectives. Candidates should be introduced to the idea that societies may have different views on the allocation of resources e.g. those in North Korea versus Sweden; USA versus UK in terms of health care. This may be a good opportunity to introduce the concepts of normative and positive economics.

Resources

A37

Teaching and Learning

RS – research into degree of government intervention, scope and size (% of GDP) in selection of economies
 ES – discussion of merits of intervention in context and the degree of intervention in the UK compared to other economies

Economic agents

When considering economic agents, it should be appreciated that the standard household contains several subsets in terms of consumers, workers and members of society in a broader sense.

Resources

A2

Maximising goals and rational behaviour

This demonstrates one of the main changes from standard A Level Economics syllabuses. With so much current work being undertaken by economists on behavioural economics at universities, this is an area where teachers can introduce issues that will both motivate candidates and also provide them with a better preparation for university courses.

These topics come back several times during the syllabus – e.g. with regard to aims of the firm, reasons for government intervention, the concept of Veblen/ostentatious goods, etc. Questions will not require any more than an appreciation that it is wrong just to assume that rational behaviour will occur.

As an extension, as noted before, the open-ended nature of questions may certainly provide candidates with the opportunity to expand upon research that they have undertaken into a wide range of behavioural theories.

Resources

B2.10, S1.3, L2

Ariely, Dan	<i>Predictably Irrational: The Hidden Forces That Shape Our Decisions</i> . Harper Collins, 2009
Harford, Tim	<i>The Logic of Life: The Rational Economics of an Irrational World</i> . Random House, 2009 – plus his blog, timharford.com , and <i>Financial Times</i> articles
Thaler & Sunstein	<i>Nudge: Improving Decisions about Health, Wealth and Happiness</i> . Penguin, 2009

Teaching and Learning

ES – discussion of the importance of rational behaviour in the methodology of social science
 RS and PS – research into one small area of behavioural economics (perhaps based on one chapter of a book listed above) and presentation of the concepts covered to the class

(b) The Market Mechanism and Demand and Supply AnalysisMarket mechanism

The framework used to analyse how the market mechanism works to allocate goods and services should be the standard demand and supply curve analysis. It is important that candidates have a comprehensive understanding of all the possible conditions of demand and supply that can affect the position of the curves. With regard to demand, this should include discussion of the influence of future price expectations (speculative demand), particularly with regard to the demand for items such as housing and shares. Candidates should appreciate that a change in perceived future price changes is a change in a condition of demand and hence understand that an increase in demand for housing, following a rise in the price, does not therefore automatically assume an upward sloping demand curve but rather a shift of the demand curve to the right i.e. a new demand curve at each and every price level.

Candidates are expected to accurately use terminology and differentiate between a 'change in demand/supply' and a 'change in the quantity demanded/supplied'.

Resources

A13

Derivation of the demand curve

With regard to the derivation of the demand curve, candidates will need to know both the ideas of equi-marginal utility and also indifference curve analysis. With the former, the concepts of assumed diminishing marginal utility, and ultimately disutility, should be appreciated – although, **as an extension**, exceptions such as greater marginal utility from the final item for a collector might be looked at. Indifference curve analysis should be understood and candidates should be able to illustrate the effects of price and income changes and be able to illustrate substitution and income effects diagrammatically. They should also be able to use indifference curves to explain upward sloping demand curves for Giffen goods. Knowledge that substitution effects are assumed never to be perverse should be known and, **as an extension**, consideration of this with regard to Veblen goods might be explored.

Resources

A5, 11, B5

Teaching and Learning

QS – plotting demand curves, indifference curves and budget constraints from data (possibly using a spreadsheet package and appropriate formulas)

Average and marginal revenue

Candidates must appreciate the fundamental relationship that revenue = price x quantity and hence how a demand curve can be used to derive the revenue received by charging various prices. The concept of marginal revenue (MR) as the change in total revenue (TR) must be understood and candidates should also have an appreciation of where the MR curve should be drawn. Candidates should appreciate that for all concepts of marginal revenue and cost, plotting should take place at midpoints as it is the change between the revenue from selling 'n' items and 'n+1' items. **As an extension**, with candidates who have a strong mathematical background, the reason for the MR curve bisecting the distance between the price axis and a straight line demand curve could be investigated.

Resources

A40, B6.6, 6.7

Teaching and Learning

QS – plotting the AR and MR curves from data (possibly using a spreadsheet package and appropriate formulas)

Demand elasticities

Candidates should be encouraged to use the concepts and values obtained to explain the significance of results rather than just be able to calculate values with little understanding of the implications. Similarly, the determinants of the various elasticities of demand should be comprehensively understood. For example, candidates should be able to analyse the impact of a tax on cigarettes on the consumption of this product due to the relatively low elasticity of demand for the product, and know that it is the addictive nature of such goods that causes the relative inelasticity of demand.

It is important that candidates are precise in use of terms such as inelastic/elastic demand and should realise that often the correct terms are relatively inelastic/elastic. Similarly, candidates should not fall into the habit of talking about elastic/inelastic goods when they mean goods for which the demand is price elastic/inelastic. With own-price elasticity of demand, whilst candidates should be fully aware that the value for any downward sloping demand curve will technically be negative, it is acceptable for the usual convention of using positive values to be adopted. For example, it will be acceptable for candidates to say that when the elasticity of demand is greater than 1, a reduction in price will result in an increase in revenue. Whilst, **as an extension**, the difference between 'spot' and 'arc' elasticity of demand may be considered, detailed knowledge of this is not required and any questions which require calculations of an elasticity of demand will clearly state initial starting values.

With regard to cross-price and income elasticities of demand, candidates should appreciate the link between various values and implications not only with regard to complements, substitutes, normal, inferior goods etc. but also in terms of shifts in relevant demand curves. Candidates should appreciate that goods can be related in other ways – for example, an increase in demand for holiday homes in France due to a growth in low cost airline flights can affect the demand for holiday homes in the UK, but that is a change in a condition of demand for holiday homes and, at least initially, does not have anything to do with cross-price elasticity of demand. **As an extension**, candidates might like to consider whether concepts such as advertising elasticity of demand are useful ideas for firms to consider.

Resources

A9, 10, 11, B4

Teaching and Learning

QS – calculations of own-price elasticities at various points along a demand curve

Elasticity of supply

Candidates should have a comprehensive understanding of the determinants of elasticity of supply and should appreciate that the length of time involved and the degree of current spare capacity are major determinants. Candidates should also understand the fact that, since elasticity measures proportional change, due to the usual upward sloping nature of supply curves; it is possible to talk about elastic/inelastic supply curves. Candidates should know the links between elasticity of supply and intersection of the price/quantity axes and straight line supply curves/ tangents of curves of various gradients.

Resources

A p.67, B4

Elasticity and decision making

Candidates should understand the importance of elasticities to firms when making pricing and output decisions. However, this may be more appropriately delivered alongside Microeconomics (c).

Resources

B4

Teaching and Learning

RS and ES – find estimates of real-world elasticities in research papers published on the internet, investigate their provenance and discuss their usefulness

Market equilibrium

Candidates should appreciate that this occurs when the curves that reflect planned demand and supply intersect (**as an extension**, candidates may wish to use terms such as ‘ex-ante’ and ‘ex-post’ and planned versus actual/realised in their analysis). Candidates should appreciate that excess demand or supply exists when the market is not in equilibrium and should understand what changes might occur to restore equilibrium. Candidates should understand the principle of stable versus unstable equilibriums – i.e. the cobweb theorem, especially with regard to justification for government intervention in agricultural markets – including the use of buffer-stock systems. Candidates should be able to represent these concepts diagrammatically.

Resources

A7, 17

Teaching and Learning

RS and ES – research the use of buffer stocks in the EU and discuss their effectiveness

Interrelationship between markets

The standard links between substitutes and complements should be understood. Also, the concept of derived demand should be explored. Composite demand and joint supply should also be understood.

Taxation, subsidy, maximum and minimum prices are covered in Microeconomics (e).

Resources

A8, 17

(c) Costs of Production, Profit and the Theory of the FirmCosts of production

The theory of the firm provides a more detailed explanation of the behaviour of producers than the supply curve. Candidates should understand the reasoning behind and the relationships between the following costs:

- fixed
- variable
- total
- average
- marginal

Candidates should be able to draw and explain diagrams showing:

- fixed, variable and total cost
- average (total) cost and marginal cost
- average variable cost and average fixed cost

Revenues are covered in Microeconomics (b). Candidates should note that marginal cost (MC) curves are also plotted at midpoints.

Candidates should also understand the difference between economic costs and accounting costs and appreciate that economists' measurements of costs include opportunity cost and may include calculations of imputed costs. This is likely to be helpful in understanding the concept of normal profit.

Resources

A39

Teaching and Learning

QS – classify a firm's costs and plot accurate curves from data

Short run and long run

Candidates should appreciate the importance of a fixed factor in defining the short run. A simple example, e.g. a factory with one machine and any number of workers, could be used to illustrate the law of diminishing returns (or the law of variable proportions), and thus explain the shape of the marginal product curve and relate this to the marginal cost curve. Candidates should understand the balance of greater specialisation against problems such as the overcrowding of the fixed factor and the declining suitability of the variable input.

In the long run output can be increased without concern for the law of diminishing returns, but candidates should understand and be able to give examples of economies and diseconomies of scale, both internal and external. They should be able to illustrate these concepts on a diagram, along with constant returns to scale. Candidates should also understand the causes of movements along and shifts in short-run and long-run curves and appreciate that the long-run average cost (LRAC) curve is constructed from the minimum points of all possible short-run average cost curves. They should also appreciate that the LRAC curve is a boundary not a constraint. Candidates should know the concept of minimum efficient scale and the existence of different shapes of the LRAC curve.

Resources

A38, 55, B74, 7.7

Profit

Profit is the surplus of total revenue over total costs, and candidates should understand the concepts of:

- normal profit
- abnormal (supernormal/economic/pure) profit

Resources

A41

Teaching and Learning

ES – discuss the economic value of abnormal profit

Market structure

Profit, price and output levels will differ according to the market structure in which a firm is operating. Candidates should be able to define, list the assumptions, draw relevant diagrams and compare price, output and profit levels of the following:

- perfect competition
- monopoly
- monopolistic competition
- oligopoly

The realism of the models should be appreciated and the assumptions underpinning them should be critically appreciated. The importance of barriers to entry should be understood and candidates should be able to offer applied examples of these barriers and be able to explain how they determine market structure. In this context candidates should understand that the reduction or removal of barriers increases contestability (see below).

Profit and loss

Candidates should be able to represent profit maximisation and the level of profit/loss diagrammatically. They should understand the short-run shut-down decision and this should also be shown diagrammatically.

Efficiency

Candidates should understand the concepts of allocative, productive, static and dynamic efficiency and be able to use them to compare the outcomes of the market structures above. Candidates should be able to define and illustrate these concepts on diagrams, both for the firm and for society as a whole. **As an extension**, candidates could consider the theory of the second best and Pareto Optimality. In addition, the difference between technical efficiency (using the least number of resources/inputs for a given output) and productive efficiency (producing at the lowest cost per unit) could be discussed.

Resources

A43–47, 52, B7–9

Teaching and Learning

RS and ES – identify industries which fit the market structures and discuss the extent to which they fit the characteristics

ES – discuss the usefulness of a 'perfect' model

Oligopoly

In the study of oligopolistic markets interdependence should be stressed and students should understand that this does not just happen in collusive situations (tacit or otherwise) but that interdependence is also a defining feature of competitive oligopolies. The kinked demand curve should also be understood and explained diagrammatically. Interdependence should be further explored using game theory. Prisoner's dilemma should be understood and applied to an oligopolistic market through the use of a pay-off matrix, but **as an extension**, other game theories could also be explored including the iterated prisoner's dilemma, stag hunt and minimax.

Resources

A48, 49, B9.3, 9.4

A Beautiful Mind (2001) a film on the life of John Forbes Nash Jr. including some references to game theory

The Trap (2007) subtitled 'What Happened to Our Dreams of Freedom?' a BBC documentary by Adam Curtis on social and economic change brought about by the adoption of game theory by policy makers

Teaching and Learning

RS – case study of an oligopolistic industry and the competitive behaviour of firms in the industry

Monopoly

Price discrimination (with relevant examples) should be understood in the context of a possible abuse of monopoly power. The conditions necessary for price discrimination should be known, first and third degree discrimination should be clearly defined and candidates should be able to demonstrate them diagrammatically. The advantages and disadvantages of monopoly power should be understood, as should ideas such as natural monopoly, local monopoly, research and development links to innovation and the use of monopoly profit, as well as contestability. Candidates should also consider alternative theories of the firm such as long-run profit maximisation or limit pricing.

As an extension to this section of the course candidates could be introduced to second degree discrimination (discrimination by volume of purchases i.e. a discount offered for buying large quantities).

Resources

A45, B8.7–8.9

Teaching and Learning

RS – investigate the pricing structure of a train operating company or a low cost airline

Contestability

Contestability should be understood as an alternative criterion to competitiveness based on market share for evaluating market structure. The importance of barriers to entry and relative insignificance of the degree of competition should be recognised. The likely outcomes of contestability in terms of price, output, efficiency and profitability should be understood. Candidates should appreciate the impact of 'hit and run' or 'smash and grab' entrants. **As an extension**, the behavioural assumptions of contestable and competitive markets could be contrasted.

Resources

A50, B9.6

Teaching and Learning

RS and ES – investigate a deregulated market, such as the local bus or European airline industry, and consider the extent to which it has become more contestable

Objectives of firms

Candidates should be aware of the separation of ownership and control in many firms and that the objectives of owners and managers may differ. The link with X-inefficiency and/or underproduction should be understood. The concept of profit satisficing should be understood and illustrated on a diagram. Other factors which conflict with profit maximisation should be explored, including revenue maximisation, sales volume maximisation, growth maximisation and not for profit business. **As an extension**, behavioural theories could be considered in this context as well as methods of dealing with the ownership/control problem such as profit-sharing and performance-related pay e.g. the City bankers' bonuses approved by management at the possible expense of shareholders.

Resources

A42, S8.2

Teaching and Learning

RS – investigate the ownership, control and stated objectives of a range of real business organisations including a sole trader, plc, co-operative and not-for-profit business

(d) Causes of Market Failure

Market failure should be clearly understood as instances where the (free) market mechanism fails to allocate resources such that social welfare is maximised. Thus, market failure manifests itself as under or over-provision/allocation. This may result from inefficiency or inequity and candidates should appreciate that the degree of 'failure' may depend on a value judgement. A good understanding of efficiency is required to fully appreciate market failure and candidates should be familiar with the concepts of productive, allocative, static, dynamic and Pareto efficiency covered in Microeconomics (c).

Resources

A14, 52

Positive and negative externalities

Marginal private cost, marginal social cost, marginal private benefits and marginal social benefits should be understood in the context of external costs and benefits and illustrated clearly on a diagram. The concept of the 'third-party' should be clearly understood and students should avoid vague answers about 'damage to the environment' being a negative externality without being clear how it is harming third parties. For example, catching fish may create negative externalities, but not because the fish die as they are not economic agents. However, if overfishing occurs this damages the livelihood of others and leads to a loss of species diversity which causes distress and disutility to many. These are relevant third party effects and the third parties have been clearly identified.

The concept of 'deadweight welfare loss' should also be understood and particular attention should be paid to externalities affecting the environment such as pollution and traffic congestion. It might be useful to take both a microeconomic (e.g. visual pollution) and a macroeconomic (e.g. global warming) approach. Analysing externalities, with examples, in terms of positive externalities arising from consumption and production and negative externalities arising from consumption and production can be considered.

Resources

A15, 72

Public goods

Candidates should understand and be able to clearly explain the concepts of non-rivalry and non-excludability and be able to apply them to examples of public goods. They should also be able to explain the 'free rider' problem. They should understand that many public services are not public goods. There should also be an understanding of the term 'non-revealed preference'. A definition and examples of 'quasi-public goods' are also required; this should help reinforce understanding of the concepts of non-rivalry and non-excludability.

Resources

A16

Teaching and Learning

ES – discuss the extent to which goods such as roads, libraries, museums and the BBC can be considered public goods

Merit and demerit goods

Candidates should appreciate that information failure or information being withheld is the critical characteristic of these goods and that, whilst externalities do exist, the inability to appreciate the effects of consumption by the consumer themselves distinguishes these goods from other markets where externalities are present. Candidates should appreciate that the 'merit' or otherwise of such goods may require a value judgement and different groups and societies may value such goods differently. The links to positive and negative externalities should be appreciated.

Resources

A16

Teaching and Learning

ES – discuss the extent to which the concepts of merit and demerit undermine the rational and 'scientific' approach of positive economics

Monopoly

Candidates should understand how the abuse of monopoly power can lead to sub-optimal outcomes and welfare loss for consumers. This will link to the efficiency outcomes of monopolistic markets from Microeconomics (c).

Resources

A53, 54

Teaching and Learning

RS and ES – case study of a monopolist and its impact on consumer welfare

Inequitable distribution of income

This topic is also covered in The National Economy section of the syllabus and the focus here should be on the failure of specific markets such as housing, pensions, education and health. Of all market failures, this is perhaps the most debatable. Understanding the normative background to all discussions on inequality is important. The benefits of inequality, for example in increasing productivity and aspirations, should be considered alongside its harmful effects on social cohesion and mobility, unemployment, crime and lost output.

Resources

A p.462 and p.483

(e) Government Intervention in the Market

Candidates should understand the effects of indirect taxation, subsidies, price controls, buffer stocks, tradable permits, government provided information/advertising, state provision and regulation, be able to demonstrate their use diagrammatically and apply their use to relevant examples in the UK economy. The incidence of taxation and subsidy should be understood as well as the influence of elasticities on the effectiveness of intervention. Relevant diagrams should be used to illustrate these concepts. Candidates should also understand the concept of property rights and be able to explain how their extension could improve resource allocation. Candidates should also have knowledge of both UK and EU competition policy, how they relate to each other and how they affect monopolistic and oligopolistic markets. Examples of recent intervention in this context will be useful.

The long-term view of government should be considered – and questioned – regarding the objective of maximising social welfare. **As an extension**, candidates could consider the international dimension of market failure, particularly in the case of environmental externalities. The concept of sustainability should be understood and applied to relevant examples of both market failure threatening sustainability and intervention seeking to ensure it. **As an extension**, the concept of sustainability could be explored in greater depth by, for example, considering notions of weak sustainability, strong sustainability and deep ecology.

Resources

A17, 57

Privatisation and deregulation

The arguments regarding public versus private ownership should be explored, with reference to the processes of privatisation and nationalisation. Deregulation of markets should also be understood and linked to the concept of contestability. Recent and proposed cases of privatisation and/or nationalisation, and their rationale, should be understood and the impact of these changes on the industry, the consumer and the broader economy should be evaluated. The concepts of Public Private Partnerships, the Private Finance Initiative, contracting out, competitive tendering and internal markets should be considered. Examples from health, education or transport might be considered.

Knowledge of specific individual industries will not be required and it may be appropriate to select cases from more than ten years ago in order to illustrate points clearly, although recent examples should be preferred. It is likely that candidates will benefit from a very broad contextual understanding of the history of nationalisation and privatisation in the UK. **As an extension**, candidates may wish to look at rail privatisation in more detail as it requires consideration of a good deal of material from the course including market structure, efficiency, contestability, regulation and natural monopoly.

Resources

A56

Cost-benefit analysis

The purpose and practice of cost-benefit analysis (COBA) should be understood and applied to appropriate examples. The use of real examples will reinforce the difference between theoretical application where numerous social costs and benefits are included, and the reality, where very few are likely to be included. COBA should also be used to illustrate the concepts of discounting and shadow pricing, and **as an extension**, candidates could calculate the net present value of a project.

Resources

A58, S11.4

www.devon.gov.uk/text/msbc-economicassessmentreport.pdf – a detailed example of a COBA for a local road scheme

www.nice.org.uk/newsroom/features/measuringeffectivenessandcosteffectivenessstheqaly.jsp – valuation of the quality of life by the National Institute for Clinical Excellence

Teaching and Learning

QS – calculate net present value on a given project

RS – find and analyse examples of the use of the COBA software package by the Department for Transport

Government failure

Candidates should understand the difference between government failure, unsuccessful intervention and a failure to intervene. They should understand that the key distinguishing feature is that government failure results in a loss of economic welfare. They should understand the causes of failure and be able to offer realistic examples of each cause. **As an extension**, government failure could be explained by the use of public choice theory.

Resources

A18, L p.319

Public choice theory – L p.320

(f) The Labour Market

Candidates should understand that the demand for labour is a derived demand and determined by the marginal revenue product. Factors affecting demand and supply should be understood and factors affecting the elasticities of demand and supply should be investigated. The action of income and substitution effects should be understood and the backward-bending supply of labour curve should be explored in this context.

Candidates should understand how equilibrium wage rates are determined and why wage differentials exist. Clear understanding that labour is not a homogeneous factor of production is essential and the effect of non-monetary considerations should be discussed. Candidates should be aware of labour market imperfections, including discrimination, immobility (geographical and occupational), monopsony and the action of trade unions. They should also be aware of government intervention in labour markets, particularly minimum wage, employment protection and legislation relating to the behaviour of trade unions. Candidates should understand the impact of this intervention and be able to demonstrate its effect diagrammatically, although detailed knowledge of the legislation is **not** required.

As an extension, the impact of migration on the UK labour market could be investigated and evaluated, with particular reference to the more recent migrations from Central and Eastern Europe.

Resources

A59–63

Migration – B p.46

2 The National Economy

Candidates should develop a good knowledge and understanding of recent trends and developments in the UK economy over the past ten years. (Knowledge over a longer period will also help to put more recent events into context.) Candidates should also be able to compare the performance of the United Kingdom economy with other national economies in these areas, but specific knowledge of any other economy is not expected. Candidates will be expected to use this knowledge in answering essay questions.

Candidates should be familiar with the following indicators of performance:

- Standards of Living
- Economic Growth and Economic Cycle
- Employment and Unemployment
- Inflation and Deflation
- Distribution of Income
- Current Account of Balance of Payments
- Productivity and International Competitiveness

Each indicator should be considered within the following 3-point framework:

1. Meaning and Measurement – how is the indicator measured (including alternative forms of measurement) and what do these measurements signify?
2. Causes and Consequences – what is the cause of changes in this indicator and what do these changes mean for economic agents?
3. Evidence and Policy Responses – what is the current state (and recent trend) for the indicator and what are the appropriate policy responses to this situation?

Each indicator could be covered in turn, using this framework, or the range of indicators could be considered under Point 1 of the framework, before moving on to Point 2 and so on.

Resources

A19

Analysis of real data will be very useful throughout this section of the course. Data should be readily available for all sections from these sources:

www.statistics.gov.uk/ – current and recent data at the Office for National Statistics (ONS)

www.data-archive.ac.uk/ – historical data at the UK Data Archive

Other, more specialised data sources are listed where relevant

Andrew Marr's History of Modern Britain (2007) – a BBC documentary television series

Teaching and Learning

RS – brief study of current UK economic performance compared with key competitors

(a) Standards of Living

Candidates should understand the meaning and use of GDP, measures of national income, output and expenditure (and similar measures: GNP, GNI and NNP). They should appreciate the difference between nominal and real figures and understand the benefits of using per capita figures when making comparisons internationally or over time.

Standard of living should be examined as a broader measure than GDP or GNP. Wider contributors (positive and negative) to quality of life should be considered such as unpaid work, externalities, quality of goods and services, quality of public services, working hours. The practical problems involved in collecting accurate data should also be understood.

Drawbacks of using national income measures should be considered, for example when compared to other measures such as the Human Development Index (HDI) and the Index of Sustainable Economic Welfare (ISEW).

A detailed knowledge of national income accounting and the technical difference between the various measures (GDP, GNP and NNP) is **not** required.

Resources

A20

hdr.undp.org/en/ – Human Development Reports from the United Nations Development Programme (UNDP)

www.foe.co.uk/community/tools/isew/ – Friends of the Earth explanation of the Index of Sustainable Economic Welfare (ISEW)

Teaching and Learning

RS – research a range of measures of the standard of living for selected countries and evaluate their strengths and weaknesses

(b) Economic Growth and Economic Cycle

Candidates should be able to define economic growth, both as an increase in the productive capacity of the economy and also as an increase in real national income: a distinction can therefore be made between short-run (actual GDP, changes in aggregate demand) and long-run (trend or potential, changes in aggregate supply) growth. The economic cycle (trade cycle/business cycle) can be used to show these two measures of growth and to identify the stages of upturn/recovery, boom, downturn/slowdown and recession. Candidates should also understand the causes of this cyclical pattern and **as an extension**, could look at historical cycles and analyse their causes and the solutions attempted by governments at the time.

A production possibility diagram should also be used to illustrate economic growth, with a movement towards the boundary as short-run growth and a shift of the curve showing long-run growth.

Candidates should be able to discuss whether or not economic growth is both sustainable and/or desirable and be able to evaluate the impact of growth on individuals and the environment. Sustainability should be understood in terms of maintaining growth over the very-long term and therefore eradicating, or limiting, the effects of the economic cycle. It should also be understood in terms of depletion of resources which may have implications for the rate of economic growth achievable by future generations.

As an extension, candidates could study the ‘economics of happiness’ and consider whether economic growth leads to an increase in welfare or not.

Resources

A27, 28, 29

Historical cycles – A p.519

Happiness:

de Botton, Alain *Status Anxiety*. Penguin, 2005

Layard, Richard *Happiness: Lessons from a New Science*. Penguin, 2006

en.wikipedia.org/wiki/Gross_national_happiness

news.bbc.co.uk/1/hi/in_pictures/4782636.stm – articles and videos on Bhutan’s Gross National Happiness measure

(c) Employment and Unemployment

Candidates should be able to accurately define unemployment, be familiar with the claimant count and the ILO/LFS measures and be able to express them in terms of a level (e.g. 1.2 million) and as a percentage (e.g. 5%).

Candidates should appreciate and be able to define and explain a range of types and causes of unemployment, including:

- cyclical/demand-deficient
- structural
- classical/real-wage
- frictional
- seasonal

Candidates should understand the concept of labour market equilibrium and should be able to distinguish between voluntary and involuntary unemployment. They should also understand the factors which can effect this equilibrium position such as the impact of trade unions and a national minimum wage. **As an extension**, an understanding of the concept of the non-acceleration inflationary rate of unemployment (NAIRU) may be useful and is likely to clarify the concepts of voluntary and involuntary unemployment.

Candidates should have a reasonable knowledge of trends in employment and unemployment in the UK over the last ten years, along with reasons for changes in these trends. It may be useful to consider this in the context of unemployment before then (e.g. recessions in the early 1990s, 1980s and even the 1930s) and in comparison with other countries, but explicit knowledge will not be expected. **As an extension**, candidates could consider the effects of both off-shoring and recent inward migration on the UK labour market.

They could also consider behavioural concepts such as hysteresis to explain persistently higher levels of unemployment in some economies.

The consequences of unemployment should be considered for economic agents and for society as a whole. Candidates should also appreciate possible advantages of high unemployment for certain agents.

Resources

A30

Hysteresis – A p.515, B p.537, L p.580

Measurement of unemployment – L p.569

www.esds.ac.uk/government/lfs/ – Labour Force Survey at ESDS

NAIRU – L p.578

Offshoring and Migration – B p.532, L p.583

(d) Inflation and Deflation

Candidates should understand the meaning of inflation and deflation and methods of measurement, specifically the Consumer Price Index (CPI). Understanding of the RPI and RPIX is not specifically required but is likely to be useful when considering government policy and data e.g. the use of RPI in determining benefit levels. The concept of index numbers should be understood and candidates should know how they are calculated in this context. Candidates should have an understanding of the ‘basket of goods’ approach used in the UK, and how this ‘basket’ changes over time.

The causes of inflation and deflation should be understood, primarily:

- demand-pull
- cost-push

Candidates should understand the link between inflation and economic growth and the particular roles played by expectations and wage demands in creating inflationary pressure.

Candidates should be able to distinguish between an increase in prices and an increase in inflation (which is the increase in the *rate* of price change). Likewise, they should be clear that a reduction in inflation does not imply that prices are falling but that they are rising at a slower rate. Emphasis should also be placed on the concept of the ‘price level’ and it should be clear that a rise/fall in the price of one good is not necessarily indicative of inflation/deflation.

The causes of inflation should be understood, including:

- menu costs
- search (shoe leather) costs
- uncertainty and lack of investment
- psychological effects on consumers – inflation illusion
- redistribution effects
- fiscal drag
- balance of payments effects

The magnitude and desirability of these effects should be considered and candidates should be aware that the extent to which inflation is perceived to be harmful is largely dependent on cause, magnitude, stability and the degree to which it has been anticipated.

Candidates should appreciate that both deflation and hyperinflation are unlikely in a UK context and, whilst they should understand their causes and consequences, they should not let these phenomena dominate their answers. **As an extension**, candidates could consider the effects of hyperinflation, recent examples, such as Zimbabwe, are preferred as they will contribute to understanding the problems faced by developing countries covered in International Economics (e).

Resources

A31, B26

www.esds.ac.uk/government/efs/ – Expenditure and Food Survey at the ESDS

Hyperinflation – S p.430, L p.552

(e) Distribution of Income

Candidates should understand the distinction between income and wealth. They should understand the sources of income and wealth available to households and the causes of inequality in both. They should appreciate the links with economic growth and employment. They should understand the measurement of income inequality using Lorenz curves and Gini coefficients. They should also be familiar with both current levels and inequality in the UK and recent trends. Candidates should understand the concept of poverty and be aware of the distinction between relative and absolute poverty. This is potentially an emotive issue and may be a useful vehicle for examining the concepts of positive and normative economics in some depth. Candidates should understand the causes and effects of poverty. They should also understand the distinction between equality and equity. **As an extension**, candidates could study comparative Gini data and consider how the UK compares to other economies.

Resources

A64, S10.1, L p.302

www.poverty.org.uk/09/index.shtml – UK poverty data over time

www.ifs.org.uk/wheredoyoufitin/ – quick exercise to show where your household is on the UK income distribution

en.wikipedia.org/wiki/List_of_countries_by_income_equality – inequality data on Wikipedia

Wilkinson, W., and Pickett, K. *The Spirit Level, Why Equality is Better for Everyone*. Penguin, 2010

(f) Current Account of Balance of Payments

Whilst candidates will not be examined on the balance of payments as a whole it will be useful to understand the concept of the balance of payments, its three component parts and the role of the current account within this structure. The component parts of the current account should be understood and candidates should understand the meaning of surplus, deficit and balance on the current account. They should understand the potential causes of a change in the balance and the consequences of such a change. They should appreciate the links with economic growth, inflation, exchange rates and competitiveness.

Candidates should be familiar with the present situation regarding the current account as well as recent trends. Familiarity with the current account position of other economies is not required but will help to put the UK position in context. They should understand the impact of deficit and surplus and appreciate the significance of cause, magnitude and longevity when evaluating that impact.

Resources

A32, S p.711

(g) Productivity and International Competitiveness

Candidates should understand the concepts of factor productivity and labour productivity. They should understand the impact of these factors on international competitiveness, particularly with regard to unit labour costs. They should understand the implications of falling or rising competitiveness in the context of recent UK experience. The causes of increasing or decreasing productivity should be explored with particular regard to the influence of investment, technology and the quality and flexibility of labour. This topic may be covered in more detail in The National Economy (i).

Candidates should understand that relative, rather than absolute, performance is important here and therefore comparisons should be made with the performance of other economies. They should also be able to link this understanding with economic growth, unemployment, and the current account. Links may also be made with specialisation, comparative and absolute advantage.

Resources

A p.559, L p.418 and 605, S p.646

(h) Macroeconomic TheoryThe circular flow of income

Candidates should understand the circular flow, the concepts of national output, expenditure and income. They should understand the action of injections and withdrawals in this model and the implications of opening the economy to trade. Understanding of the circular flow can lead directly to an appreciation of the components of aggregate demand (AD).

Resources

S14.2, A p.135

Aggregate Demand (AD)

Candidates should be familiar with the formula for Aggregate Demand:

$$AD = C + I + G + (X - M)$$

They should be familiar with the nature and determinants of:

- Consumption (and saving) – the role of expectations, rate of interest and availability of credit. They should understand the calculation of the Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS). **As an extension**, it will also be beneficial to look at the Average Propensity to Consume (APC) and Average Propensity to Save (APS) and make international comparisons. Candidates could also look at the size of the MPC over time and the effects of economic growth on both consumption and saving. This could also lead to a discussion of the pensions crisis and/or the credit crunch. Also, **as an extension**, candidates could explore further the role of expectations in determining planned consumption and evaluate models such as the life cycle and/or permanent income hypothesis.

- Investment – it is important that students understand the precise meaning of investment (addition to the capital stock) to avoid confusion with the colloquial use of the word ‘investment’ which usually refers to saving. Candidates should understand the role of profitability and interest rates in determining planned investment and the factors that can cause changes in these plans, such as expectations, technology and government policy. **As an extension**, candidates could explore the accelerator theory and its limitations.
- Government expenditure – the role of the budget in planned expenditure and factors that can influence this plan, including rates of economic growth, external and political factors. Candidates should also briefly consider the source of government revenue and, through this understanding, whether an increase in G is likely to lead to an increase in overall AD. **As an extension**, candidates could compare UK government spending over time and with other economies and discuss the reasons for changes and differences.
- Net exports – candidates should appreciate that this refers to X-M and the factors influencing X and M should be understood, including economic growth (in the UK and globally), inflation, interest rates, exchange rates, competitiveness and qualitative factors. Much of this content may have been covered in The National Economy (f).

Candidates should be able to represent AD diagrammatically, understand why it is downward sloping and appreciate that the curve will shift as a result of an exogenous change in any of the determinants.

Candidates should understand the multiplier effect and be able to calculate a simple multiplier. They should understand the limitations of the theory, including predictability, time lags and crowding out. Knowledge of the 45° line approach is not required but may be useful in explaining this concept visually. **As an extension**, the concept of a balanced budget multiplier could be explored.

Resources

A21–24

Savings and Investment Gaps – L p.379

Balanced Budget Multiplier – B p.416

Crowding Out, etc. – S p.461, 569 and ch.19.2

Teaching and Learning

RS – causes of the pensions crisis and international comparisons

RS – international comparisons of total government spending

QS – calculating the accelerator

QS – calculating the multiplier

Aggregate supply

Candidates should understand the concept of aggregate supply and be able to differentiate between the short run and long run. They should understand why the short run AS curve is upward sloping and the factors that can cause it to shift. They should understand the concept of supply-side shocks and their effect on the curve.

The concept of full capacity should be understood (possibly by linking back to the PPC) and thus the vertical long run AS curve can be determined. Candidates should also understand the concepts of the trend rate of growth and output gaps when considering the shape of the curve. Candidates should understand the factors that can cause the curve to shift, including an increase in the productivity of factors of production and the application of technology.

Knowledge of the Keynesian Long Run Aggregate Supply (LRAS) is **not** required although it may be useful to understand it later when evaluating the impact of government policy.

Resources

A25

Teaching and Learning

ES – discussion of merits of Classical versus Keynesian LRAS and the existence of long-run disequilibrium

The interaction of aggregate demand and supply

Candidates should be able to use the interaction of AD and AS to explore the short-run impact of changes in their respective factors. Conflicts between objectives should quickly become apparent, for example between lower inflation and lower unemployment. Candidates should be able to use the diagram to demonstrate the effect of changes in AS and AD on output and prices. It is important at this stage to reinforce the difference in labelling, and reasoning behind these differences, between this diagram of the macroeconomic equilibrium and a microeconomic demand and supply diagram.

Candidates should understand the effect of changes in the components of AD on the rate of economic growth in the short run. However, they should also appreciate that supply-side changes are likely to determine the underlying trend rate of economic growth. They should understand the implications of the vertical LRAS and appreciate the ineffectiveness of shifts in AD on economic growth in the long run. Once again, the Keynesian model is not required but knowledge of this alternative theory may prove useful in evaluation.

Resources

A26

Teaching and Learning

ES – discussion of the effectiveness of demand-side stimulus

(i) Government PolicyObjectives of macroeconomic policies

Candidates should revisit the economic indicators covered in The National Economy (a) to (i) and consider what the objectives of government policy should be.

Resources

A19

Teaching and Learning

RS – research, compare and contrast the economic policies of the major political parties

Types of policies

Fiscal policy: candidates should be familiar with the range of taxes in the UK, their purpose and the extent to which they can be regarded as effective, efficient and equitable. They should understand the motivations for government spending and the distribution of current government spending. They should be aware of the current budgetary position in the UK including the size of the tax burden, the level of public expenditure and the size of the current budgetary surplus or deficit. Focus in this part of the course should be on the macroeconomic effects of taxation and spending, although taxes and expenditure operating on a microeconomic level must also be considered.

Resources

A77–78

budget.treasury.gov.uk/ – HM Treasury Budget micro site

www.bized.co.uk/virtual/economy/index.htm – virtual economy simulation (good but dated)

Monetary policy: candidates should understand the functions and forms of money and how these have changed due to technological developments. They should understand the concepts of money demand and supply and the factors influencing these variables. They should understand the concepts of narrow and broad money, although specific measurements of the money supply (M0, M1, for example) are not required. They should understand the Quantity Theory of Money and the monetary transmission mechanism as well as the criticisms of this theory. Candidates should also understand the concept of liquidity and the relationship between the money supply and the monetary base using the money multiplier. Candidates should know what interest rates are and how they influence the money supply. They should understand the link between interest rates and inflation and appreciate the importance of monetary policy in recent UK history. Emphasis should be placed on the role and remit of the Monetary Policy Committee (MPC) and candidates should be aware of the link between interest rates and exchange rates. The recent use by the Bank of England of quantitative easing (QE) should be analysed and evaluated as a policy.

Resources

A82–85

Money multiplier – B p.439

www.bankofengland.co.uk/publications/minutes/mpc/index.htm – minutes of the MPC

Teaching and Learning

QS – money multiplier calculations

RS and PS – enter the Target 2.0 competition or run an in-house competition

ES – recent decisions of the MPC

Supply-side policies: candidates should be able to distinguish between demand-side and supply-side approaches. They may benefit from revising the relevant content of section 2h and reinforcing the link between the supply-side and the trend rate of growth. The importance of the labour market should be stressed and the flexibility and productivity of the UK labour market may be compared with other economies. Other factor markets should also be considered and candidates should be aware that supply-side policies can operate at the micro and macro levels. Specific issues to consider should include marginal tax rates (on both income and profit), wage determination (including the minimum wage and trade union power) employment protection, labour mobility, migration, and brief coverage of deregulation and privatisation.

Resources

A81

Candidates should understand the nature and scope of these policies, be able to discuss their relative merits and effectiveness in both the short run and the long run. Recent developments in the use of these policies in the UK in recent years should be known, including the work of the Monetary Policy Committee of the Bank of England and the Code for Fiscal Stability. Candidates should appreciate the advantages and disadvantages of policy 'rules' (such as the golden rule and sustainable investment rule) versus active, or discretionary, intervention. Candidates should be aware of the limits to government control of the economy and investigate examples of significant external influences on the economy such as commodity prices (especially oil), the state of the global economy, global financial markets, the EU, WTO, MNCs, international agreements such as Kyoto and the governments of major trading partners.

Resources

A86

Teaching and Learning

RS and ES – research the impact of external factors on a recent government policy decision and evaluate the extent to which the UK government enjoys policy sovereignty

Conflicts between objectives

Candidates should be aware of a range of policy conflicts or trade-offs and AD/AS analysis is likely to be useful in exploring some of these conflicts. Candidates should understand the rationale behind choosing one objective over another in recent UK economic history. The remit of the MPC may be further explored in this context and the trade-offs resulting from its focus solely on inflation discussed. The effects of economic growth on inequality, for example, would also be a useful basis for discussion. Understanding of the 'Phillips Curve' in the short run and long run is required and its limitations and modifications discussed, including the expectations-augmented Phillips curve hypothesis.

Resources

A79, B26.4

3 International Economics

(a) The Theory of Free Trade

Candidates should understand the concepts of absolute and comparative advantage and be able to illustrate them numerically. They should understand the terms of trade and be able to derive them from numerical examples. This derivation, whilst potentially challenging for some, is likely to aid understanding of a rather abstract concept for some non-mathematicians. Candidates should also be able to interpret straight-line production possibility curves for different economies and relate them to the models. They should be familiar with criticisms of the concepts and consider the effects of relaxing the assumptions of the model, including homogeneity, lack of transport costs and the absence of trade barriers.

Resources

A88

Teaching and Learning

QS – illustration of the concepts of comparative advantage and terms of trade

RS – research UK trade flows and consider the extent to which comparative advantage accounts for these flows

(b) The Pattern of Trade

Candidates should understand the general pattern of trade between the UK and its major trading partners. They should understand the historical reasons for the patterns as well as being able to describe recent changes in general terms and be able to explain the factors which have led to these changes. Whilst knowledge of only the previous 10 years is required, it may help candidates to understand a longer-term perspective, including structural change in the UK economy and the emergence of the NIC (Newly Industrialising Countries) and BRIC (Brazil, Russia, India, China) economies. They should also be briefly introduced to the EU and its effect on trade patterns as well as the effects of enlargement. Knowledge of the existence of other trading blocs is advisable but no specific knowledge is required.

Resources

A p.609, B33.1, S p.672

www.uktradeinfo.com/index.cfm?task=tradedata – UK trade data

Teaching and Learning

RS – research the patterns of UK trade ten years ago and today, discussing the cause and significance of the changes

(c) Protectionism

Candidates should be familiar with the benefits of trade and arguments for free trade as well as the costs of trade and the motives for protection. Candidates should understand the use of tariffs and quotas, including diagrammatic explanations, and their impact on consumers and producers. Other methods of protection, including subsidy, voluntary export controls and standards, and the limitations of these policies, should also be understood.

The concepts of trade creation and trade diversion can both occur when a country joins a customs union and the impact of this on existing and new members, and on other groups such as farmers in the developing world, should be appreciated.

Resources

A89, S24.2, B33.5–33.7, L p.617

(d) The Current Account and Exchange Rates

Candidates will have already covered the current account in The National Economy (f). A link between the balance on the current account and the content of International Economics (a) may be usefully made. Revision of this content will be useful followed by coverage of policies to deal with a sustained deficit or surplus, although emphasis is likely to be on a deficit in a UK context.

Candidates should understand the concepts of free and floating exchange rates and be able to illustrate these diagrammatically. Detailed knowledge of the range of intermediate regimes is not required although **as an extension**, candidates could look at the UK experience in the ERM as this will help to understand the scale of speculative flows and is an effective illustration of the issue of policy sovereignty from The National Economy (i).

Candidates should understand the range of policy options open to government in both fixed and floating regimes in order to address a sustained deficit. Devaluation, as response to a current account deficit, should be understood and the likely success of such a policy should be considered in the light of the Marshall-Lerner condition and J-curve effects. Candidates should understand that devaluation is an unlikely response in the UK context and consider other responses, including protectionism, deflation, the use of monetary policy and supply-side policies. They should also understand the mechanisms by which floating exchange rates automatically correct a balance of payments deficit or surplus. Candidates need to be aware of the differences between devaluation and depreciation. Candidates should be able to identify which of these are expenditure switching (substitution effect) and which are expenditure changing (income effect).

A profitable link may be made with the coverage of game theory in Microeconomics (c) and candidates could discuss the likely response of trading partners to attempts by the UK government to improve the current account balance.

Resources

A90–94, B34, S25

en.wikipedia.org/wiki/J_Curve – Wikipedia article on J Curves

(e) Development Economics and Globalisation

This unit should draw on concepts learned earlier in the course and apply them in a development context, notably from Microeconomics (a) and The National Economy (a). Candidates will be familiar with GDP and HDI measurements but they should also be aware of the HPI and be able to use these measures to illustrate the difference between economic growth and economic development. Production possibility curves and opportunity cost can also be used to explain the concept of economic growth in this context and the sacrifices developing countries have to make in order to achieve it.

Candidates should appreciate the differences between MEDCs (More Economically Developed Countries), LEDCs (Less Economically Developed Countries) and NICs (Newly Industrialising Countries) and the key characteristics of each group. Characteristics considered could include living standards (including the component parts of the HDI), economic structure, trade patterns, rates of growth and the role of government.

Candidates should use their understanding of earlier parts of the specification here, including factor endowment, comparative advantage and government failure, to explain why some countries are more developed than others. Some concepts specific to this context will help to explain the problems faced by developing countries by building on previous understanding. These concepts could include primary export dependency, declining terms of trade, debt, economic volatility, population growth, low human capital, corruption, a lack of legal and social infrastructure, and the lack of policy sovereignty.

No formal knowledge of models of development is required, but candidates should understand in broad terms some of the factors which can promote development. No specific content is required here but issues covered could include industrialisation, trade liberalisation, tourism and aid. Candidates could also consider the extent to which the solutions for developing countries are likely to be government or market led and the extent to which they depend upon internal or external factors.

Sustainability has been covered in The National Economy (b) and should be applied in a development context. Candidates should appreciate the different degrees of sustainability and may critically consider the extent to which environmental definitions of sustainability are likely to be a priority for developing economies.

The economic consequences of an increasingly globalised economy should be considered, including the costs, benefits and challenges faced by MEDCs, NICs and LEDCs. Themes should include the role of MNCs and FDI, the opportunities and threats presented by global trade and the international migration of labour. Candidates should understand the role of the World Trade Organisation (WTO) and be able to critically examine the arguments for and against WTO influence on the global economy. Understanding of trading blocs will help in this context and **as an extension**, candidates could critically assess the role of the IMF and World Bank in the global economy.

As an extension candidates could consider a range of development theories, from the traditional Rostow, Lewis and Harrod-Domar models through to the more recent application of property rights, informational asymmetry (lemon theory) and criticisms of conventional 'Western' approaches by economists in the developing world such as Róbinson Rojas.

Resources

Cramp, Peter	<i>Economic Development</i> , 4 th edition. Anforme, 2006
Dicken, Peter	<i>Global Shift</i> , 5 th edition. Sage, 2007
Friedman, Thomas L.	<i>The World is Flat</i> . Penguin, 2006
Smith, Charles	<i>International Trade and Globalisation</i> , 3rd edition. Anforme, 2007
Todaro, Michael	<i>Economic Development</i> , 10 th edition. Addison Wesley, 2008

www.cia.gov/library/publications/the-world-factbook/index.html – CIA World Factbook
en.wikipedia.org/wiki/Sustainable_development – Wikipedia article on sustainable development
en.wikipedia.org/wiki/Hernando_de_Soto_Polar – Hernando de Soto and property rights
en.wikipedia.org/wiki/Lemon_theory – George Akerlof and lemon theory
www.rojasdatabank.info – Róbinson Rojas archive on development economics

Teaching and Learning

RS – produce a country profile, outlining the characteristics of one developing economy and the development issues it faces

RS and PS – students research a different development theory in pairs and report back to the group

(f) The European Union

The EU-specific content outlined in the syllabus must be broadly understood but this section of the course should be used as an opportunity to reinforce understanding and apply previously learned concepts rather than to deliver a large volume of context-specific material. The following guidance is merely illustrative and not prescriptive. Key areas of relevant syllabus content include International Economics (a), (b), (c) and (d), although many other parts of the specification could be usefully applied.

Knowledge of the structure of the EU and its history is not required, although a brief crash course may help candidates to understand the context a little more clearly. Candidates should appreciate the benefits and costs to the UK of EU membership, perhaps with reference to trade diversion and trade creation, and the welfare implications of protectionism in both the short run and long run. This can also link with International Economics (e) and the effect of protectionism on LDCs (Least Developed Countries) can be considered.

The Common Agricultural Policy (CAP) can be analysed in the context of protectionism, although the microeconomic issues could also be explored, particularly the use of subsidy to increase production and the application of buffer stocks and cobweb theory. Monetary union can be analysed by looking at the problems of volatile exchange rates and their effect on uncertainty and, **as an extension**, the concept of arbitrage could be introduced. Understanding of monetary and fiscal policy, as well as policy sovereignty, could inform a critique of the single currency and the EU budget. The benefits of both the single currency and enlargement could be analysed by considering efficiency issues and concepts of allocative, productive (through scale economies) and dynamic efficiency could be usefully illustrated.

Resources

Romer, Stephen	<i>Understanding the European Union</i> , 4 th edition. Anforme, 2005
----------------	--

Investigation (Paper 3)

1 Planning an Approach to the Investigation

Introduction

The purpose of the investigation paper is primarily to encourage students to learn in a way that prepares them for university study. After selection of a topic and some initial guidance on the relevant key themes, they will be expected to conduct independent reading and research to deepen their understanding of the issue and to enable them to support points made in the examination with relevant data. It is envisaged that teachers will monitor and guide learning by reviewing their progress through student-led presentations and seminars. Thus, students will be encouraged to take ownership and responsibility for their learning but with specialist support to hand. Teaching and learning should be independent but collaborative on a topic which is open ended but focused.

Structure

It is envisaged that there will be four stages to the Investigation process:

1. Introductory phase – topic choice, initial reading and teacher-led exploration of key economic themes and issues
2. Reading and research phase – probably supported with a reading list
3. Monitoring and discussion phase – probably delivered through presentations and seminars
4. Examination preparation phase – in order to ensure that students maximise the benefit from their research in the examination

Topic Choice

The paper will contain one essay title on each of four current issues in economics, namely:

- Transport and the Environment
- China and the Global Economy
- The Millennium Development Goals
- Economics thinkers and their relevance today (Adam Smith, Karl Marx and John Maynard Keynes)

Students will only need to study one topic area, and they are unlikely to have the time to study more than one topic in sufficient detail. However, teachers may offer students the choice of topic or may study one topic at a lower level in the first year of the course in order to introduce the style of delivery and learning to the students. The way in which this is done will depend upon the ordering of the syllabus material. For example, if the syllabus contains a large quantity of microeconomics in the first year, including extensive coverage of market failure, then a short investigation into the Transport topic may be appropriate. In the second year this topic could be extended or, alternatively, students could embark upon a more detailed investigation into either the China or Millennium Development Goals topic, which have a greater macroeconomic focus.

Timing and Delivery

The syllabus specification has no recommended order of delivery and it is envisaged that centres will wish to design their own schemes of work to most effectively deliver the material. Centres are recommended to allow approximately 30 guided learning hours for the Investigation. However, it is perfectly possible to allow more time if the Investigation topic is used as a vehicle to apply concepts dealt with elsewhere in the specification. It is also reasonable to use the Investigation topic as the subject of summer holiday reading between the first and second year of study. Preparation for mock examinations is excluded from this total.

No specific breakdown of the time allocation is recommended and centres are encouraged to deliver this component in the way that they feel is most appropriate. However, it is likely that the initial introductory phase and the final examination preparation phase will take the form of short but intensive periods of teacher input, whereas the research and discussion phases will be longer, possibly a term or more, and run alongside the teaching of the specification. It is also likely that timing and delivery will be affected by the extent to which Centres are running Pre-U courses alongside courses with modular examinations.

Two examples of possible delivery schedules are given below. Example A is more appropriate for Centres where students are studying mainly or exclusively Pre-U courses. Example B is more appropriate for Centres in which students are studying a mixture of Pre-U and other courses. These Centres are likely to have slightly less teaching time, particularly in the summer term of Year 1.

Example A

<p>Year 1</p> <p>Second half of spring term</p> <ul style="list-style-type: none"> Initial background reading Introduction to topic area and research techniques <p>First half of summer term</p> <ul style="list-style-type: none"> Research phase <p>Second half of summer term</p> <ul style="list-style-type: none"> Discussion phase and exam technique 1st mock examination 	<p>Homework time</p> <p>Lesson time</p> <p>Homework time</p> <p>Lesson time</p>	<p>2 hours</p> <p>4 hours</p> <p>10 hours</p> <p>5 hours</p>
<p>Year 2</p> <p>Summer holiday</p> <ul style="list-style-type: none"> Initial background reading on new topic area <p>First half of autumn term</p> <ul style="list-style-type: none"> Introduction to new topic area <p>Remainder of autumn term and first half of spring term</p> <ul style="list-style-type: none"> Research phase <p>Second half of spring term</p> <ul style="list-style-type: none"> Discussion phase and exam technique 2nd mock examination 	<p>Homework time</p> <p>Lesson time</p> <p>Homework time</p> <p>Lesson time</p>	<p>2 hours</p> <p>4 hours</p> <p>10 hours</p> <p>5 hours</p>
Total		42 hours

Example B

Year 1 Second half of summer term <ul style="list-style-type: none"> • Initial background reading • Introduction to topic area and research techniques 	Homework time Lesson time	2 hours 4 hours
Year 2 Summer holiday and autumn term <ul style="list-style-type: none"> • Research phase First half of spring term <ul style="list-style-type: none"> • Discussion phase and exam technique • Mock examination 	Homework time Lesson time	12 hours 12 hours
Total		30 hours

In both examples the split between lesson time and homework time is approximately 50:50. However, students aiming for the highest grades may wish to use more of their own time to read more widely around the subject and increase the depth of their knowledge. It is also worth noting that homework tasks should ideally precede classwork activities in order to reinforce the principle of independent learning.

2 Delivery of the Investigation

Introductory Phase

In this phase it is recommended that students are given some preparatory material to read, followed by a modest teacher-led introduction to the context of the topic. However, rather than a large amount of descriptive material the emphasis in lesson time should be on an initial application of some economic concepts and an introduction to the key economic issues and controversies. Teachers will also wish to issue students with a guide to appropriate research materials and the techniques required to get the most from these sources. Suitable introductory materials and relevant syllabus content are listed for each topic area in the following section of this teacher guide.

Research Phase

Students should be encouraged to research using a range of sources, from books, journals and websites. A list of suitable sources is included in the following section of this teacher guide. It is unreasonable to expect students to read many books from cover to cover and teachers may wish to give guidance on the most relevant passages or chapters.

Emphasis in the research phase should be on the application of existing conceptual understanding to the topic area. Students should be able to apply any relevant concepts from the specification in context and should aim for comprehensive coverage of all of the key issues identified in the following section of this teacher guide. They are not expected to learn any new theoretical or conceptual material although relevant learning of this type will be credited in the examination.

Many of the sources used will not be exclusively, or even mainly, concerned with economic issues. Students are encouraged to understand the broader context in which economic decisions are made and an awareness of this context will be credited in the examination. However, students should be clear that the focus is on economic concepts and extensive understanding and analysis of political or social perspectives, for example, will not gain any extra credit.

Data should be gathered by students to help them to contextualise the topic, make informed comparisons and to support or contest proposed policies. Students are not expected to memorise large swathes of data but should aim to bring key pieces of data to bear in their answers. It is hoped that this approach will encourage students to adopt a methodology appropriate to the academic study of Economics. It is also hoped that it will lead to a reduction in the use of unsupported and sweeping statements on this and other examination papers.

Teachers may wish to support students during the research phase with one-to-one meetings in order to ensure that they are making suitable progress and collecting suitable data. Teachers may also wish to set up, or encourage students to set up, blogs or discussion forums to facilitate active discussion of their findings.

Discussion Phase

A range of approaches may be used in this phase. Students may be encouraged to lead seminar-style lessons, or parts of lessons. Teachers may wish to actively co-ordinate the research completed by a group in order to ensure wide coverage of material. Thus, the whole group and learn from each other's research. However, it is important in this case to ensure that misinformation is not disseminated. Teacher input in this phase should be focussed on encouraging students to apply relevant economic concepts in context and to support their points diagrammatically and with data.

Exam Technique

Exam technique for this paper should not be dramatically different from any other essay paper. Students should be encouraged to:

- answer the question – the questions set will be relatively broad in order to allow students to apply learning from a wide range of sources. However, this does not mean that they will be able to get away with unfocussed writing. Students will be well rewarded for answering the specific question at hand rather than giving a very general response.
- plan – students should not be under undue time pressure and should spend 5 – 10 minutes constructing a plan at the start. It is better to write a shorter, well-structured answer than a longer one which lacks focus and organisation. Planning should include content, but also consider structure and opportunities to use data and diagrams. Students are encouraged to use the assessment objectives to structure their essay.
- use the assessment objectives – the mark schemes use the assessment objectives for structure and students are encouraged to do the same with their essays. They should consider what concepts they are expected to demonstrate *knowledge* of, and offer any appropriate definitions at the start. They should then clearly *apply* these concepts in context and explain their relevance. Thirdly, they should *analyse* the issues using relevant theories, diagrams and data. Finally they should *evaluate* by offering supported judgements which directly and unequivocally answer the question. Students should avoid summarising or ‘concluding’ by merely drawing the arguments together or stating an unsupported opinion. They should seek to explain which are the most compelling arguments and why. They may wish to use data and economic theory to support their decisions.
- watch the time (and the mark allocation) – students should avoid the temptation to tell the examiner everything they know from their extensive researches. They should be selective in their use of descriptive content, economic theory and data. They should not be under time pressure but they will need to manage their time wisely. Eighteen of the forty marks available are for evaluation. Therefore, students should ensure that they devote an appropriate amount of time to this aspect of their essay. A single brief summary paragraph will not gain a great deal of credit.

It is particularly important that students have the opportunity to sit full-length trial exams for this paper as they will probably not have much, if any, experience of writing a single essay of this length under timed conditions.

3 Investigation Topics

The topics have been chosen in order to offer a 'current' issue for students to analyse. These issues are unlikely to be the immediately pressing economic issues in the week of the examination but they are likely to develop over time and remain reasonably current for the next few years. Therefore students are encouraged to combine research from books, which are likely to be in-depth but may be somewhat out-of-date, with research from news and online sources which are likely to reflect recent developments.

Specific resources for each topic area are listed below. However, the general resources listed at the end of this teacher guide will be useful for all of the topic areas.

Transport and the Environment

Introduction

Transport is a pressing issue in the UK due to increased congestion across most, if not all, modes and increasing environmental concerns about the sustainability of current transport demand. Congestion is nothing new, but the widespread experience of it is and it should be a topic that all students can relate to.

The range of specialist resources, in the form of dedicated textbooks and journal articles, is reasonably narrow. However, there is a large amount of general material available which relates to specific issues such as road pricing and major infrastructure projects.

The topic area is intended to cover major issues in transport economics with a specific focus on environmental issues. Therefore, students should not focus exclusively on the environment but should have good background knowledge of the UK transport context. Students are expected to apply economic theory to UK practice and policy, and the question may specify that they do so. However, practice and policy from elsewhere in the world is relevant and students are encouraged to make comparisons where appropriate.

Specification coverage

This topic is likely to involve primarily microeconomic concepts, notably:

- the market mechanism, including the relevance in transport markets of;
 - elasticities
 - market structures
 - productive, allocative and dynamic efficiency
- causes of transport market failure, including;
 - positive and negative externalities in consumption and production
 - quasi-public goods
- government intervention in transport markets, including;
 - the rationale for intervention
 - cost-benefit analysis
 - government failure

Some macroeconomic concepts may also be relevant, notably;

- economic growth
- productivity and international competitiveness

This is merely an indicative list and should not be treated as exhaustive.

Resources

Books

- Bamford, C. *Transport Economics*, 4th edition. Heinemann, 2006 – a good introduction to the key issues
- Button, K. *Transport Economics*, 3rd edition. Edward Elgar, 2010 – comprehensive and up-to-date coverage of key issues
- Cole, S. *Applied Transport Economics*, 3rd edition. Kogan Page, 2005 – technical and advanced text with some relevant content particularly in the sections on economic appraisal techniques
- Docherty, I., & Shaw, J. *Traffic Jam*. The Policy Press, 2008 – series of articles on sustainability with good supporting data
- Docherty, I., & Shaw, J. *A New Deal for Transport*. Blackwell, 2003 – UK case studies focussed on sustainability
- Glaister, S., et al. *Transport Policy in Britain*. Palgrave Macmillan, 2006 – partly historical but some good content on practical policy implementation
- Glaister, S., & Graham, D. *Pricing Our Roads: Vision and Reality*. IEA, 2004 – a detailed analysis of the likely problems and ultimate effectiveness of road pricing
- Mallard, G., & Glaister, S. *Transport Economics*. Palgrave Macmillan, 2008 – thorough and recent coverage of all of the key issues
- Quinet E., & Vickerman R. *Principles of Transport Economics*. Edward Elgar, 2004 – technical analysis, but good section on costs in Chapter 5
- Sloman, L. *Car Sick: Solutions for our Car-addicted Culture*. Green Books, (2006) – aimed at the general reader and focussed on small scale, consumer-driven solutions
- Sperling, D., & Gordon, G. *Two Billion Cars*. Oxford University Press, 2009 – a slightly polemical discourse of solutions to the US car culture – focuses largely on technical solutions

Wider reading:

- Dresner, S. *The Principles of Sustainability*. Earthscan, 2002
- Edwards, A. *The Sustainability Revolution*. New Society Publishers, 2005
- Girardet, H. *Creating Sustainable Cities*. Green Books, 1999
- Hibbs, J et al. *The Railways, the Market and the Government*. IEA, 2006
- Murray, A. *Off the Rails*. Verso, 2001
- Wolmar, C. *Down the Tube: The Battle for London's Underground*. Aurum, 2002
- Wolmar, C. *On the Wrong Line: How Ideology and Incompetence Wrecked Britain's Railways*. Aurum, 2005

Journal articles

- 'Should road building depend solely on forecasts of future road traffic demand?', *Economics Today*, Sep 2008
- 'Taxing flights', *Economic Review*, Sep 2008
- 'Food miles and the environment', *Economic Review*, Nov 2007
- 'The economic impact of transport infrastructure investments', *Economic Review*, Apr 2007
- 'Should governments be concerned about greenhouse gas emissions?', *Economics Today*, Sep 2006
- 'Air travel and externalities', *Economic Review*, Sep 2006
- 'Valuing the environment', *Economic Review*, Sep 2004
- 'Congestion charging: on the right road?', *Economic Review*, Nov 2003
- 'Roads and Traffic – Data Response', *Economic Review*, Nov 2003

Web links

- www.dft.gov.uk/ – Department for Transport
- webarchive.nationalarchives.gov.uk/+http://www.dft.gov.uk/about/strategy/transportstrategy/eddingtonstudy/ – Eddington Study on UK transport 2006
- www.cfit.gov.uk/index.htm – Commission for Integrated Transport
- en.wikipedia.org/wiki/Transport_economics – brief introduction to the topic and some useful links
- en.wikipedia.org/wiki/Road_pricing – ditto, but specifically about road pricing
- www.transportenvironment.org/index.php – European Federation for Transport and Environment – campaigning for sustainable transport at the EU level – some good analytical articles and data
- www.ce.nl/eng/redirect/thema_transport_index.html – Dutch research organisation with some interesting case studies
- www.foe.co.uk/index.html – Friends of the Earth
- www.guardian.co.uk/environment/travel-and-transport – section of the Guardian website devoted to transport specific environmental issues
- www.notolls.org.uk/roadpricing.htm and <http://www.safespeed.org.uk/roadpricing.html> – anti-road pricing sites, generally pretty coherent
- www.racfoundation.org/index.php?option=com_content&task=section&id=8&Itemid=31 – RAC Foundation research findings, not surprisingly pro-car
- www.vtpi.org/tdm/tdm12.htm – Transport Demand Management Encyclopaedia – Canadian site with an extensive range of articles generally containing good analysis and relevant economic concepts

China and the Global Economy

Introduction

The economy of the People's Republic of China is the second or third largest in the world (depending upon the measurement used), yet 130th in the world measured by GDP/capita. China has been the fastest-growing major nation for the past quarter of a century with an average annual GDP growth rate above 10%. China's per capita income has grown at an average annual rate of more than 8% over the last three decades drastically reducing poverty, but this rapid growth has been accompanied by rising income inequalities. China's ongoing economic transformation has had a profound impact not only on China but on the world. The trade deficits of most developed countries with China have increased dramatically whilst other transition economies have struggled to compete. The effect of this growth rate on commodity prices in recent years has been marked and the environmental impact has become a significant and controversial global issue.

This is topic which students are likely to have some awareness of and interest in already. The range of printed resources is easily the largest of the four topic areas, although much of it is primarily from a political, social or geographical perspective. These resources are useful but should be treated with care and students should be careful to restrict themselves primarily to economic analysis.

Students are expected to develop a good understanding of the specifically Chinese economic context and be able to apply this understanding to key economic issues on a global scale.

Specification coverage

This topic is likely to involve primarily macroeconomic concepts, notably:

- standards of living
- economic growth
- employment and unemployment
- inflation and deflation
- distribution of income
- productivity and international competitiveness
- macroeconomic theory
- the theory of free trade
- the pattern of trade
- protectionism
- the current account and exchange rates
- development economics and globalisation

Some microeconomic concepts may also be relevant, notably;

- concepts of efficiency
- causes of market failure
- government intervention in markets

This is merely an indicative list and should not be treated as exhaustive.

Resources

Books

- Bergsten, C et al. *China: The Balance Sheet*. Public Affairs, 2006 – US perspective and political agenda but useful chapters on the domestic economy and role in the world economy
- Engardio, P. *Chindia: How China and India are Revolutionising Global Business*. McGraw Hill, 2007 – analysis of the implications for business and the changes to global business culture
- Hemelryk-Donald, S., & Benewick, R. *The State of China Atlas*. University of California Press, 2005 – excellent data, but getting a little out of date
- Hoffman, J., & Enright, M. *China into the Future: Making Sense of the World's Most Dynamic Economy*. Wiley, 2008 – advanced analysis, good sections on globalisation and the future prospects for the economy
- Huang, Y. *Capitalism with Chinese Characteristics*. Cambridge University Press, 2008) – detailed analysis of the tension between enterprise and state control
- Hutton, W. *The Writing on the Wall: China and the West in the 21st Century*. Abacus, 2008 – good focus on the economic issues and problems that the rise of the Chinese economy threatens
- Lardy, N. *Integrating China into the Global Economy*. Brookings Institution Press, 2002 – detailed analysis of China's entry to the WTO
- Li, M. *The Rise of China and the Demise of the Capitalist World Economy*. Pluto, 2008 – analysis of the impact of China on the 'major contradictions of world capitalism'
- Naughton, B. *The Chinese Economy: Transitions and Growth*. The MIT Press, 2007 – undergraduate-level analysis, useful section on 'China and the World Economy' and some good data
- Prestowitz, C. *Three Billion New Capitalists: the great shift of wealth and power to the east*. Basic Books, 2005 – assessment of the end of the US's global economic dominance
- Smith, D. *The Dragon and The Elephant*. Profile, 2007 – populist, but Chapter 4 is useful
- Winters, L., & Yusuf, S. *Dancing with Giants: China India and the Global Economy*. World Bank/IPS, 2007 – detailed analysis and good data
- Zhibin Gu, G. *China's Global Reach*. Fultus, 2006 – business perspective, but some interesting case studies

Wider reading:

- de Burgh, H. *China, Friend or Foe?*. Icon, 2006
- Dicken, P. *Global Shift: Mapping the Changing Contours of the World Economy*, 5th edition. Sage, 2007
- Emmott, B. *Rivals: How the power struggle between China, India and Japan will shape our next decade*. Allen Lane, 2008
- Fishman, T. *China, Inc.: The Relentless Rise of the Next Great Superpower*. Pocket Books, 2006
- Friedman, T. *The World is Flat*. Penguin, 2006
- Gittings, J. *The Changing Face of China: From Mao to Market*. Oxford University Press, 2006
- Hewitt, D. *Getting Rich First: Life in Changing China*. Vintage, 2008
- Meredith, R. *The Elephant and the Dragon*. Norton, 2008

- Shenkar, O. *The Chinese Century*. Wharton School Publishing, 2006
- Shirk, S. *China, Fragile Superpower*. Oxford University Press, 2008

Journal articles

- 'What impact might China's rapid economic growth have on the environment?', *Economics Today*, Sep 2008
- 'China's comparative advantage', *Economic Review*, Nov 2007
- 'China's economic growth', *Economic Review*, Sep 2007
- 'Globalisation and the environment', *Economic Review*, Feb 2007
- 'US protectionism and China', *Economic Review*, Sep 2006
- 'Has 'globalisation' been a benefit to the UK economy?', *Economics Today*, Jan 2005
- 'Globalisation, environment and the WTO', *Economic Review*, Apr 2004
- 'What is the real China?', *Economics Today*, Mar 2004

Web links

- **en.wikipedia.org/wiki/Economy_of_the_People%27s_Republic_of_China** – a reasonably brief summary of the context and some useful links
- **www.euromonitor.com/Chinese_economy_smaller_than_previously_estimated** – Euromonitor International – a general search for 'China' will bring up a long list of articles, most of which are commercial reports for sale but there are a good number of general articles for free as well
- **eapblog.worldbank.org/category/countries/china** – numerous articles on the World Bank's blog site
- **www.austrade.gov.au/default.aspx?FolderID=1438** – an Australian perspective on trade issues, with many articles relating to China
- **siepr.stanford.edu/publicationsprofile/** – *China, India and the World Economy* by T.N. Srinivasan, Visiting Fellow, Stanford Center for International Development
- **www.brookings.edu/topics/chinas-economy.aspx** – articles from the Brookings Institution, an independent US research institute

The Millennium Development Goals

Introduction

Global inequality and absolute poverty are arguably the greatest and most intractable challenges facing the global economic system. The Millennium Development Goals (MDGs) seek to deal with this challenge against a predetermined time scale. Whilst progress has undoubtedly been made, there remain doubts about the extent to which they will be achieved in full and on time. There have also been criticisms of the goals themselves, their cultural bias and their arguably limited focus on sustainable development versus simple short-term poverty reduction. There are also issues surrounding the accuracy and cost of measurement. Global economic crisis, commodity price volatility and widespread recession in the developed world has not made the task of achieving the goals any easier.

This topic draws heavily on the International Economics section of the specification. It gives students the opportunity to explore the impact of globalisation and the challenges of economic development in a specific context and with clear parameters. There is the opportunity to look in detail at specific economies and become familiar with the obstacles to development in those economies, as well as their successes, rather than treating the entire developing world as a generic economic type. The extent to which free markets offer the best solution to these problems, as opposed to intervention by governments and non-government organisations (NGOs), is likely to be a central theme.

Literature which is specifically focused on the MDGs is limited. However, there is a good range of printed material on development, much of which is directly relevant. There is also a good range of websites containing background information, data and case studies.

Specification coverage

- the basic economic problem
- standards of living
- economic growth
- distribution of income
- the pattern of trade
- protectionism
- the current account and exchange rates
- development economics and globalisation

This is merely an indicative list and should not be treated as exhaustive.

Resources

Books

- Sachs, J. *The End of Poverty – How We Can Make It Happen in Our Lifetime*. Penguin, 2005 – written by the director of the UN Millennium Project, this book has a broader scope but also has several detailed references to the MDGs, the philosophy behind them and the practical problems in achieving them. A little outdated now
- Sachs, J. *Common Wealth – Economics for a Crowded Planet*. Penguin, 2008 – more up-to-date with specific reference to MDGs throughout, but with a broader sweep through the resource challenges facing the planet
- Smith, S. *Ending Global Poverty – A Guide to What Works*. Palgrave Macmillan, 2005 – a very practical, detailed and optimistic account of a wide range of methods designed to address poverty. Some references to the MDGs
- Moyo, D. *Dead Aid – Why Aid Makes Things Worse and How There is Another Way for Africa*. Penguin, 2010 – as the title suggests, an attack on the use of aid and a prescription for self-help. Very readable, with a few specific references to the MDGs
- Easterly, W. *The White Man’s Burden – Why the West’s Efforts to Aid the Rest Have Done so Much Ill and so Little Good*. Oxford University Press, 2006 – a similar approach to Moyo, advocating ‘homegrown development’ rather than aid and assistance from overseas. Some good case studies
- Stiglitz, J. *Making Globalization Work*. Penguin, 2007 – a wide-ranging account of proposed reforms to global financial, trading and political systems to make globalisation work more effectively for developing countries. Some explicit coverage of measures linked to the MDGs in the final chapters
- Collier, P. *The Bottom Billion*. Oxford University Press, 2008 – general coverage of the problems facing the poorest nations and a clear prescription for action in the last chapter, which includes reference to the MDGs
- Cohen, J. & Easterly, W. *What Works in Development – Thinking Big and Thinking Small*. Brookings Institution Press, 2009 – likely to be rather challenging for students, but a very detailed discussion of the success and otherwise of ‘big’ global strategies for poverty reduction and ‘small’ country-level or local measures
- Reinert, E. *How Rich Countries Got Rich...and Why Poor Countries Stay Poor*. Constable, 2007 – includes a chapter criticising the MDGs
- Thurow, R. & Kilman, S. *Enough – Why the World’s Poorest Starve in an Age of Plenty*. Public Affairs, 2009 – detailed case studies on the failings of aid and the faults in the global economic system that allow absolute poverty to persist

Wider reading

- Steger, M. *Globalization – A Very Short Introduction*. Oxford University Press, 2009 – contains a brief chapter on the economic aspects of globalisation, but is more useful for the chapters on other aspects of the process and a brief historical perspective, which students may well lack
- Bhagwati, J. *In Defense of Globalization*. Oxford University Press, 2004 – a theoretical, philosophical and practical defence of globalisation as the most powerful force for development and poverty reduction
- Chang, H. *Bad Samaritans – The Guilty Secrets of Rich Nations and the Threat to Global Prosperity*. Random House, 2007 – an attack on the global economic system and the structural obstacles that it creates for developing economies

- Sen, A. *Development as Freedom*. Oxford University Press, 1999 – a wide-ranging and philosophical account of the case for development and the responsibility of developed nations to drive this process
- Landes, D. *The Wealth and Poverty of Nations*. Abacus, 1998 – an historical analysis of the causal factors behind inequality
- Todaro, M. *Economic Development*, 11th Edition. Pearson, 2011 – an expensive book, but it has a brief section on MDGs and some excellent development case studies
- Black, M. *The No-Nonsense Guide to International Development*. Verso, 2002 – brief summary of key structures and issues
- Seabrook, J. *The No-Nonsense Guide to World Poverty*. Verso, 2003 – brief summary, with some useful case studies, but data rather old
- Chang, H. *Kicking Away the Ladder – Development Strategy in Historical Perspective*. Anthem Press, 2003
- Blustein, P. *Misadventures of the Most Favored Nations – Clashing Egos, Inflated Ambitions and the Great Shambles of the World Trade System*. Public Affairs, 2009
- Lal, D. *The Poverty of 'Development Economics'*. IEA, 1997

Journal articles

- 'Why may official aid programmes prove disappointing in their impact?' *Economics Today*, March 2011
- 'Why are some places rich while others are poor?' *Economic Affairs*, March 2010
- 'To what extent does economic growth guarantee economic development?' *Economics Today*, January 2008
- 'The bottom billion' *Economic Review*, September 2007
- 'African exports and globalisation' *Economic Review*, February 2007
- 'Africa left behind' *Economic Affairs*, December 2006
- 'Educational policies in Colombia' *Economic Review*, April 2006
- 'Aid, development, global governance: new initiatives and rehashed ideas' *Economic Affairs*, September 2005
- 'Poverty, institutions and economics: Hernando de Soto on property rights and economic development' *Economic Affairs*, June 2005
- 'Development profile' *Economic Review*, every issue

Web links

- www.unmillenniumproject.org/index.htm – general introduction and links
- www.undp.org/mdg/ – official United Nations Development Program MDG site
- www.un.org/millenniumgoals/index.shtml – ‘gateway’ to the UN’s work on MDGs
- mdgs.un.org/unsd/mdg/Default.aspx – official MDG indicators
- mdgs.un.org/unsd/mdg/Host.aspx?Content=Products/ProgressReports.htm – progress reports on the achievement of the MDGs
- www.mdgmonitor.org/index.cfm – UNDP site offering maps and factsheets to track progress by goal or by country
- www.worldbank.org/ – World Bank site with individual country profiles, data and video clips
- publications.worldbank.org/index.php?main_page=page&id=7 – index of World Bank online resources
- data.worldbank.org/data-catalog/millennium-development-indicators – databank of MDG indicators
- databank.worldbank.org/ddp/home.do?Step=12&id=4&CNO=1184 – indicators by country
- www.app.collinsindicate.com/mdg/en – World Bank site with basic MDG information and links to data sources
- www.dfid.gov.uk/global-issues/millennium-development-goals/ – the Department of International Development (DfID) page on MDGs – some good links to case studies, including video clips
- www.who.int/topics/millennium_development_goals/en/ – World Health Organization site – limited content on MDGs but a lot of related data and case studies
- www.unicef.org/mdg/ – including some useful video clips
- http://en.wikipedia.org/wiki/Millennium_Development_Goals – generally clear outline of the MDGs and some of the controversy surrounding them
- www.diis.dk/graphics/Publications/PolicyBriefs2010/PB-Recurrent-cost-boom-Millennium-Goals_web.pdf – paper questioning progress beyond 2015
- www.right2info-mdgs.org/case-studies/ – case studies highlighting the importance of information and transparency in the development process
- www.endpoverty2015.org/ – campaigning site, including some useful videos
- www.pbs.org/wnet/wideangle/episodes/time-for-school-series/introduction/4340/ – series of programmes from 2002–2014 visiting schools in seven countries to track development progress

Economics thinkers and their relevance today (Adam Smith, Karl Marx and John Maynard Keynes)

Introduction

The global economic crisis that started in 2008 brought into sharp focus some of the inherent weaknesses in capitalist free market economies. As a result, the underpinning economic principles, commonly attributed to Adam Smith, have been reexamined and questioned. Smith's defenders have leapt to his defence, pointing out that he was never an advocate of unfettered markets, despite his popular reputation. A wider debate about the future of the capitalist global economy has emerged, resulting in a proliferation of new writing, much of it making frequent references to economic thinkers. There have also been frequent references in the mainstream media to Keynes, as well as direct comparisons with the Great Depression, during which Keynes' General Theory was produced. Marxist ideas remain well out of the mainstream, but adherents to Marx's principles will no doubt point to the chaotic nature of capitalism and the inevitability of such crises. The comparative economic success of China, which has adopted a policy of partial and controlled engagement with the capitalist global economy, adds further texture to this discussion.

This topic offers the opportunity to study the writings of three key economic thinkers, to understand their contribution to modern economics, and to consider the relevance of their ideas to current economic issues. Questions will not seek to test knowledge of these original texts and there are no core texts or a compulsory reading list. Candidates should understand the contribution made by these theorists to the specification as well as appreciating the overall theoretical stance they took in their writings. However, the primary focus should be on the relevance of their ideas now.

Coverage in journals is limited and online sources generally lack depth. However, there is a good range of literature on the lives and work of the thinkers as well as their current relevance.

Specification coverage

- the basic economic problem
- the market mechanism
- the labour market
- standards of living
- economic growth and the economic cycle
- employment and unemployment
- distribution of income
- macroeconomic theory
- government policy

This is merely an indicative list and should not be treated as exhaustive.

Resources

Books

General texts

- Skousen, M. *The Big Three in Economics*. M.E. Sharpe, 2007 – chapters on the lives and ideas of each economist, but also chapters which link their ideas within the broader evolution of economic thought. Also, a final chapter explicitly dealing with their relevance today
- Roncaglia, A. *The Wealth of Ideas – A History of Economic Thought*. Cambridge University Press, 2005 – a very detailed history, with two good chapters at the end on the recent development of economic ideas and prospects for the future
- Warsh, D. *Knowledge and the Wealth of Nations – A Story of Economic Discovery*. Norton, 2006 – a readable economic history, but with particular emphasis in the second half on economic ideas of the last few decades, including reference to their origins in, or opposition to, the ideas of the economic thinkers of the past
- Strathern, P. *Dr Strangelove's Game – A Brief History of Economic Genius*. Penguin, 2002 – a very readable general history with specific chapters focusing on all three economists
- Heilbroner, R. *The Worldly Philosophers – The Lives, Times and Ideas of the Great Economic Thinkers*. Penguin, 2000 – similar to Strathern's book, originally published in 1953
- Bucholz, T. *New Ideas From Dead Economists*. Penguin, 1999 – the concepts are specifically applied to current economic issues (although originally published in 1989, so a little dated), with chapters on all three thinkers
- Galbraith, J. K. *A History of Economics – the Past as the Present*. Penguin, 1991 – classic general history of economic ideas
- Backhouse, R. *The Penguin History of Economics*. Penguin, 2002 – offering a broader sweep and placing emphasis on the context surrounding the development of the economic ideas
- Sandmo, A. *Economics Evolving – A History of Economic Thought*. Princeton, 2011 – a general history with brief and clear chapters on each economist
- Barber, W. A. *History of Economic Thought*. Penguin, 1967

Smith

- Smith, A. (ed. Sutherland, K.) *Wealth of Nations – A Selected Edition*. Oxford University Press, 1993 – all of the relevant sections with explanatory notes and a detailed index
- Smith, A. (ed. Butler-Bowdon, T.) *The Wealth of Nations – The Economics Classic*. Capstone, 2010 – selected chapters with a detailed introduction that summarises the key concepts
- Smith, A. *The Invisible Hand*. Penguin, 2008 – part of the 'Great Ideas' series, a selection of key chapters about the operation of markets from *Wealth of Nations*
- Kennedy, G. *Adam Smith – A Moral Philosopher and His Political Economy*, 2nd Edition. Palgrave Macmillan, 2010 – an analysis of the original ideas in Smith's work, including a chapter on the current relevance of these ideas
- Arrighi, G. *Adam Smith in Beijing*. Verso, 2008 - a challenging but intriguing analysis of the relevance of Smith's (and to a lesser extent Marx's) ideas to the rise of 'non-capitalist' market economies, such as China
- Dougherty, P. J. *Who's Afraid of Adam Smith – How the Market got its Soul*. John Wiley & Sons, 2002 – a look at Smith's wider writings and application to current economic issues
- Butler, E. *Adam Smith – A Primer*. IEA, 2007 – brief account of Smith's life and key ideas

Marx

- Flank, L. *Contradictions of Capitalism – An Introduction to Marxist Economics*. Red and Black, 2007 – a very brief and easy to understand account, in the first five chapters, of the basic ideas of Marxist economics. The final concluding section on current relevance is also useful
- Harvey, D. *A Companion to Marx's Capital*. Verso, 2010 – likely to be too demanding for most students, but a very readable account of Marx's key ideas and their relevance today, especially the final chapter which includes an explicit application to the recent financial crisis.
- Harvey, D. *The Enigma of Capital – and the Crises of Capitalism*. Profile, 2010 – Harvey's Marxist analysis of the economic and financial crisis
- Singer, P. *Marx – A Very Short Introduction*. Oxford University Press, 2000 – including a very brief and readable account of Marx's key political ideas, but also useful for the broader political and historical context
- Woodfin, R. and Zarate, O. *Introducing Marxism – A Graphic Guide*. Icon, 2009 – the key ideas in cartoon format, a potentially useful teaching aid
- Kamenka, E. *The Portable Karl Marx*. Penguin, 1983 – contains a selection of key economic writing, including a couple which are not from Capital
- Eagleton, T. *Why Marx Was Right*. Yale University Press, 2011 – a political and philosophical discussion of Marxism and its relevance today. Not very economic but very current

Keynes

- Minsky, H. *John Maynard Keynes*. McGraw Hill, 2008 – generally too technical, but the introduction, opening chapters on the 'conventional' interpretation of Keynes and the chapters on policy implications of Minsky's analysis of Keynes are all useful
- Pugh, P. & Garratt, C. *Introducing Keynes – a Graphic Guide*. Icon, 2009 – Keynes' key ideas in cartoon format
- Skidelsky, R. *Keynes – A Very Short Introduction*. Oxford University Press, 2010 – a brief and very readable exposition of the key ideas and concepts
- Keynes, J. M. *The General Theory of Employment, Interest and Money*. Prometheus, 1997 – the full original text, probably only useful if used in conjunction with the 'Very Short Introduction'
- Skidelsky, R. *Keynes – The Return of the Master*. Penguin, 2010 – very relevant application of Keynesian ideas to the recent financial and economic crisis
- Davidson, P. *The Keynes Solution – The Path to Global Economic Prosperity*. Palgrave Macmillan, 2009 – starts with the 2008 crisis and moves on to a detailed 'Keynesian' prescription for the global economy
- Tilly, G. *Keynes Betrayed*. Palgrave Macmillan, 2010 – technical in places, but an interesting and relevant account, especially in the final chapters, of the emphasis in Keynes' work on monetary, rather than fiscal, solutions to economic crises
- Walsh, J. *Keynes and the Market*. Wiley, 2008 – an examination of Keynes' success in financial markets and, within the analysis, a critique of classical assumptions about the way markets work
- Clarke, P. *Keynes – The Twentieth Century's Most Influential Economist*. Bloomsbury, 2009 – primarily an historical analysis, but with some pertinent points on the current relevance of his ideas

Wider reading

- Conway, E. *50 Economics Ideas You Really Need to Know*. Quercus, 2009 – themed coverage of economic thought in an accessible format. Organised by concept rather than chronologically by thinker

- Hobsbawm, E. *How to Change the World – Tales of Marx and Marxism*. Little, Brown, 2011 – not an economic text but an historical account of the influence of Marx’s ideas, their wane and, in the final brief chapter, their relevance today
- Newman, M. *Socialism – A Very Short Introduction*. Oxford University Press, 2005 – contains a useful outline of the practice of economic management by ‘Marxist’ states
- Holmes, L. *Communism – A Very Short Introduction*. Oxford University Press, 2009 – includes a chapter on ‘the economic system of communism’
- Stiglitz, J. *Freefall – Free Markets and the Sinking of the Global Economy*. Penguin, 2010 – analysis of the recent crisis and prescriptions for reform with a Keynesian edge
- Kaletsky, A. *Capitalism 4.0 – The Birth of a New Economy*. Bloomsbury, 2010 – traces the development of capitalism historically and looks at the ‘new’ system that is emerging post-crisis, with frequent references to historical thinkers
- Muller, J. *Adam Smith in His Time and Ours*. Princeton University Press, 1993
- Seldon, A. *Capitalism: A Condensed Version*. IEA, 2007

Journal articles

- ‘Adam Smith and the role of the metaphor of an invisible hand’ *Economic Affairs*, March 2011
- ‘Who’s who in economics – John Maynard Keynes’ *Economic Review*, April 2010

Web links

- openlibrary.org/authors/OL39302A/Adam_Smith – free online copies of Smith’s key works
- www.iea.org.uk/sites/default/files/publications/files/upldbook414pdf.pdf – full electronic copy of Adam Smith – A Primer by Eamonn Butler
- www.iea.org.uk/multimedia/video/eamonn-butler-adam-smith-a-primer – video of Eamonn Butler talking about Smith
- www.btinternet.com/~glynhughes/squashed/smith.htm – condensed edition of Wealth of Nations
- www.adamsmith.org/adam-smith/ – Adam Smith Institute
- www.youtube.com/adamsmithinstitute – video clips of Adam Smith Institute lectures
- adamsmith.org/files/adam-smith-relevance.pdf – text of a speech in 1990 by Michael Forsyth entitled “Adam Smith’s Relevance for Today”
- www.econlib.org/library/Enc/bios/Smith.html – reasonably detailed entry in the Concise Encyclopaedia of Economics with useful links to related articles
- www.marxists.org/archive/marx/works/subject/economy/index.htm – links to selections from Marx’s writings on political economy
- www.reference.com/browse/marxian_economics – brief summary of Marxian economics with useful hyperlinks to related concepts and articles
- www.econlib.org/library/Enc/bios/Marx.html – Marx’s entry in the Library of Economics and Liberty – some useful related links
- theoryandpractice.org.uk/library/marx-and-keynes-paul-mattick-1955 – article considering the links between Marx and Keynes
- www.econlib.org/library/Enc/bios/Keynes.html – Keynes’ entry in the Library of Economics and Liberty – some useful related links

- www.marxists.org/reference/subject/economics/keynes/general-theory/index.htm – complete online text of the General Theory
- www.time.com/time/magazine/article/0,9171,842353-1,00.html – “We are all Keynesians now” – significant article from 1965
- www.newschool.edu/nssr/het/profiles/keynes.htm – brief summary of key ideas and some useful links
- A selection of articles linking Keynesian ideas to the economic crisis of 2008–10:
- www.ft.com/cms/s/0/3b3bd570-bc76-11dc-bcf9-0000779fd2ac.html?nclick_check=1#axzz1LPIAipqp
- www.ft.com/cms/s/0/a754a046-9c79-11dd-a42e-000077b07658.html#axzz1LPIAipqp
- www.tnr.com/article/how-i-became-keynesian
- www.guardian.co.uk/books/2009/sep/05/roy-hattersley-keynes-books
- www.salon.com/books/feature/2009/09/24/keynes/print.html
- www.cfr.org/economics/keynes-triumph-hope-over-economics/p18483
- www.telegraph.co.uk/finance/economics/8048615/John-Maynard-Keynes-How-to-solve-the-trade-imbalance.html
- www.guardian.co.uk/commentisfree/2011/apr/10/will-hutton-keynes-austerity-osborne?INTCMP=SRCH
- www.guardian.co.uk/commentisfree/2008/nov/02/economics-economy-john-keynes?INTCMP=SRCH

DVDs

- *Adam Smith and the Wealth of Nations* – dated, but still useful account of Smith’s key ideas. www.libertyfund.org
- *Commanding Heights – The Battle for the World Economy* – a three disc set detailing the ideological battle for the dominance of economic theory and practice. Disc 1 ‘The Battle of Ideas’ is particularly relevant with good coverage of Keynes and the challenge to the Keynesian orthodoxy in the late twentieth century
- www.pbs.org/wgbh/commandingheights/

Appendix 1: Guided Learning Hours (GLH)

The Pre-U Principal Subject Economics course involves 380 guided learning hours. **This is not just teaching time, but also time for homework, preparation for tests, independent research and revision.**

Assuming a 65-week course of study over 6 terms, it is expected that students will complete approximately 6 GLH per week.

Suggested GLH for the course topics are:

1	Microeconomics	GLH
(a)	The Basic Economic Problem of Unlimited Wants and Limited Means	10
(b)	The Market Mechanism and Demand and Supply Analysis	30
(c)	Costs of Production, Profit and the Theory of the Firm	30
(d)	Causes of Market Failure	20
(e)	Government Intervention in the Market	20
(f)	The Labour Market	10
		120

2	The National Economy	GLH
	Introduction to objectives, trends and developments	10
(a)	Standards of Living	5
(b)	Economic Growth and Economic Cycle	10
(c)	Employment and Unemployment	10
(d)	Inflation and Deflation	10
(e)	Distribution of Income	5
(f)	Current Account of Balance of Payments	5
(g)	Productivity and International Competitiveness	5
(h)	Macroeconomic Theory	25
(i)	Government Policy	25
		110

3	International Economics	GLH
(a)	The Theory of Free Trade	5
(b)	The Pattern of Trade	5
(c)	Protectionism	5
(d)	The Current Account and Exchange Rates	10
(e)	Development Economics and Globalisation	20
(f)	The European Union	15
		60

Investigation	30
---------------	-----------

Ongoing revision, preparation for topic tests, final revision	60
---	-----------

Total	380
--------------	------------

Appendix 2: Sample Course Outline

Centres are encouraged to deliver the course in the order that best suits them and their students. However, the following structure is offered as one suggestion of how the content could be delivered. In this case the course is delivered by two teachers who have equal time allocation. It is assumed that there are 65 teaching weeks in total and 6 hours of study (including homework tasks and exam preparation) are completed each week.

One teacher delivers all of the Microeconomics and the Investigation. The Theory of the Firm is held over into the second year to avoid splitting a topic over the summer holiday. This also ensures that a good range of topics have been covered for interim assessment at the end of Year 1. The other teacher delivers almost all of the National Economy in Year 1 and this also provides a suitable point for assessment. The International Economics content is delivered in Year 2 along with The National Economy (f) and (g), in order to allow the two years to balance more evenly.

Year 1

Microeconomics		The National Economy	
Wk		Wk	
1	The Basic Economic Problem of Unlimited Wants and Limited Means	1	The National Economy
4	The Market Mechanism and Demand and Supply Analysis	4	Standards of Living
		6	Economic Growth and Economic Cycle
		9	Employment and Unemployment
14	Causes of Market Failure	12	Inflation and Deflation
		15	Distribution of Income
		17	Macroeconomic Theory
21	Government Intervention in the Market	25	Government Policy
28	Introduction to the Investigation, revision and preparation for interim assessment		
34	Internal exam	34	Internal exam
35	End of Year 1	35	End of Year 1

Year 2

Microeconomics		International Economics	
Wk		Wk	
36	The Labour Market	36	The Pattern of Trade The Theory of Free Trade
40	Costs of Production, Profit and the Theory of the Firm	39	Productivity and International Competitiveness Protectionism
50	Investigation, revision and exam preparation	42	Current Account of the Balance of Payments The Current Account and Exchange Rates
65	End of Year 2	47	Development Economics and Globalisation
		55	The European Union
		60	Exam preparation
		65	End of Year 2

Resources

No specific textbook is recommended to cover the entire specification. It is likely that students will be issued with an A Level standard text which can be supplemented with content from undergraduate-level texts and other sources.

Textbooks

Anderton, Alain	<i>Economics</i> , 5 th edition. Causeway Press, 2008
Begg, Fischer & Dornbusch	<i>Economics</i> , 9 th edition. McGraw Hill, 2008
Lipsey and Chrystal	<i>Economics</i> , 11 th edition. Oxford University Press, 2007
Sloman and Wride	<i>Economics</i> , 7 th edition. Prentice Hall, 2009

Supporting texts

Black, Ian	<i>The UK Economy 1997-2007</i> . Anforme, 2008
Cox, Simon (Ed.)	<i>Economics. Making Sense of the Modern Economy</i> . The Economist/Profile Publishing Ltd., 2006
Nutter, Robert	<i>Business Economics: Microeconomics for A2</i> . Anforme, 2009
Threadgould, Andrew	<i>Macroeconomics for A2</i> . Anforme, 2008
<i>The Economist</i>	<i>The Economist Guide to Economic Indicators</i> , 6 th edition. The Economist/Profile Publishing Ltd., 2006

Economics is a dynamic subject and it is taught and learned best when applied to ongoing issues in the real world. Textbooks are a useful source of theory but it is expected that students and teachers will also make use of material which becomes available as the course progresses.

Journals

<i>The Economist</i>	www.economist.com
<i>Economics Today</i>	www.anforme.co.uk
<i>Economic Review</i>	www.philipallan.co.uk/economicreview

Audio and TV

Good TV programmes with relevant content are sporadic, however *The Money Programme* on BBC2 often covers relevant topics and *Dispatched* on Channel 4 can occasionally do so. Students should be encouraged to watch or listen to a daily news broadcast with in-depth analysis, such as *Newsnight* on BBC2, *Channel 4 News* at 7pm or the *Today programme* on Radio 4. These programmes also have websites containing video and audio clips of the key stories which can be quickly used in lessons.

Radio 4 also offers some consistently good listening opportunities, including:

- *More or Less* (with Tim Harford), a programme dedicated to statistics, their use and abuse, mostly in an economics context – news.bbc.co.uk/1/hi/programmes/more_or_less/default.stm
- *Costing the Earth*, dealing with environmental issues, many of which have economic dimensions, and there is a significant archive of past programmes available – www.bbc.co.uk/radio4/science/costingtheearth_archive.shtml
- *Peter Day's World of Business* – covering UK and global business stories, often with good analysis and considering a broader context – www.bbc.co.uk/podcasts/series/worldbiz/

- *Business Daily* – shorter programmes, generally from the World Service and usually very current – www.bbc.co.uk/programmes/p002vsxs
- *The Bottom Line* – discussion programme with Evan Davis, broadcast on Radio 4 and as a TV programme on the BBC News Channel – www.bbc.co.uk/programmes/b006sz6t

Online and digital resources:

News, current affairs and economic analysis:

- www.economist.com – *The Economist* – subscription required for content over one year old
- www.ft.com – *Financial Times*
- news.bbc.co.uk – *BBC News*

Economics general resources:

- www.tutor2u.net – Tutor2U has an extensive range of both free and subscription material
- www.economicsnetwork.ac.uk – links to university level resources
- en.wikipedia.org – can't be trusted to be accurate in every respect but can be a good starting point for further investigation, especially on newer theories and more esoteric topics

Blogs

- www.tutor2u.net/blog/index.php/pre-u – blog dedicated to Pre-U Economics (from Sept 2010)
- www.anforme.co.uk/blog – Nigel Tree's blog
- blogs.ft.com/undercover – Tim Harford, the Undercover Economist
- news.bbc.co.uk/1/hi/magazine/8474581.stm – Michael Blastland – different ways of seeing stats
- www.bbc.co.uk/blogs/thereporters/stephanieflanders – *Stephanomics*, the BBC Economics Editor's blog
- www.bbc.co.uk/blogs/thereporters/markeaston – Home Affairs blog, but lots of good coverage of data use and misuse
- brynsaseconomicsblog.blogspot.com/ – Bryn's AS Economics Blog – collation of other blog entries and useful links

Data

- www.economicsnetwork.ac.uk/links/data_free.htm – John Sloman's comprehensive and up-to-date resource page lists UK, European and global data sources
- www.statistics.gov.uk – Office for National Statistics
- www.bankofengland.co.uk – The Bank of England
- www.hm-treasury.gov.uk – HM Treasury
- www.data-archive.ac.uk – UK Data Archive
- www.esds.ac.uk/government – Economic and Social Data Service
- www.informationisbeautiful.net – visualisations of statistical data in the news

Experiments and simulations

- www.bus.msu.edu/econ/brown/pim/ – *Problems in Microeconomics* – interactive exercises using Excel
- www.marietta.edu/~delemeeg/expnom.html – *Classroom Experiments*
- www.bized.co.uk/educators/games/index.htm – *Classroom Games*
- www.bized.co.uk/virtual/home.htm – *Biz/ed Virtual Worlds*

List of Terms

The following list of terms is attached as a useful checklist for teachers and students of the potential scope of the course. It is not essential that students are familiar with all of these terms and questioning will be restricted to the content of the syllabus document. However, a student who is fully conversant with all of these terms is likely to be well prepared for the final examination.

Microeconomics

Abnormal profits	Conditions of supply	External benefits
Accounting cost	Consumer goods	External costs
Allocating	Consumer Price Index (CPI)	External diseconomies of scale
Allocative efficiency	Consumer sovereignty	Externalities
Average costs	Consumer surplus	Factor cost
Average earnings	Contestable market	Factor endowments
Average fixed cost	Cost-Benefit Analysis (COBA)	Factor incomes
Average revenue	Costs of production	Factor market
Average revenue curve	Cross-price elasticity of demand (XED)	Factors of production
Average total cost	Deadweight welfare loss	Financial economies of scale
Average variable cost	Demand	Firms
Backward bending supply curve	Demand curve	Fixed costs
Barriers to entry	Demerit goods	Free goods
Barter	Diminishing marginal utility	Free market economy
Base year	Diminishing returns	Free riders
Behavioural economics	Discriminating monopoly	Giffen goods
Budget constraint	Diseconomies of scale	Government failure
Buffer stock scheme	Disequilibrium	Government intervention
Capacity	Disutility	Green taxes
Capital	Division of Labour	Growth
Capital goods	Economic agents	Growth maximisation
Cartel	Economic cost	Households
Central planning	Economic goods	Imputed costs
<i>Ceteris paribus</i>	Economic problem	Incidence of taxation
Change in demand	Economic systems	Income
Change in quantity demanded	Economies of scale	Income effect
Change in quantity supplied	Elastic	Income elasticity of demand (YED)
Change in supply	Elasticity	Increasing returns
Cobweb theory	Elasticity of demand	Index numbers
Collusion	Elasticity of supply	Indifference curves
Command economy	Entrepreneurship	Indifference map
Community indifference curve	Equilibrium	Inelastic
Competition policy	Equilibrium price	Inferior goods
Competitive markets	Equilibrium quantity	Interdependence
Complements	Equi-marginal utility	Invisible hand
Composite demand	Excess demand	Joint demand
Concentration ratios	Excess supply	Joint supply
Conditions of demand	Expectations	

Labour	Opportunity Cost	Sales volume maximisation
Land	Optimum allocation	Scale economies
Law of diminishing marginal utility	Ostentatious goods	Scarcity
Law of diminishing returns	Pareto optimal allocation	Secondary sector
Limit pricing	Pay-off matrix	Shadow prices
Long run	Perfect competition	Short run
Long-run average cost curve	Perfectly elastic	Short-run shut-down decision
Marginal cost curve	Perfectly inelastic	Signalling
Marginal costs	Positive economics	Social benefits
Marginal external benefit	Positive externalities	Social costs
Marginal external cost	Price discrimination	Social welfare
Marginal private benefit	Price elasticity of demand (PED)	Socially efficient output
Marginal private cost	Price elasticity of supply (PES)	Specialisation
Marginal product	Price makers	Spillover effects
Marginal revenue	Price mechanism	Sub-optimal
Marginal revenue product (MRP)	Price signals	Subsidy
Marginal social cost / benefits	Price taker	Substitutes
Marginal utility	Primary products	Substitution effect
Market	Primary sector	Supply
Market concentration	Prisoner's dilemma	Supply curve
Market economy	Private benefits	Sustainability
Market failure	Private costs	Tax incidence
Market mechanism	Private Finance Initiative	Technical economies of scale
Market structure	Product markets	Technical efficiency
Marketing economies of scale	Production Possibility Curve (PPC/PPF/PPB)	Tertiary sector
Maximum price	Productive capacity	Third party effects
Medium of exchange	Productive efficiency	Total cost curve
Merit goods	Profit	Total costs
Microeconomics	Profit maximisation	Total revenue
Minimum price	Property rights	Total revenue curve
Minimum wage	Profit satisficing	Tradable permits
Mixed economy	Public goods	Trade Unions
Monopolistic competition	Purchasing economies of scale	Unit elasticity
Monopoly	Quasi-public goods	Unlimited wants
Monopsony	Rational expectations	Utility
Negative externalities	Rationing	Variable costs
Net social benefit	Rectangular hyperbola	Veblen goods
Non-excludability	Regulation	Wage differentials
Non-price competition	Relatively elastic	Wage rate
Non-renewable resources	Relatively inelastic	Wants and needs
Non-rivalry	Rent	X-inefficiency
Normal goods	Resource allocation	
Normal profits	Revenue	
Normative economics	Revenue maximisation	
Not for profit business	Risk-bearing economies of scale	
Oligopoly	Sales revenue maximisation	

The National Economy

Absolute poverty	Cyclical unemployment	Immobility of labour
Accelerator theory	Declining industries	Imports
Activity rate	Deflation	Incentives
<i>Ad valorem</i> tax	Deflationary gap	Income distribution
Aggregate Demand (AD)	Deflationary policies	Income inequality
Aggregate Demand curve	Deindustrialisation	Income Support
Aggregate Supply(AS)	Demand for money	Income tax
Aggregate Supply curve	Demand management policies	Index of Sustainable Economic Welfare
Average propensity to consume	Demand-deficient unemployment	Indirect taxation
Average propensity to import	Demand-pull inflation	Industrialisation
Average propensity to save (APS)	Demand-side shock	Inflation
Balance of Payments (BoP)	Demography	Inflation target
BoP on current account	Dependency ratio	Inflationary gap
Balanced budget	Deregulation	Informal sector
Bank of England	Direct taxation	Inheritance tax
Base rate	Disposable income	Injections
Benefits	Dissaving	Interest rates
Broad money	Distribution of income	International Labour Organisation (ILO)
Budget	Economic growth	Investment
Budget deficit	Economic welfare	Invisible balance
Budget surplus	Equation of Exchange ($MV=PT$)	Involuntary unemployment
Business cycle	Equilibrium unemployment	Keynesian
Canons of taxation	Equity	Labour force
Capital account	Expectations-augmented Phillips curve	Labour force survey
Capital intensive	Exports	Labour market
Capital output ratio	Factor mobility	Labour productivity
Central banks	Factor productivity	Laissez faire
Circular flow of income	Financial Services Authority (FSA)	Leakages
Classical economics	Fiscal drag	Life Cycle hypothesis
Closed economy	Fiscal policy	Limited means
Closed shop	Frictional unemployment	Liquid assets
Collective bargaining	Geographical immobility	Liquidity
Commercial bank	Gini coefficients	Living standards
Consumer expenditure	Government expenditure	Long-run Phillips curve and NAIRU
Consumption	Gross domestic product (GDP)	Lorenz curve
Corporation tax	Gross domestic product per capita	Macroeconomic objectives
Cost of living	Gross national income (GNI)	Macroeconomic policies
Cost-push inflation	Gross national product (GNP)	Macroeconomics
Counter-cyclical policies	Household income	Marginal propensity to consume
Crowding out	Human capital	Marginal propensity to import
Current account	Human Development Index (HDI)	Marginal propensity to save
Current account balance	Hyperinflation	Marginal rate of tax
Current account deficit	Illiquid asset	Means tested
Current account surplus	Immigration	Migration

Mobility of labour
 Monetarism
 Monetary policy
 Money
 Money illusion
 Monetary Policy Committee (MPC)
 Monetary policy instruments
 Monetary transmission mechanism
 Money multiplier
 Money supply
 Multiplier
 Narrow money
 National debt
 National income
 National income accounts
 Natural rate of unemployment
 Net exports
 Net National Product (NNP)
 Nominal data
 Non-accelerating inflation rate of unemployment
 Occupational immobility
 Open economy
 Output
 Output gap
 Paradox of thrift
 Participation rate
 Permanent income hypothesis
 Phillips curve
 Planned investment
 Planned saving
 Policy instruments
 Potential output
 Poverty trap
 Price index
 Private sector
 Privatisation
 Productivity
 Progressive tax
 Public expenditure
 Public sector
 Public Sector Borrowing Requirement (PSBR)
 Public Sector Debt Repayment (PSDR)
 Quantitative Easing (QE)
 Quantity Theory of Money
 Real terms
 Real wage
 Recession
 Redistributive effects
 Reflationary policies
 Regional policy
 Regressive taxes
 Research and development (R&D)
 Revenue neutral policies
 Savings
 Social security payments
 Standard of living
 Structural unemployment
 Supply side policy
 Supply-side shock
 Tax base
 Tax threshold
 Terms of trade
 Time lags
 Trade union
 Trade-off
 Transfer payments
 Trend
 Unemployment
 Unemployment rate
 Unit cost
 Value added tax (VAT)
 Visible balance
 Voluntary unemployment
 Wage-price spiral
 Wealth
 Welfare loss
 Withdrawals
 Working families tax credit

International Economics

Absolute advantage
 Aid: Bi-lateral, Multi-lateral and Tied Aid
 Appreciation of currency
 Association of Southeast Asian Nations (ASEAN)
 Commodity markets
 Common Agricultural Policy (CAP)
 Common external tariff
 Common market
 Comparative advantage
 Customs union
 Debtor nation
 Depreciation of sterling
 Devaluation of sterling
 Developed countries
 Developing countries
 Development
 Economic and Monetary Union (EMU)
 Effective exchange rate
 EU enlargement
 European Central Bank (ECB)
 European Union (EU)
 Exchange rate
 Exchange rate target
 Export promotion
 Fixed exchange rates
 Floating exchange rates
 Foreign direct investment
 Free trade
 Free trade area
 G8
 G20
 Globalisation
 Heavily Indebted Poor Countries Initiative (HIPC)
 Human Poverty Index (HPI)
 Infant industries
 International trade
 J curve effect
 Less Developed Countries (LDCs)
 Marshall-Lerner condition
 Millennium Development Goals (MDGs)
 Multinational corporation (MNC) or Transnational corporation (TNC)
 Non-governmental organisations (NGOs)
 Non-tariff barriers
 Open market operations
 Overseas Development Assistance (ODA)
 Protectionism
 Purchasing Power Parity (PPP) exchange rate
 Quotas
 Revaluation of sterling
 Single currency
 Spot market
 Structural adjustment programmes (SAPs)
 Subsistence farming
 Sustainable development
 Sustainable growth
 Tariffs
 Trade creation
 Trade diversion
 Trade liberalisation
 Trading bloc
 United Nations Development Programme (UNDP)
 Voluntary export restraint agreements (VERs)
 World Bank
 World Trade Organisation (WTO)

University of Cambridge International Examinations
1 Hills Road, Cambridge, CB1 2EU, United Kingdom
Tel: +44 1223 553554 Fax: +44 1223 553558
Email: international@cie.org.uk Website: www.cie.org.uk

© University of Cambridge International Examinations 2011 v2 1Y09

