

SYLLABUS

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

9772

For examination in 2016, 2017 and 2018

QN: 500/3670/1

Support

Cambridge provides a wide range of support for Pre-U syllabuses, which includes recommended resource lists, Teacher Guides and Example Candidate Response booklets. Teachers can access these support materials at Teacher Support <http://teachers.cie.org.uk>

Changes to syllabus for 2016, 2017 and 2018

- The changes to the syllabus for 2016 are minor.
- The syllabus aims have been broadened to reflect the international dimension of the syllabus.
- The Assessment Objectives have been reworded for clarity.
- Paper 1: The duration is increased by 15 minutes to 2 hours 30 minutes.
- The current issues in economics in Paper 3 have been refreshed for 2016 to include, 'The Millennium Development Goals and the Post-2015 Development Agenda' and 'Behavioural economics and government policy'. 'Economic thinkers and their relevance today (Adam Smith, Karl Marx and John Maynard Keynes)' has been replaced.
- Syllabus content has been reworded for clarity.

Changes to the syllabus are indicated by black vertical lines either side of the text.

If there are any further changes to this syllabus, Cambridge will write to Centres to inform them. This syllabus is also on the Cambridge website www.cie.org.uk/cambridgepreu. The version of the syllabus on the website should always be considered as the definitive version.

Copies of Cambridge Pre-U syllabuses can be downloaded from our website www.cie.org.uk/cambridgepreu

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Introduction

Why choose Cambridge Pre-U?

Cambridge Pre-U is designed to equip learners with the skills required to make a success of their studies at university. Schools can choose from a wide range of subjects.

Cambridge Pre-U is built on a core set of educational aims to prepare learners for university admission, and also for success in higher education and beyond:

- to support independent and self-directed learning
- to encourage learners to think laterally, critically and creatively, and to acquire good problem-solving skills
- to promote comprehensive understanding of the subject through depth and rigour.

Cambridge Pre-U Principal Subjects are linear. A candidate must take all the components together at the end of the course in one examination series. Cambridge Pre-U Principal Subjects are assessed at the end of a two-year programme of study.

The Cambridge Pre-U nine-point grade set recognises the full range of learner ability.

Guided learning hours

Cambridge Pre-U syllabuses are designed on the assumption that learners have around 380 guided learning hours per Principal Subject over the duration of the course, but this is for guidance only. The number of hours may vary according to curricular practice and the learners' prior experience of the subject.

Why choose Cambridge Pre-U Economics?

Cambridge Pre-U Economics offers opportunities to explore concepts and theories which can be used in the workings of a modern economy. Learners can study not only microeconomic issues but also recent trends and development in the UK economy, and important international dimensions of economics relevant to today's globally interdependent world.

Pre-U Economics emphasises breadth as well as depth of teaching and learning. The syllabus content covers a wide range of economic concepts and contexts and the design of the assessment encourages learners to improve understanding, develop reasoning and quantitative skills, and promotes independent thinking.

The linear assessment structure means that learners are tested at the end of the two-year course. This allows learners to approach the examination in a mature and confident way with time to formulate their viewpoints and develop their knowledge, understanding and skills. By the end of the course, learners will have had time to explore and analyse topics and events across a wide range of economic contexts.

The investigation in Paper 3 enables learners to research a topic which engages their interests and imagination from a selection of four current issues in economics. Paper 3 is intended to give teachers and learners the chance to structure the course in collaboration, and is based on a model of teaching and learning that promotes open-ended but focused exploration.

Prior learning

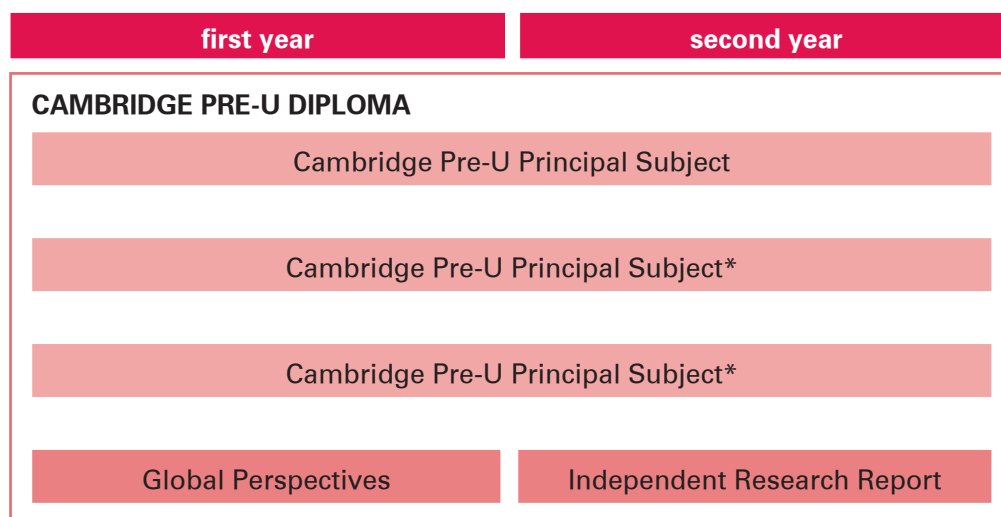
Cambridge Pre-U builds on the knowledge, understanding and skills typically gained by candidates taking Level 1/Level 2 qualifications such as Cambridge IGCSE. No prior study of economics is assumed. It is recommended that candidates have attained communication and literacy skills at a level equivalent to IGCSE/GCSE Grade C in English.

Progression

The course will provide key knowledge and develop transferable skills that will prepare candidates to study economics or other subjects at university.

Cambridge Pre-U Diploma

If learners choose, they can combine Cambridge Pre-U qualifications to achieve the Cambridge Pre-U Diploma; this comprises three Cambridge Pre-U Principal Subjects* together with Global Perspectives and Research (GPR). The Cambridge Pre-U Diploma, therefore, provides the opportunity for interdisciplinary study informed by an international perspective and includes an independent research project.



* Up to two A Levels, Scottish Advanced Highers or IB Diploma programme courses at higher level can be substituted for Principal Subjects.

Learn more about the Cambridge Pre-U Diploma at www.cie.org.uk/cambridgepreu

Syllabus aims

The aims of the syllabus, listed below, are the same for all candidates and are designed to help candidates:

- acquire a thorough understanding of economics including the importance of studying the international dimensions in today's interdependent world
- develop a wider understanding and appreciation of how concepts and theories can be used in the workings of a modern economy
- develop quantitative skills through the appreciation and use of various relevant statistics
- develop the ability to assess the effectiveness of policy decisions that have influenced the UK economy over the past 10 years
- develop skills in critical analysis, reasoning and the ability to communicate conclusions.

Scheme of assessment

For Cambridge Pre-U Economics, candidates take all three components.

| Component | Component name | Duration | Weighting (%) | Type of assessment |
|----------------|--|-----------------------|---------------|--|
| Paper 1 | Multiple choice, short answers and data response | 2 hours 30 minutes | 40 | Written paper, externally set and marked, 80 marks |
| Paper 2 | Essays | 2 hours 15 minutes | 40 | Written paper, externally set and marked, 75 marks |
| Paper 3 | Investigation | 1 hour 15 minutes | 20 | Essay, written in examination conditions and externally marked, 40 marks |

Availability

This syllabus is examined in the June examination series.

This syllabus is available to private candidates.

Combining this with other syllabuses

Candidates can combine this syllabus in a series with any other Cambridge syllabus, except syllabuses with the same title at the same level.

Assessment objectives

| | |
|------------|---|
| A01 | Demonstrate knowledge and understanding. |
| A02 | Apply economic theory to real-world situations. |
| A03 | Analyse economic problems using appropriate numerical and non-numerical techniques. |
| A04 | Evaluate and make conclusions; assess the relevance and appropriateness of assumptions made within economic models. |

Relationship between scheme of assessment and assessment objectives

The approximate weightings allocated to each of the assessment objectives are summarised below. The table shows the assessment objectives (AO) as a percentage of each component and as a percentage of the overall Cambridge Pre-U Economics qualification.

| Component | AO1 | AO2 | AO3 | AO4 | Total | Weighting of component in overall qualification |
|---|-----|-----|-----|-----|-------|---|
| Paper 1 | 30% | 30% | 25% | 15% | 100% | 40% |
| Paper 2 | 20% | 20% | 30% | 30% | 100% | 40% |
| Paper 3 | 15% | 15% | 25% | 45% | 100% | 20% |
| Weighting of AO in overall qualification | 23% | 23% | 27% | 27% | – | |

Grading and reporting

Cambridge International Level 3 Pre-U Certificates (Principal Subjects and Short Courses) are qualifications in their own right. Each individual Principal Subject and Short Course is graded separately on a scale of nine grades: Distinction 1, Distinction 2, Distinction 3, Merit 1, Merit 2, Merit 3, Pass 1, Pass 2 and Pass 3.

Grading Cambridge Pre-U Principal Subjects and Short Courses

| | |
|-------------|---|
| Distinction | 1 |
| | 2 |
| | 3 |
| Merit | 1 |
| | 2 |
| | 3 |
| Pass | 1 |
| | 2 |
| | 3 |

Grade descriptions

The following grade descriptions indicate the level of attainment characteristic of the middle of the given grade band. They give a general indication of the required standard at each specified grade. The descriptions should be interpreted in relation to the content outlined in the syllabus; they are not designed to define that content.

The grade awarded will depend in practice upon the extent to which the candidate has met the assessment objectives overall. Shortcomings in some aspects of the examination may be balanced by better performance in others.

Distinction (D2)

- Candidates will demonstrate comprehensive knowledge and critical understanding of a wide range of relevant economic theories and concepts.
- They will effectively apply this knowledge and understanding to analyse familiar and unfamiliar situations, issues and problems, using several numerical and non-numerical techniques accurately.
- They will effectively evaluate evidence and arguments, making reasoned judgements to present appropriate and supported conclusions, which demonstrate originality or an ability to think 'outside the box'.

Merit (M2)

- Candidates will demonstrate good knowledge and understanding of a range of economic theories and concepts.
- They will apply this knowledge and understanding to analyse familiar and unfamiliar situations, issues and problems, using appropriate numerical and non-numerical techniques.
- They will evaluate evidence and arguments to present appropriate conclusions.

Pass (P2)

- Candidates will demonstrate either incomplete knowledge and understanding of a range of economic theories and concepts or a reasonably comprehensive understanding of a limited subset of relevant theories and concepts.
- They will show some ability to use this knowledge and understanding to analyse familiar and unfamiliar situations, issues and problems, making some use of numerical and non-numerical techniques.
- Candidates' evaluation of evidence and arguments will only cover some of the relevant areas or will be limited in depth.

Description of components

Paper 1 Multiple choice, short answers and data response

Written paper, 2 hours 30 minutes, 80 marks

Paper 1 consists of three sections:

- **Section A:** 30 compulsory multiple-choice questions on the whole syllabus content
- **Section B:** 4 compulsory short-answer questions
- **Section C:** 1 compulsory data-response question.

If the short-answer questions are predominantly micro then the data-response question will be predominantly macro, and vice versa.

Paper 2 Essays

Written paper, 2 hours 15 minutes, 75 marks

Paper 2 consists of three essays – one to be chosen from three predominantly micro questions, one from three predominantly macro questions and one free choice from the remaining titles.

Paper 3 Investigation

Written paper, 1 hour 15 minutes, 40 marks

Paper 3 requires a single piece of extended writing resulting from independent thinking and learning within a supported environment.

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 and the Post-2015 Development Agenda
- Behavioural economics and government policy.

This list will change over time to reflect current economic issues.

Teachers are expected to make the choice of topic, and candidates will be required to write one essay in the examination. The intention is to encourage candidates to apply their knowledge and understanding of economic concepts, combined with detailed individual research into the topic chosen from this list. However, before undertaking their own research into a topic, candidates will need to be given guidance on the economic background to the topic, and help with identifying the main issues, problems and possible research strands. Candidates will then be expected to do much of their own reading and research, but that work should be supported by the opportunity to discuss progress, report findings, ask questions and develop understanding, and contribute to seminars and discussions. Teachers will also want to take the opportunity to monitor and evaluate progress. All of this is to take place in a teaching environment.

Syllabus content

1 Microeconomics

Candidates should develop a good understanding of the issues involved within the following areas:

- (a) the basic economic problem of unlimited wants and limited means
- (b) the market mechanism and demand and supply analysis
- (c) costs of production, profit and the theory of the firm
- (d) causes of market failure
- (e) government intervention in the market
- (f) the labour market.

(a) The basic economic problem of unlimited wants and limited means

Candidates should appreciate that much of the rationale behind the study of economics is based on this fundamental issue. They should have a thorough understanding of the following concepts and be able to use them to explain the issues involved:

- factors of production
- production possibility curves
- opportunity cost
- specialisation and the division of labour
- the three fundamental questions of 'What, How and For Whom?'
- how different types of economies answer these questions
- different economic agents
- assumed maximising goals of profit, consumer satisfaction and social welfare and potential conflicts
- questioning of the concept of rational economic behaviour.

(b) The market mechanism and demand and supply analysis

Candidates should understand how prices work within a market mechanism and have knowledge of the following functions of the mechanism:

- signalling
- incentive
- rationing
- allocating.

Candidates are expected to know the basic shape of demand and supply curves – including an understanding of why the demand curve usually slopes downwards. Knowledge of both marginal utility analysis and indifference curve analysis, covering both income and substitution effects, is required. Candidates are also expected to know how the two curves interact and the causes and effects of a change in either one. Candidates should also appreciate that a demand curve represents average revenue and hence understand that both marginal revenue and total revenue can be derived from a demand curve.

Candidates should understand the difference between a shift in a curve – i.e. a change in demand or supply – and a movement along an existing curve – i.e. a change in quantity demanded or supplied.

Candidates should understand definitions, determinants, and implications – such as the link between average revenue, marginal revenue and total revenue – and be able to use the relevant formula in calculations of the following elasticities:

- own-price elasticity of demand
- cross-price elasticity of demand
- income elasticity of demand
- elasticity of supply.

Candidates should understand the concept of equilibrium within a market.

Candidates should understand that certain markets are interrelated and be able to analyse the effect that a change in one market has on another market. They should be able to analyse the effect of government-imposed taxes and subsidies as well as maximum and minimum prices.

(c) Costs of production, profit and the theory of the firm

Candidates should understand the reasoning behind, the relationships between and the relevant curves for the following costs:

- fixed
- variable
- total
- average
- marginal.

A sound understanding of the difference between the short run and the long run is required to explain reasons behind, and differences between, the 'Law of Diminishing Returns to a Fixed Factor' and 'Economies and Diseconomies of Scale'.

Candidates should understand how firms maximise profits.

Candidates should understand the various market structures that can exist and should have a sound knowledge of all the following models:

- perfect competition
- monopoly
- monopolistic competition
- oligopoly.

Knowledge of the concepts of normal profit and supernormal profit and loss situations is required in the context of each of these models.

Candidates should understand definitions of all these models and the assumptions upon which they are based. Knowledge of the associated cost and revenue diagrams for both the short run and the long run is required – including that of short-run shut-down points. Limitations arising from assumptions made should be considered.

The concepts of allocative, productive and dynamic efficiency should be used to consider the relative merits of perfect competition and monopoly. Within this comparison, a study should be made of the concept of 'Contestable Markets'.

The importance of the separation between ownership and control of a firm must be known and the reasons behind this split and its implications fully understood. A detailed knowledge is required of all the potential aims that a firm may have, if the assumption of profit maximisation is relaxed. These include growth maximisation, revenue maximisation, volume of sales maximisation, 'not for profit' businesses and the concept of satisficing, subject to a minimum profit constraint.

Within the study of oligopoly, the concept of 'interdependence' should be stressed, in terms of both collusive and competitive oligopolies. An understanding of various theories, such as the kinked demand curve, to suggest why outcomes in such markets occur as they do, is required. Knowledge of various pricing policies and of non-price competition should also be demonstrated. The concept of game theory, covering at least the prisoner's dilemma, should be studied.

Candidates should have a good understanding of price discrimination, as opposed to price differentiation, and know the conditions necessary for it to be successfully applied.

(d) Causes of market failure

Candidates should understand that the market mechanism may not correctly allocate resources for reasons of both inefficiency and inequity. Where applicable, candidates should understand that the degree of 'failure' perceived may depend upon a value judgement. The areas to be studied are as detailed below.

- **Positive and negative externalities in consumption and production:** The use of the appropriate marginal diagrams is required, including an understanding of the concept of 'deadweight welfare loss', e.g. applying the concept of externalities to the environment.
- **Public goods:** Candidates should understand that such goods are 'non-rival' and 'non-excludable' and know why the problems of 'non-revealed preference' and the 'free-rider' arise. Knowledge of 'quasi-public goods' is also required.
- **Merit and demerit goods:** Candidates must appreciate that both the existence of externalities and the lack of perfect information can be relevant for such goods and that these are private goods which will be respectively under- and over-consumed/supplied in a free market.
- **Monopoly:** Candidates should know how monopolies may restrict output and choice and charge higher prices than might be the case with competitive markets. Understanding of the concept of welfare loss, using terms such as consumer and producer surplus and appropriate diagrams, is required.
- **Inequitable distribution of income:** Candidates should realise that different societies will have varying views on what ought to be available to particular citizens, e.g. basic housing, healthcare, and appreciate the link between effective demand and the distribution of income.

(e) Government intervention in the market

Rationale for government intervention

Candidates should understand the reasons for government intervention in areas such as health, education, transport, energy, agriculture and the environment. Candidates should understand the various methods open to a government to use, including indirect taxation, subsidies, price controls, buffer stocks, tradable permits, extending property rights, state provision and regulation, in order to correct for market failure. They should also appreciate that a government needs to take a long-term view and the concept of sustainability should be explored. Candidates should have knowledge of UK competition policy and how European Union (EU) legislation in this area affects the UK economy.

Public ownership vs privatisation and regulation vs deregulation of markets

Candidates should:

- understand the arguments for and against such policies
- be able to evaluate their impact on economic performance.

While knowledge of government policies to alleviate poverty and to influence the distribution of income and wealth is required, this is covered under fiscal policy.

Cost-benefit analysis

Candidates should:

- understand the principles of cost-benefit analysis
- be able to analyse and evaluate the advantages and disadvantages of using cost-benefit analysis
- have knowledge of techniques such as discounting and shadow pricing.

Government failure

Government failure can include inadequate information, conflicting objectives, excessive administrative costs and the 'law of unintended consequences'. Candidates should appreciate that government intervention may:

- create rather than remove market distortions
- not necessarily result in an improvement in economic welfare
- result in regulatory capture.

Candidates should also be able to analyse and evaluate sources of government failure.

(f) The labour market

Candidates should appreciate that labour is just one of the inputs available to firms and should know the various factors determining both the supply of, and demand for, labour including detailed knowledge of the concept of marginal revenue product. Understanding of the income and substitution effects in the labour market, e.g. the backward sloping supply curve, is required. Clear understanding that labour is not a homogeneous factor of production is essential.

Candidates should be able to explain how wages are determined in both competitive and monopsonistic labour markets. Causes of discrimination within the labour market should be considered, as should relevant government legislation in both this area and that of minimum wages. The role played by trade unions in labour markets should be understood.

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 will be expected to use this knowledge in answering essay questions.

Candidates should develop a good understanding of:

- (a) standards of living
- (b) economic growth and economic cycle
- (c) employment and unemployment
- (d) inflation and deflation
- (e) distribution of income
- (f) current account of balance of payments
- (g) productivity and international competitiveness.

For each issue candidates should study:

- meaning and measurement
- causes and consequences
- evidence and policy responses.

Candidates are also required to have knowledge of relevant:

- (h) macroeconomic theory
- (i) government policy.

Candidates should also be able to compare the performance of the UK economy with other national economies in these areas, but specific knowledge of any other economy is not expected.

(a) Standards of living

Candidates should be able to use GDP and similar data to compare the living standards of the residents of different countries. They should be able to evaluate the use of such data and have some knowledge of alternative measures. Comparisons over time and associated problems should also be understood.

Note: a detailed knowledge of national income accounting is **not** required.

(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 should be made between short- and long-run growth. A production possibility diagram should also be used to illustrate economic growth.

Candidates should understand the factors determining the rate of economic growth and that supply-side factors, such as investment, education, training and technological change, are likely to determine the underlying trend rate of economic growth.

Candidates should be able to discuss whether economic growth is sustainable or desirable or both, and be able to evaluate the impact of growth on individuals and the environment.

Candidates should understand the economic or trade cycle and some of the causes of the cycle including supply-side shocks.

(c) Employment and unemployment

Knowledge is required in the following areas:

- definitions and measures of unemployment
- types and causes of unemployment
- trends and patterns in employment and unemployment
- consequences of unemployment.

(d) Inflation and deflation

Candidates should understand how index numbers are calculated and used to measure inflation. They should be aware that there are different measures of inflation and should have specific knowledge of the Consumer Price Index (CPI). Knowledge of the definitions of inflation and deflation is required. Causes and consequences of both inflation and deflation should be understood.

(e) Distribution of income

Candidates should have knowledge of recent trends for the UK in this area. They should also be aware of distinctions between relative and absolute poverty and know how Lorenz curves and Gini coefficients can be used to demonstrate the distribution of income and wealth.

(f) Current account of balance of payments

Candidates should have a basic understanding of the current account (trade in goods, trade in services, investment income and transfers) and they should understand the meaning of a deficit and a surplus on current account.

Note: a detailed knowledge of the structure of the balance of payments account is **not** required.

(g) Productivity and international competitiveness

Candidates should know the meaning of productivity (both labour productivity and total factor productivity) and how these can be measured. The implications of relative productivity and unit labour costs for international competitiveness should also be understood.

(h) Macroeconomic theory

Circular flow of income

Candidates should understand the basic rationale behind the model using households, firms, the government sector and the international economy. They should know the injections into and withdrawals from the circular flow.

Aggregate demand (AD)

Candidates should be able to explain and analyse the determinants of consumption, investment, government expenditure and net exports. They should also, as a corollary, specifically understand factors affecting the level of savings in an economy.

Knowledge of the multiplier process is required, so that candidates understand why a final change in output can be greater than an initial change in one of the components of AD. They should be able to calculate a

$$\text{simple multiplier } k = \frac{1}{1 - \text{mpc}}$$

The shape of the AD curve and the rationale behind it should be understood.

Aggregate supply (AS)

The shape of the short-run AS curve and the rationale behind it should be understood. Knowledge of the implications of a vertical long-run AS curve is required.

Candidates should be able to use the interaction of AD and AS both in the determination of levels of output, prices and employment and also in explaining macroeconomic problems such as the causes of inflation and demand-deficient unemployment.

(i) Government policy

Candidates should study:

- objectives of macroeconomic policies
- types of policies
- conflicts between objectives.

Objectives of macroeconomic policies

Candidates should have a knowledge and understanding of stable and sustainable growth, low and stable inflation, low levels of unemployment, an acceptable balance of payments position and an acceptable distribution of income and wealth.

Types of policies

Candidates should know the aims and instruments of fiscal policy, monetary policy and supply-side policies and be able to evaluate the effectiveness of each in achieving the macroeconomic objectives. Candidates should have a broad knowledge and understanding of policies used in recent years and any changes in emphasis between different policies.

Candidates should understand that the 'rules vs discretion' debate is central to an understanding of contemporary policy-making, as is the concept of 'policy sovereignty'.

Fiscal policy:

- Candidates should know the major taxes used (or considered for use) in the UK and be able to assess the relative merits of these.
- They should know and understand the 'canons' or principles of taxation.
- They should be able to understand and evaluate the significance of changes in the level and distribution of public expenditure.
- They should understand the importance of the balance between government revenue and expenditure and should appreciate that fiscal policy has microeconomic as well as macroeconomic effects.

Monetary policy:

- **Interest rate determination in theory and practice:** Candidates should understand the role of the Monetary Policy Committee of the Bank of England in setting the rate of interest.
They should understand the relationship between changes in interest rates and the demand for credit created by banks.
Note: a detailed knowledge of UK financial markets is **not** required.
- **Exchange rate policy:** Candidates should understand the relationship between interest rates and the exchange rate and appreciate the difficulties involved in using the exchange rate as an instrument of policy.
- **Money supply:** Candidates should have a basic understanding of money and liquidity, the money multiplier, the monetary transmission mechanism and the Quantity Theory of Money. They should understand the principles behind quantitative easing and have knowledge of how it has been used in the UK and the associated issues.

Supply-side policies:

- Candidates should understand the various forms that such policies can take and that they can be aimed at either the macro or the micro level.
- The links between supply-side policies, economic growth and, in particular, the trend rate of economic growth should be emphasised.

Conflicts between objectives

Candidates should be able to apply their knowledge of economic theory to explain potential conflicts between policy objectives, including the historical 'Phillips Curve relationships', and also to explain more recent experiences.

3 International economics

Candidates should develop a good understanding of the issues involved within the following areas:

- (a) the theory of free trade
- (b) the pattern of trade
- (c) protectionism
- (d) the current account and exchange rates
- (e) development economics and globalisation
- (f) the European Union (EU).

(a) The theory of free trade

Candidates should understand the rationale behind free trade and use the models of absolute advantage and comparative advantage to explain the theoretical gains from trade.

Candidates should appreciate how the assumptions behind models such as comparative advantage may limit their realism.

An understanding of the terms of trade, its measurement, and its implications is required.

(b) The pattern of trade

Candidates should have an overview of the typical pattern of trade between the UK and other countries or groups of countries such as Europe, the USA and the rest of the world.

Candidates should appreciate the influences on the pattern of trade: the free trade movement, historical and political factors, and trading blocs.

(c) Protectionism

Candidates should understand the types of protection that may arise and appreciate the impact of protectionism on consumers and producers inside and outside protective agreements.

Candidates should understand the arguments in favour of and against protectionism.

(d) The current account and exchange rates

Candidates should understand the terms *imports* and *exports* and know what is meant by *surplus*, *balance* and *deficit* on the current account. They should appreciate that the current account measures net exports and is a component of aggregate demand.

Candidates should understand that floating exchange rates are determined by activity in the FOREX market through trade, speculation and 'hot money' flows.

Candidates should understand why and how a government may intervene in the FOREX market to influence the exchange rate of their currency. An appreciation of the relative merits of fixed and floating exchange rate regimes is required.

Candidates should understand the terms *appreciation*, *depreciation*, *devaluation* and *revaluation*.

Candidates should appreciate the factors that may lead to a sustained surplus or deficit on the current account and the issues raised by a sustained imbalance for both the domestic and other economies.

Candidates should understand what policies may be used to correct a current account surplus or deficit and the difference between expenditure-increasing/reducing and expenditure-switching policies.

Candidates should understand that a change in the exchange rate will influence the current account, and the importance of time and elasticity of demand on this effect. Candidates should be able to use the J-curve, reverse J-curve and the Marshall-Lerner condition to explain such changes.

(e) Development economics and globalisation

Candidates should understand the meaning and definition of economic development and the measurement and limitations of statistics such as the Human Development Index (HDI).

Candidates should appreciate the differences between more economically developed countries (MEDCs), less economically developed countries (LEDCs) and newly industrialised countries (NICs).

Candidates should understand why countries may develop at different rates and be able to use economic theory to explain these differences. Whilst an explicit understanding of economic development models is not required, it is necessary for candidates to appreciate the concept of sustainable development.

Candidates should understand the particular problems faced by LEDCs.

Candidates should understand how national governments can use policies to promote economic development, and the arguments for and against state planning of economic development.

Candidates should understand what is meant by globalisation and appreciate the challenges and opportunities the process offers for MEDCs such as the UK, and for LEDCs and NICs.

Candidates should understand the role of the World Trade Organisation (WTO) and appreciate the arguments for and against WTO influence on the global economy.

(f) The European Union (EU)

Candidates should understand the benefits and costs of UK membership of the EU with reference to issues already covered in the syllabus, such as trade and protectionism.

Candidates should appreciate that the Common Agricultural Policy (CAP) is a form of protectionism and understand the impact of EU enlargement on issues such as the CAP and the EU budget.

█ Candidates should understand why countries have undergone European Monetary Union. █

Additional information

Equality and inclusion

Cambridge has taken great care in the preparation of this syllabus and related assessment materials to avoid bias of any kind. To comply with the UK Equality Act (2010), Cambridge has designed this qualification with the aim of avoiding direct and indirect discrimination.

The standard assessment arrangements may present unnecessary barriers for candidates with disabilities or learning difficulties. Arrangements can be put in place for these candidates to enable them to access the assessments and receive recognition of their attainment. Access arrangements will not be agreed if they give candidates an unfair advantage over others or if they compromise the standards being assessed. Candidates who are unable to access the assessment of any component may be eligible to receive an award based on the parts of the assessment they have taken. Information on access arrangements is found in the *Cambridge Handbook (UK)*, for the relevant year, which can be downloaded from the website www.cie.org.uk/examsOfficers

Entries

For entry information, please refer to the *Cambridge Administrative Guide (UK)*, for the relevant year, available from the website www.cie.org.uk/examsOfficers

If you are not yet a Cambridge school

Learn about the benefits of becoming a Cambridge school at www.cie.org.uk/startcambridge. Email us at info@cie.org.uk to find out how your organisation can register to become a Cambridge school.

Language

This syllabus and the associated assessment materials are available in English only.

Procedures and regulations

This syllabus complies with our *Code of Practice* and *Ofqual General Conditions of Recognition*.

Further information about the regulations for Cambridge Pre-U can be found in the *Cambridge Handbook (UK)*, for the relevant year. The *Cambridge Administrative Guide (UK)*, for the relevant year, gives details about the administration of Cambridge Pre-U syllabuses. Both of these documents can be downloaded from the website www.cie.org.uk/examsOfficers or obtained by contacting info@cie.org.uk

Spiritual, moral, ethical, social, legislative, economic and cultural issues

Economic issues are the essence of the syllabus. The syllabus is presented in such a way as to include, where appropriate, the spiritual, moral, ethical, social and cultural dimensions of economics. For example the study of market failure, including inequitable distribution of income (Section 1d), has major moral and ethical dimensions. The rationale for government intervention in the market (Section 1e), government action on minimum wages and discrimination in the labour market (Section 1f), and the purposes and methods of alternative government macroeconomic policies (Section 2i), occur within a legislative framework.

Sustainable development, health and safety considerations and international developments

In Section 2b candidates study whether economic growth is sustainable or desirable. In Section 3e they further study sustainable development in the context of development economics. The environment is also considered in the study of market failure and government intervention (Sections 1d and 1e).

Cambridge has developed this syllabus in line with UK, European and international legislation. Candidates study several aspects of international economics in Section 3 of this syllabus, including the EU specifically in Section 3f. Material on the European economy may be introduced across the syllabus to aid economic knowledge and understanding, and to encourage the development of appropriate skills.

Cambridge International Examinations
1 Hills Road, Cambridge, CB1 2EU, United Kingdom
Tel: +44 (0)1223 553554 Fax: +44 (0)1223 553558
Email: info@cie.org.uk www.cie.org.uk

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