

AQA A LEVEL ECONOMICS

SPECIFICATION CHECKLIST

Individuals, firms, markets and market failure

Economic methodology and the economic problem

- The Economic Problem
- Economics as a social science
- Positive and normative economic statements
- Problem of scarcity
- Renewable and non-renewable resources
- Environment as an economic resource
- Production possibility frontiers
- Opportunity cost and choice trade-offs

Individual economic decision making

- Rational economic decision making and economic incentives
- Utility theory including utility maximisation
- Importance of the margin when making choices
- Imperfect information
- Significance of asymmetric information
- Bounded rationality and bounded self-control
- Biases in decision making: rules of thumb, anchoring, availability and social norms
- Importance of altruism and perceptions of fairness

- Choice architecture and framing
- Nudges
- Default choices, restricted choice and mandated choice

Price determination in a competitive market

- Theory of demand
- Price elasticity of demand
- Income elasticity of demand
- Cross price elasticity of demand
- Theory of supply
- Elasticity of supply
- Price determination
- Difference between equilibrium and disequilibrium
- Why excess demand and excess supply lead to changes in price
- Functions of the price mechanism
- Interrelationships between markets
- Joint demand, competitive demand, composite demand, derived demand
- Joint supply

Production, costs and revenue

- Production and productivity
- Specialisation, division of labour and exchange
- Law of diminishing returns and returns to scale
- Returns to scale
- Fixed and variable costs

- Marginal, average and total costs
- Difference between short-run and long-run costs
- Reasons for the shape of the marginal, average and total cost curves
- How factor prices and productivity affect firms' costs of production and their choice of factor inputs
- Difference between internal and external economies of scale
- Reasons for diseconomies of scale
- Relationship between returns to scale and economies or diseconomies of scale
- Relationship between economies of scale, diseconomies of scale and the shape of the long-run average cost curve
- L-shaped long-run average cost curve
- Concept of the minimum efficient scale of production
- Marginal, average and total revenue
- Difference between marginal, average and total revenue
- Relationship between average and marginal revenue
- Relationship between marginal revenue and total revenue
- Profit
- Difference between normal and abnormal (supernormal) profit
- Role of profit in a market economy

- Technological change
- Difference between invention and innovation
- Impact of technological change on methods of production, productivity, efficiency and firms' costs of production
- Impact of technological change on development of new products and markets
- Impact of technological change on the structure of markets

Perfect competition, imperfectly competitive markets and monopoly

- Market structures and business objectives
- Market structures
- Spectrum of competition
- Profit-maximising rule ($MC=MR$)
- Reasons for and the consequences of a divorce of ownership from control
- The satisficing principle
- Diagrammatic analysis of the perfectly competitive model in the short and long run
- Perfect competition and economic efficiency
- Diagrammatic analysis of the monopolistically competitive model in the short and long run
- Main characteristics of monopolistically competitive markets
- Monopolistic competition and economic efficiency
- Importance of non-price competition
- Main characteristics of oligopolistic markets
- Concentration ratios and how to calculate a concentration ratio
- Difference between collusive and non-collusive oligopoly
- Difference between cooperation and collusion
- Kinked demand curve model
- Significance of interdependence and uncertainty in oligopoly
- Advantages and disadvantages of oligopoly
- Diagrammatic analysis of the monopoly model
- Barriers to entry in markets

- Advantages and disadvantages of monopoly
- Conditions necessary for price discrimination
- Advantages and disadvantages of price discrimination
- Dynamics of competition and competitive market processes
- Difference between static efficiency and dynamic efficiency
- Conditions required for productive efficiency (minimising average total costs) and allocative efficiency (price = marginal cost)
- Dynamic efficiency (research and development, investment in human and non-human capital and technological change)
- Short-run and long-run benefits which are likely to result from competition
- Process of creative destruction
- Consumer and producer surplus
- Significance of market contestability for the performance of an industry
- Concepts such as sunk costs and hit-and-run competition

The Labour Market

- Marginal productivity theory of the demand for labour
- Causes of shifts in the demand curve for labour
- Determinants of the elasticity of demand for labour
- Influences upon the supply of labour to different markets
- Causes of shifts in the market supply curve for labour
- Determination of relative wage rates and levels of employment in perfectly competitive labour markets

- Determination of relative wage rates and levels of employment in imperfectly competitive labour markets
- Monopsony power in the labour market
- Influence of trade unions in determining wages and levels of employment
- Effects of a national minimum wage upon labour markets
- Advantages and disadvantages of a national minimum wage
- Discrimination in the labour market

Distribution of income and wealth: poverty and inequality

- Difference between income and wealth
- Factors which influence the distribution of income and wealth
- Difference between equality and equity in relation to the distribution of income and wealth
- Lorenz curve and Gini coefficient
- Likely benefits and costs of more equal and more unequal distributions
- Difference between relative and absolute poverty
- Causes and effects of poverty
- Policies to influence the distribution of income and wealth and to alleviate poverty
- Economic consequences of such policies

Market mechanism, market failure and government intervention in markets

- Rationing, incentive and signalling functions of prices
- Advantages and disadvantages of the price mechanism
- Meaning of market failure

- Difference between complete market failure and partial market failure
- Public goods, private goods and quasi-public goods
- Difference between a public good and a private good
- Quasi-public goods
- Significance of technological change on the nature of public goods
- Free-rider problem
- Tragedy of the commons
- Positive and negative externalities in consumption and production
- Externalities and divergence between private and social costs & benefits
- Positive externalities from consumption
- Positive externalities from production
- Negative externalities from consumption
- Negative externalities from production
- Externalities and net welfare loss
- Merit and demerit goods
- Importance of value judgements
- Merit goods and positive externalities from consumption
- Imperfect information and merit goods
- De-merit goods and negative externalities from consumption
- Imperfect information and de-merit goods
- Why imperfect and asymmetric information can lead to market failure
- Why the existence of monopoly and monopoly power can lead to market failure
- Why the immobility of factors of production can lead to market failure
- Principles of UK competition policy and EU competition policy
- Costs and benefits of such policies
- Arguments for and against public ownership of firms and industries
- Arguments for and against the privatisation of state-owned enterprises
- Arguments for and against the regulation of markets
- Arguments for and against the deregulation of markets
- Problem of regulatory capture
- Interventions to address market failure(s)
- Indirect taxation
- Subsidies
- Price controls
- State provision and regulation
- Extension of property rights and pollution permits to correct market failure
- Causes of government failure

The national and international economy

Measurement of macroeconomic performance & macroeconomic objectives

- objectives of government macroeconomic policy
- Possibility of conflict arising, at least in the short run, when attempting to achieve these objectives
- How index numbers are calculated and interpreted, including the base year and the use of weights
- How index numbers are used to measure changes in the price level and changes in other economic variables
- Use and limitations of national income data to assess changes in living standards over time
- Use and limitations of national income data to compare differences in living standards between countries

- Importance of using purchasing power parity (PPP) exchange rates when making international comparisons of living standards

How the macroeconomy works: the circular flow of income, aggregate demand / aggregate supply analysis and related concepts

- What national income measures
- Difference between nominal and real income
- Real national income as an indicator of economic performance
- Circular flow of income concept, the equation $\text{income} = \text{output} = \text{expenditure}$
- Injections and withdrawals into the circular flow of income
- Effect of changes in injections and withdrawals on national income
- What is meant by AD
- Determinants of AD (consumption, investment, government spending, exports and imports)
- Basic accelerator process
- Determinants of savings
- Difference between saving and investment
- Role of AD in influencing the level of economic activity
- Multiplier process
- Concept of the marginal propensity to consume and use to calculate the size of the multiplier
- Determinants of short-run aggregate supply
- Determinants of long-run aggregate supply
- Keynesian AS curve
- Using AD/AS diagrams to illustrate macroeconomic equilibrium

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- How demand-side and supply-side shocks affect the macroeconomy

Economic performance

- The difference between short-run and long-run growth
- Demand-side and supply-side determinants of short-run growth of real national income
- Determinants of long-run trend rate of economic growth
- Costs and benefits of economic growth
- Impact of growth on individuals, the economy and the environment
- Concept of the economic cycle and cyclical indicators
- Positive and negative output gaps
- Causes of changes in the phases of the economic cycle, including internal and external shocks
- Main UK measures of unemployment, ie the claimant count and Labour Force Survey measure
- Voluntary and involuntary unemployment
- Seasonal, frictional, structural and cyclical unemployment
- Demand and supply-side causes of unemployment
- Factors which determine, real wage unemployment
- Factors which determine, the natural rate of unemployment
- Consequences of unemployment for individuals and for the performance of the economy
- Concepts of inflation, deflation and disinflation
- Demand-pull and cost-push influences on the price level

- Fisher's equation of exchange $MV = PQ$ and Quantity Theory of Money in relation to the monetarist model
- Effects of expectations on changes in the price level
- Consequences of inflation for both individuals and the performance of the economy
- Consequences of deflation for both individuals and the performance of the economy
- How changes in world commodity prices affect domestic inflation
- How changes in other economies can affect inflation in the UK
- Possible conflicts between macroeconomic policy objectives
- How negative and positive output gaps relate to unemployment and inflationary pressures
- Short-run Phillips curve and the long-run, L-shaped Phillips curve
- Implications of the short-run Phillips curve and the long-run, L-shaped Phillips curve for economic policy
- Policies to reconcile possible policy conflicts both in the short run and the long run

Financial markets and monetary policy

- Structure of financial markets and financial assets
- Characteristics and functions of money
- Definitions of the money supply
- Difference between money market, capital market and foreign exchange market
- Roles of financial markets in the wider economy
- Difference between debt and equity

- Inverse relationship between market interest rates and bond prices
- Commercial banks and investment banks
- Difference between a commercial bank and an investment bank
- Main functions of a commercial bank
- Structure of a commercial bank's balance sheet
- Objectives of a commercial bank, ie liquidity, profitability, security
- Potential conflicts between objectives of commercial banks
- How banks create credit
- Main functions of a central bank
- Objectives of monetary policy set by the government
- Role of the Monetary Policy Committee of the Bank of England (MPC)
- Factors considered by the MPC when setting the bank (interest) rate
- How changes in the exchange rate affect AD and macroeconomic policy objectives
- Monetary policy transmission mechanism
- How the Bank of England can influence the growth of the money supply
- Roles of Prudential Regulation Authority (PRA), Financial Policy Committee (FPC) and Financial Conduct Authority (FCA)
- Why banks fail
- Liquidity ratios and capital ratios
- Moral hazard
- Systemic risk and the impact of financial instability on the real economy

Fiscal policy and supply-side policies

- How fiscal policy can be used to influence aggregate demand

- How fiscal policy can be used to influence aggregate supply
- How government spending and taxation can affect the pattern of economic activity
- Types of and reasons for public expenditure
- Why governments levy taxes
- Difference between direct and indirect taxes
- Difference between progressive, proportional and regressive taxes
- Principles of taxation
- Role and relative merits of different UK taxes
- Relationship between the budget balance and the national debt
- Cyclical and structural budget deficits and surpluses
- Consequences of budget deficits and surpluses for macroeconomic performance
- Significance of the size of the national debt
- Role of the Office for Budget Responsibility
- Difference between supply-side policies and supply-side improvements in the economy
- How supply-side policies can help to achieve supply-side improvements in the economy
- Role of supply-side policies in addressing conflicts between macro objectives
- Role of supply-side policies in improving the current account of the balance of payments
- Role of supply-side policies in reducing the natural rate of unemployment
- Free market supply-side policies
- Interventionist supply-side policies
- Microeconomic effects of supply-side economic policies

The international economy

- Causes of globalisation
- Characteristics of globalisation
- Consequences of globalisation for less-developed and for more-developed countries
- Role of multinational corporations in globalisation
- Model of comparative advantage
- Distinction between comparative and absolute advantage
- Wider benefits from international trade
- Costs of international trade
- Reasons for changes in the pattern of trade between UK and rest of the world
- Protectionist policies, such as: tariffs, quotas and export subsidies
- Causes and consequences of countries adopting protectionist policies
- Features of a customs union
- Characteristics of the Single European Market (SEM)
- Consequences for the UK of membership of European Union (EU)
- Role of the World Trade Organisation (WTO)
- Difference between the current, capital and financial accounts on the balance of payments
- Meaning of a deficit and a surplus on the current account
- Factors that influence a country's current account balance
- Consequences of investment flows between countries
- Policies to correct a balance of payments deficit or surplus
- Expenditure-switching and expenditure-reducing policies

- Effect policies to correct a deficit or surplus may have on other policy objectives
- Significance of deficits and surpluses for an individual economy
- Implications of trade imbalances in the world economy
- How exchange rates are determined in freely floating exchange rate systems
- How governments can intervene to influence the exchange rate
- Advantages and disadvantages of fixed and floating exchange rate systems
- Advantages and disadvantages for a country of joining a currency union, eg the euro zone
- Difference between growth and development
- Characteristics of less-developed economies
- Indicators of development, including Human Development Index (HDI)
- Factors that affect growth and development
- Barriers to growth and development
- Policies to promote economic growth and development
- Role of aid and trade in promoting growth and development

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