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| **PLC** |
| Personalised Learning Checklist |

GCE Economics A Level (AQA)

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| **Course content** | **Progress (please select)** |
| **Individuals, firms, markets and market failure** |  |
| **4.1.1 Economic methodology and the economic problem** |  |
| Economics as a social science. |  |
| Similarities to and differences in methodology from natural and other sciences. |  |
| The difference between positive and normative statements. |  |
| How value judgements influence economic decision making and policy. |  |
| People’s views concerning the best option are influenced by the positive consequences ofdifferent decisions and by moral and political judgements. |  |
| **4.1.1.2 The nature and purpose of economic activity** |  |
| The central purpose of economic activity is the production of goods and services to satisfy needsand wants. |  |
| The key economic decisions are: what to produce, how to produce and who is to benefit fromthe goods and services produced. |  |
| **4.1.1.3 Economic resources** |  |
| The economists’ classification of economic resources into land, labour, capital and enterprise,which are the factors of production. |  |
| The environment is a scarce resource. |  |
| **4.1.1.4 Scarcity, choice and the allocation of resources** |  |
| The fundamental economic problem is scarcity and that it results from limited resources andunlimited wants. |  |
| Scarcity means that choices have to be made about how scarce resources are allocated betweendifferent uses. |  |
| Choices have an opportunity cost. |  |
| **4.1.1.5 Production possibility diagrams** |  |
| Production possibility diagrams illustrate different features of the fundamental economic problem, such as: resource allocation, opportunity cost and trade-offs, unemployment ofeconomic resources, economic growth. |  |
| Evaluate Why all points on the boundary are productively efficient but not all points on theboundary are allocatively efficient. |  |
| **4.1.2 Individual economic decision making** |  |
| Consumer behaviour |  |
| Rational economic decision making and economic incentives. |  |
| Utility theory: total and marginal utility, and the hypothesis of diminishing marginal utility. |  |
| Utility maximisation. |  |
| The importance of the margin when making choices. |  |
| **4.1.2.2 Imperfect information** |  |

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| The importance of information for decision making. |  |
| The significance of asymmetric information. |  |
| **4.1.2.3 Aspects of behavioural economic theory** |  |
| Bounded rationality and bounded self-control. |  |
| Biases in decision making: rules of thumb, anchoring, availability and social norms. |  |
| The importance of altruism and perceptions of fairness. |  |
| **4.1.2.4 Behavioural economics and economic policy** |  |
| Choice architecture and framing. |  |
| Nudges. |  |
| Default choices, restricted choice and mandated choice. |  |
| **4.1.3 Price determination in a competitive market** |  |
| **4.1.3.1 The determinants of the demand for goods and services** |  |
| A demand curve shows the relationship between price and quantity demanded. |  |
| The causes of shifts in the demand curve. |  |
| **4.1.3.2 Price, income and cross elasticities of demand** |  |
| Be able to calculate price, income and cross elasticities of demand. |  |
| The relationship between income elasticity of demand and normal and inferior goods. |  |
| The relationship between cross elasticity of demand and substitute and complementary goods. |  |
| The relationships between price elasticity of demand and firms’ total revenue (totalexpenditure). |  |
| The factors that influence these elasticities of demand. |  |
| **4.1.3.3 The determinants of the supply of goods and services** |  |
| A supply curve shows the relationship between price and quantity supplied. |  |
| Understand that higher prices imply higher profits and that this will provide the incentive toexpand production. |  |
| The causes of shifts in the supply curve. |  |
| **4.1.3.4 Price elasticity of supply** |  |
| Be able to calculate price elasticity of supply. |  |
| The factors that influence price elasticity of supply. |  |
| **4.1.3.5 The determination of equilibrium market prices** |  |
| How the interaction of demand and supply determines equilibrium prices in a market economy. |  |
| The difference between equilibrium and disequilibrium. |  |
| Why excess demand and excess supply lead to changes in price. |  |
| **4.1.3.6 The interrelationship between markets** |  |
| Changes in a particular market are likely to affect other markets. |  |
| The implications of joint demand, competitive demand, composite demand, derived demand andjoint supply. |  |
| **4.1.4 Production, costs and revenue** |  |
| 4.1.4.1 Production and productivity |  |
| Production converts inputs, or the services of factors of production such as capital and labour,into final output. |  |
| The meaning of productivity, including labour productivity. |  |
| **4.1.4.2 Specialisation, division of labour and exchange** |  |
| The benefits of specialisation and division of labour. |  |
| Why specialisation necessitates an efficient means of exchanging goods and services, such as theuse of money as a medium of exchange. |  |
| **4.1.4.3 The law of diminishing returns and returns to scale** |  |

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| The difference between the short run and the long run. |  |
| The difference between marginal, average and total returns. |  |
| The law of diminishing returns. |  |
| Returns to scale. |  |
| Analyse the difference between increasing, constant and decreasing returns to scale. |  |
| **4.1.4.4 Costs of production** |  |
| The difference between fixed and variable costs. |  |
| The difference between marginal, average and total costs. |  |
| The difference between short-run and long-run costs. |  |
| The 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 factorinputs. |  |
| **4.1.4.5 Economies and diseconomies of scale** |  |
| The difference between internal and external economies of scale. |  |
| Reasons for diseconomies of scale. |  |
| The relationship between returns to scale and economies or diseconomies of scale. |  |
| The relationship between economies of scale, diseconomies of scale and the shape of the long-run average cost curve. |  |
| The L-shaped long-run average cost curve. Research how the LRAC is dervided |  |
| The concept of the minimum efficient scale of production. |  |
| **4.1.4.6 Marginal, average and total revenue** |  |
| The difference between marginal, average and total revenue. |  |
| Why the average revenue curve is the firm’s demand curve. |  |
| The relationship between average and marginal revenue. |  |
| The relationship between marginal revenue and total revenue. |  |
| **4.1.4.7 Profit** |  |
| Profit is the difference between total revenue and total costs. |  |
| The difference between normal and abnormal (supernormal) profit. Show the area of profit on a business diagram. Highlight Revenue made minus total costs of production |  |
| The role of profit in a market economy. |  |
| **4.1.4.8 Technological change** |  |
| The difference between invention and innovation. |  |
| Technological change can affect methods of production, productivity, efficiency andfirms’ costs of production. |  |
| Technological change can lead to the development of new products, the development ofnew markets and may destroy existing markets. |  |
| Technological change can influence the structure of markets. |  |
| **4.1.5 Perfect competition, imperfectly competitive markets and monopoly** |  |
| **4.1.5.1 Market structures** |
| The spectrum of competition ranging from perfect competition at one end of thespectrum to pure monopoly at the other end of the spectrum. |  |
| Factors such as the number of firms, the degree of product differentiation and ease ofentry are used to distinguish between different market structures. |  |
| **4.1.5.2 The objectives of firms** |  |
| The models that comprise the traditional theory of the firm are based upon theassumption that firms aim to maximise profits. |  |
| The profit-maximising rule (MC=MR). |  |

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| The reasons for and the consequences of a divorce of ownership from control. |  |
| Firms have a variety of other possible objectives. (Illustrate all business objectives indiagram form. |  |
| The satisficing principle. |  |
| **4.1.5.3 Perfect competition** |  |
| The formal diagrammatic analysis of the perfectly competitive model in the short andlong run. |  |
| The implications of the following for the behaviour of firms and the industry: largenumbers of producers, identical products, freedom of entry and exit, and perfect knowledge. |  |
| Firms operating in perfectly competitive markets are price takers. |  |
| The proposition that, given certain assumptions, relating for example to a lack of externalities, perfect competition will result in an efficient allocation of resources. |  |
| **4.1.5.4 Monopolistic competition** |  |
| The formal diagrammatic analysis of the monopolistically competitive model in the shortand long run. |  |
| The main characteristics of monopolistically competitive markets. |  |
| Monopolistically competitive markets will be subject to non- price competition. |  |
| **4.1.5.5 Oligopoly** |  |
| The main characteristics of oligopolistic markets. |  |
| Oligopolistic markets can be very different in relation to, for example, the number offirms, the degree of product differentiation and ease of entry. |  |
| Oligopoly can be defined in terms of market structure or in terms of market conduct(behaviour). |  |
| Concentration ratios and how to calculate a concentration ratio. |  |
| The difference between collusive and non-collusive oligopoly. |  |
| The difference between cooperation and collusion. |  |
| Evaluate the kinked demand curve model. (Criticise the model) |  |
| The reasons for non-price competition, the operation of cartels, price leadership, priceagreements, price wars and barriers to entry. |  |
| The factors which influence prices, output, investment, expenditure on research andadvertising in oligopolistic industries. |  |
| The significance of interdependence and uncertainty in oligopoly. |  |
| The advantages and disadvantages of oligopoly. |  |
| **4.1.5.6 Monopoly and monopoly power** |  |
| The formal diagrammatic analysis of the monopoly model. |  |
| That monopoly power is influenced by factors such as barriers to entry, the number ofcompetitors, advertising and the degree of product differentiation. |  |
| Evalute the advantages and disadvantages of monopoly. Use real world examples of monopoly power in your writing. Interpret the natural monopoly diagram. |  |
| **4.1.5.7 Price discrimination** |  |
| The conditions necessary for price discrimination. |  |
| The advantages and disadvantages of price discrimination. |  |
| 4.1.5.8 The dynamics of competition and competitive market processes |  |
| Both the short-run and long-run benefits which are likely to result from competition. |  |

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| That firms do not just compete on the basis of price but that competition will, forexample, also lead firms to strive to improve products, reduce costs, improve the quality of the service provided. |  |
| The process of creative destruction. |  |
| **4.1.5.9 Contestable and non-contestable markets** |  |
| The significance of market contestability for the performance of an industry. |  |
| Concepts such as sunk costs and hit-and-run competition. |  |
| **4.1.5.10 Market structure, static efficiency, dynamic efficiency and resource allocation** |  |
| The difference between static efficiency and dynamic efficiency. |  |
| The conditions required for productive efficiency (minimising average total costs) andallocative efficiency (price = marginal cost). |  |
| Dynamic efficiency is influenced by, for example, research and development, investmentin human and non-human capital and technological change. |  |
| **4.1.5.11 Consumer and producer surplus** |  |
| Be able to apply these concepts when discussing economic efficiency and welfare issues, such as price discrimination and the dead-weight losses associated with monopoly. |  |
| **4.1.6.1 The demand for labour, marginal productivity theory** |  |
| The demand for a factor is derived from the demand for the product. |  |
| The marginal productivity theory of the demand for labour. |  |
| The demand curve for labour shows the relationship between the wage rate andnumber of workers employed. |  |
| The causes of shifts in the demand curve for labour. |  |
| The determinants of the elasticity of demand for labour. |  |
| **4.1.6.2 Influences upon the supply of labour to different markets** |  |
| The supply of labour to a particular occupation is influenced by monetary and non-monetary considerations. |  |
| Non-monetary considerations include job satisfaction and dissatisfaction and workingconditions. |  |
| The supply curve for labour shows the relationship between the wage rate and numberof workers willing to work in an occupation. |  |
| The causes of shifts in the market supply curve for labour. |  |
| **4.1.6.3 The determination of relative wage rates and levels of employment in perfectly****competitive labour markets** |  |
| The economists’ model of wage determination in a perfectly competitive labour market. |  |
| Role of market forces in determining relative wage rates. |  |
| **4.1.6.4 The determination of relative wage rates and levels of employment in****imperfectly competitive labour markets** |  |
| How various factors such as monopsony power, trade unions and imperfect informationcontribute to imperfections in a labour market. |  |
| How, in a monopsony labour market, the employer can use market power to reduceboth the relative wage rate and the level of employment below those that would exist in a perfectly competitive labour market. |  |
| **4.1.6.5 The Influence of trade unions in determining wages and levels of employment** |  |

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| The various factors that affect the ability of trade unions to influence wages and levels ofemployment in different labour markets. |  |
| How wages and employment are likely to be affected by the introduction of a tradeunion into a previously perfectly competitive labour market and into a monopsony labour market. |  |
| Review and memorise all labour market diagrams, you need to memorise all of themusing the diagram booklet provided to you |  |
| **4.1.6.6 The National Minimum Wage** |  |
| The effects of a national minimum wage upon labour markets. |  |
| The advantages and disadvantages of a national minimum wage. |  |
| **4.1.6.7 Discrimination in the labour market** |  |
| The conditions necessary for wage discrimination. |  |
| The impact of gender, ethnicity and other forms of discrimination on wages, levels andtypes of employment. |  |
| **4.1.7.1 The distribution of income and wealth** |  |
| The difference between income and wealth. |  |
| The various factors which influence the distribution of income and wealth. |  |
| The difference between equality and equity in relation to the distribution of income andwealth. |  |
| The Lorenz curve and Gini coefficient. |  |
| The likely benefits and costs of more equal and more unequal distributions. |  |
| **4.1.7.2 The problem of poverty** |  |
| Evaluate economic consequences of policies to reduce income and wealth inequality andfind some current policies in place by our current government. |  |
| **4.1.8 Themarketmechanism,marketfailureandgovernment intervention in markets** |  |
| **4.1.8.1 How markets and prices allocate resources** |
| The rationing, incentive and signalling functions of prices in allocating resources andcoordinating the decisions of buyers and sellers in a market economy. |  |
| The advantages and disadvantages of the price mechanism and of extending its use intonew areas of activity. |  |
| **4.1.8.2 The meaning of market failure** |  |
| Market failure occurs whenever a market leads to a misallocation of resources. |  |
| The difference between complete market failure (resulting in a missing market) and partial market failure (where a market exists but contributes to resource misallocation). |  |
| How public goods, positive and negative externalities, merit and demerit goods,monopoly and other market imperfections, and inequalities in the distribution of income and wealth can lead to market failure. |  |
| **4.1.8.3 Public goods, private goods and quasi-public goods** |  |
| Pure public goods are non-rival and non-excludable and recognition of the significanceof these characteristics. |  |
| The difference between a public good and a private good. |  |
| Circumstances when a public good may take on some of the characteristics of a privategood and become a quasi-public good. |  |
| The significance of technological change, eg television broadcasting is now excludable. |  |
| The free-rider problem. |  |

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| The tragedy of the commons. |  |
| **4.1.8.4 Positive and negative externalities in consumption and production** |  |
| Externalities exist when there is a divergence between private and social costs andbenefits. |  |
| Why negative externalities are likely to result in over-production and that positiveexternalities are likely to result in under- production. |  |
| Why the absence of property rights leads to externalities in both production andconsumption and hence market failure. |  |
| **4.1.8.5 Merit and demerit goods** |  |
| The classification of merit and demerit goods depends upon a value judgement. |  |
| Such products may be subject to positive and negative externalities in consumption. |  |
| How under-provision of merit goods and over-provision of demerit goods may also resultfrom imperfect information. |  |
| **4.1.8.6 Market imperfections** |  |
| 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. |  |
| **4.1.8.7 Competition policy** |  |
| The general principles of UK competition policy and some awareness of EU competitionpolicy. |  |
| The costs and benefits of such policies. |  |
| **4.1.8.8 Public ownership, privatisation, regulation and deregulation of markets** |  |
| The arguments for and against the public ownership of firms and industries. |  |
| The arguments for and against the privatisation of state-owned enterprises. |  |
| The arguments for and against the regulation of markets. |  |
| The arguments for and against the deregulation of markets. |  |
| The problem of regulatory capture. |  |
| **4.1.8.9 Government intervention in markets** |  |
| The existence of market failure, in its various forms, provides an argument forgovernment intervention in markets. |  |
| Governments influence the allocation of resources in a variety of ways, includingthrough public expenditure, taxation and regulation. |  |
| Governments have a range of objectives and these affect how they intervene in a mixedeconomy to influence the allocation of resources. |  |
| The use of indirect taxation, subsidies, price controls, state provision and regulation, the extension of property rights and pollution permits to correct market failure. |  |
| **4.1.8.10** |  |
| Government failure |  |
| Government failure occurs when government intervention in the economy leads to amisallocation of resources. |  |
| Inadequate information, conflicting objectives and administrative costs are possiblesources of government failure. |  |
| Governments may create, rather than remove, market distortions. |  |
| Government intervention can lead to unintended consequences. |  |
| The national and international economy |  |

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| **The National and International Economy** |  |
| **4.2.1 The measurement of macroeconomic performance** |  |
| **4.2.1.1 The objectives of government economic policy** |
| The main objectives of government macroeconomic policy: economic growth, pricestability, minimising unemployment and a stable balance of payments on current account. |  |
| The possibility of conflict arising, at least in the short run, when attempting to achievethese objectives. |  |
| **4.2.1.2 Macroeconomic indicators** |  |
| Data which is commonly used to measure the performance of an economy, such as: real GDP, real GDP per capita, Consumer Prices and Retail Prices Indices (CPI/RPI), measures of unemployment, productivity and the balance of payments on current account. |  |
| **4.2.1.3 Uses of index numbers** |  |
| How index numbers are calculated and interpreted, including the base year and the useof weights. |  |
| How index numbers are used to measure changes in the price level and changes in othereconomic variables. |  |
| **4.2.1.4 Uses of national income data** |  |
| The use and limitations of national income data to assess changes in living standardsover time. |  |
| The use and limitations of national income data to compare differences in livingstandards between countries. |  |
| The importance of using purchasing power parity (PPP) exchange rates when makinginternational comparisons of living standards. |  |
| **4.2.2 How the macroeconomy works: the circular flow of income, aggregate****demand/aggregate supply analysis and related concepts** |  |
| **4.2.2.1 The circular flow of income** |
| What national income measures. |  |
| The difference between nominal and real income. |  |
| Real national income as an indicator of economic performance. |  |
| The circular flow of income concept, the equation income = output = expenditure, andof the concepts of equilibrium and full employment income. |  |
| The difference between injections and withdrawals into the circular flow of income. |  |
| The effect of changes in injections and withdrawals on national income. |  |
| **4.2.2.2 Aggregate demand and aggregate supply analysis** |  |
| Changes in the price level are represented by movements along the aggregate demand(AD) and aggregate supply (AS) curves. |  |
| The various factors that shift the AD curve and the short-run AS curve. |  |
| The factors which affect long-run AS and distinguish them from those which affect short-run AS. |  |
| Underlying economic growth is represented by a rightward shift in the long-run AScurve. |  |
| How to use AD/AS diagrams to illustrate macroeconomic equilibrium. |  |
| How both demand-side and supply-side shocks affect the macroeconomy. |  |
| **4.2.2.3 The determinants of aggregate demand** |  |
| What is meant by AD. |  |

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| The determinants of AD, ie the determinants of consumption, investment, governmentspending, exports and imports. |  |
| The basic accelerator process. |  |
| The determinants of savings. |  |
| The difference between saving and investment. |  |
| **4.2.2.4 Aggregate demand and the level of economic activity** |  |
| The role of AD in influencing the level of economic activity. |  |
| The multiplier process and an explanation of why an initial change in expenditure maylead to a larger impact on local or national income. |  |
| The concept of the marginal propensity to consume and use the marginal propensity toconsume to calculate the size of the multiplier. |  |
| Why the size of the marginal propensity to consume determines the magnitude of themultiplier effect. |  |
| **4.2.2.5 Determinants of short-run aggregate supply** |  |
| The price level and production costs are the main determinants of the short-run AS. |  |
| Changes in costs, such as: money wage rates, raw material prices, business taxation andproductivity, will shift the short-run AS curve. |  |
| **4.2.2.6 Determinants of long-run aggregate supply** |  |
| The fundamental determinants of long-run AS such as technology, productivity,attitudes, enterprise, factor mobility, and economic incentives. |  |
| The position of the vertical long-run AS curve represents the normal capacity level ofoutput of the economy. |  |
| The importance of the institutional structure of the economy in determining aggregatesupply, such as the role of the banking system in providing business investment funds,should also be understood. |  |
| The Keynesian AS curve. |  |
| **4.2.3 Economic performance** |  |
| **4.2.3.1 Economic growth and the economic cycle** |
| The difference between short-run and long-run growth. |  |
| The various demand-side and supply-side determinants of short- run growth of realnational income and the long-run trend rate of economic growth. |  |
| The costs and benefits of economic growth. |  |
| The impact of growth on individuals, the economy and the environment. |  |
| The concept of the economic cycle and the use of a range of economic indicators, suchas real GDP, the rate of inflation, unemployment and investment, to identify the various phases of the economic cycle. |  |
| The difference between positive and negative output gaps. |  |
| The causes of changes in the various phases of the economic cycle, including both globaland domestic demand-side and supply-side shocks. |  |
| **4.2.3.2 Employment and unemployment** |  |
| The main UK measures of unemployment, ie the claimant count and the Labour ForceSurvey measure. |  |
| The concepts of voluntary and involuntary unemployment. |  |
| The terms seasonal, frictional, structural and cyclical unemployment. |  |
| How employment and unemployment may be determined by both demand-side andsupply-side factors. |  |
| The concept of, and the factors which determine, real wage unemployment. |  |

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| The concept of, and the factors which determine, the natural rate of unemployment. |  |
| The consequences of unemployment for individuals and for the performance of theeconomy. |  |
| **4.2.3.3 Inflation and deflation** |  |
| The concepts of inflation, deflation and disinflation. |  |
| Demand-pull and cost-push influences on the price level. |  |
| Fisher’s equation of exchange MV = PQ and the Quantity Theory of Money in relation tothe monetarist model. |  |
| The effects of expectations on changes in the price level |  |
| The consequences of inflation for both individuals and the performance of the economy. |  |
| The consequences of deflation for both individuals and the performance of theeconomy. |  |
| How changes in world commodity prices affect domestic inflation. |  |
| How changes in other economies can affect inflation in the UK. |  |
| **4.2.3.4 Possible conflicts between macroeconomic policy objectives** |  |
| How negative and positive output gaps relate to unemployment and inflationarypressures. |  |
| Both the short-run Phillips curve and the long-run, L-shaped Phillips curve. |  |
| The implications of the short-run Phillips curve and the long-run, L-shaped Phillips curvefor economic policy. |  |
| How economic policies may be used to try to reconcile possible policy conflicts both inthe short run and the long run. |  |
| **4.2.4 Financial markets and monetary policy** |  |
| **4.2.4.1 The structure of financial markets and financial assets** |
| The characteristics and functions of money. |  |
| Definitions of the money supply and the distinction between narrow money and broadmoney. |  |
| The difference between the money market, the capital market and the foreign exchangemarket. |  |
| The role of financial markets in the wider economy. |  |
| The difference between debt and equity. |  |
| Why there is an inverse relationship between market interest rates and bond prices. |  |
| **4.2.4.2 Commercial banks and investment banks** |  |
| The difference between a commercial bank and an investment bank. |  |
| The main functions of a commercial bank. |  |
| The structure of a commercial bank’s balance sheet. |  |
| The objectives of a commercial bank, ie liquidity, profitability |  |
| Potential conflicts between these objectives. |  |
| How banks create credit. |  |
| **4.2.4.3 Central banks and monetary policy** |  |
| The main functions of a central bank. |  |
| That monetary policy involves the central bank taking action to influence interest rates,the supply of money and credit and the exchange rate. |  |
| The current objectives of monetary policy set by the government. |  |

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| The role of the Monetary Policy Committee of the Bank of England (MPC) and how ituses changes in bank rate to try to achieve the objectives for monetary policy, includingthe government’s target rate of inflation. |  |
| The factors considered by the MPC when setting the bank rate. |  |
| How changes in the exchange rate affect aggregate demand and the variousmacroeconomic policy objectives. |  |
| The monetary policy transmission mechanism, including the relationship betweenchanges in interest rates and the exchange rate. |  |
| How the Bank of England can influence the growth of the money supply. |  |
| **4.2.4.4 The regulation of the financial system** |  |
| Regulation of the financial system in the UK, eg the role of the Bank of England, thePrudential Regulation Authority (PRA), the Financial Policy Committee (FPC) and the Financial Conduct Authority (FCA). |  |
| Why a bank might fail, including the risks involved in lending long term and borrowingshort term. |  |
| Liquidity ratios and capital ratios and how they affect the stability of a financialinstitution. |  |
| Moral hazard. |  |
| Systemic risk and the impact of problems that arise in financial markets upon the realeconomy. |  |
| **4.2.5 Fiscal policy and supply-side policies** |  |
| **4.2.5.1 Fiscal policy** |
| Fiscal policy involves the manipulation of government spending, taxation and the budgetbalance. |  |
| Fiscal policy can have both macroeconomic and microeconomic functions. |  |
| 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. |  |
| The types of and reasons for public expenditure. |  |
| Why governments levy taxes. |  |
| The difference between direct and indirect taxes. |  |
| The difference between progressive, proportional and regressive taxes. |  |
| The principles of taxation, such as that taxes should be equitable. |  |
| The role and relative merits of different UK taxes. |  |
| The relationship between the budget balance and the national debt. |  |
| Cyclical and structural budget deficits and surpluses. |  |
| The consequences of budget deficits and surpluses for macroeconomic performance. |  |
| The significance of the size of the national debt. |  |
| The role of the Office for Budget Responsibility. |  |
| **4.2.5.2 Supply-side policies** |  |
| The difference between supply-side policies and supply-side improvements in theeconomy. |  |
| How supply-side policies can help to achieve supply-side improvements in the economy. |  |

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| How supply-side policies, such as tax changes designed to change personal incentives,may increase the potential output of the economy and improve the underlying trend rate of economic growth. |  |
| How supply-side policies can affect unemployment, the rate of change of prices and UK external performance, as reflected in the balance of payments on current account. |  |
| The role of supply-side policies in reducing the natural rate of unemployment. |  |
| Free market supply-side policies include measures such as: tax cuts, privatisation,deregulation and some labour market reforms. |  |
| Interventionist supply-side policies include measures such as: government spending oneducation and training, industrial policy, subsidising spending on research and development. |  |
| Supply-side policies can have microeconomic as well as macroeconomic effects. |  |
| **4.2.6 The international economy** |  |
| **4.2.6.1 Globalisation** |
| The causes of globalisation. |  |
| The main characteristics of globalisation. |  |
| The consequences of globalisation for less-developed and for more-developed countries. |  |
| The role of multinational corporations in globalisation. |  |
| **4.2.6.2 Trade** |  |
| The model of comparative advantage. |  |
| The distinction between comparative and absolute advantage. |  |
| The model shows that specialisation and trade can increase total output. |  |
| Other economic benefits of trade, such as the ability to exploit economies of scale andincreased competition. |  |
| The costs of international trade. |  |
| The reasons for changes in the pattern of trade between the UK and the rest of theworld. |  |
| The nature of protectionist policies, such as: tariffs, quotas and export subsidies. |  |
| The causes and consequences of countries adopting protectionist policies. |  |
| The main features of a customs union. |  |
| The main characteristics of the Single European Market (SEM). |  |
| The consequences for the UK of its membership of the European Union (EU). |  |
| The role of the World Trade Organisation (WTO). |  |
| **4.2.6.3 The balance of payments** |  |
| The difference between the current, capital and financial accounts on the balance ofpayments. |  |
| The current account comprises trade in goods, trade in services, primary income andsecondary income. |  |
| The meaning of a deficit and a surplus on the current account. |  |
| The factors that influence a country’s current account balance such as productivity,inflation and the exchange rate. |  |
| The consequences of investment flows between countries. |  |
| The policies that might be used to correct a balance of payments deficit or surplus. |  |
| Expenditure-switching and expenditure-reducing policies. |  |

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| The effect policies used to correct a deficit or surplus may have upon othermacroeconomic policy objectives. |  |
| The significance of deficits and surpluses for an individual economy. |  |
| The implications for the global economy of a major economy or economies withimbalances deciding to take corrective action. |  |
| **4.2.6.4 Exchange rate systems** |  |
| How exchange rates are determined in freely floating exchange rate systems. |  |
| How governments can intervene to influence the exchange rate. |  |
| The advantages and disadvantages of fixed and floating exchange rate systems. |  |
| Advantages and disadvantages for a country of joining a currency union, eg theeurozone. |  |
| **4.2.6.5 Economic growth and development** |  |
| The difference between growth and development. |  |
| The main characteristics of less-developed economies. |  |
| The main indicators of development, including the Human Development Index (HDI). |  |
| Factors that affect growth and development, such as: investment, education andtraining. |  |
| Barriers to growth and development, such as: corruption, institutional factors, poorinfrastructure, inadequate human capital, lack of property rights. |  |
| Policies that might be adopted to promote economic growth and development. |  |
| The role of aid and trade in promoting growth and development |  |