Riddlesdown Collegiate

A-level Economics
Summer Bridging work

Dear all,

I am delighted that you have chosen to study A-level Economics.

This booklet will help you get prepared for this A-level. It will help you get organised with the basics for the course and build some foundation knowledge. It will also give you a flavour of the subject content you will learn. Doing well on this A-level requires a willingness and enthusiasm to go beyond the specification content and so having a real interest and desire for this subject is important.

Use this to help you decide if this course is truly right for you.

In this booklet you will find:

1. Links to key information about the course.
2. A list of things you are required to arrange and bring for your lessons as of Sept.
3. Resources and tasks to explore the foundation knowledge of Economics that you will further develop over the next two year.
4. Research activities to experience exploring real economic situations and scenarios to broaden your knowledge of the real economic world.

For a look at the syllabus:

- AQA A Level Economics Specification AQA | Economics | A-level | A-level Economics

Useful websites/apps- register now:

- Tutor2u Blog | Economics | tutor2u - an Economics blog especially written for students. A daily blog will be sent to you with interesting news articles that tie into the syllabus, comments from examiners and (later) tips and support for exam modules
- BBC Business News Economy | Latest News & Updates | BBC News vital to stay current and up to date with the real Economic world, application of theory learnt is key to exam success.
- A Level Economics - YouTube – for Flipped Learning
- EconplusDal - YouTube – for revision/retrieval videos and exam technique guidance

Kind regards

Mr Kyle Jones
Director of Business and Economics

Tasks
Complete ALL tasks listed below.

Getting Ready for A-level Economics

1. Access the course specification via AQA's website. Read the specification particularly the content breakdown. Are these topics you will enjoy learning about?
   AQA | Economics | A-level | A-level Economics

   Some subjects have significant Math content or strong essay writing skills. Economics needs BOTH strong essay writing skills as well as Maths. To succeed, you must be able to read challenging articles and textbooks well and often and enjoy current affairs and data interpretation and statistics.

   You must be able to write essays employing appropriate terminology and using structured analytical paragraphs that communicate your thoughts in-depth but also clearly.

   Many pupils do not realise this, and it is important to be very clear - more pupils struggle in Economics because of weak English than weak Mathematics. A good economist is someone who can communicate technical knowledge in a clear way.

   So, think carefully about the independent study skills and underpinning knowledge you will require in this subject.

   You might want to take a look at these YouTube videos:
   How I got an A* in my economics: How I got an A* in Economics - Revision tips + Advice // A-Level
   How to get an A in economics: A-Level Economics: HOW I GOT A* IN ECONOMICS
   My economics notes: My Economics Notes - A Level | GCSE
   How to make notes - Active Recall: How To Make Notes From Lectures - Active Recall

2. Get ready for your course with the basics
   1) A ring binder for **each** paper (micro + macro). You will be expected to have the relevant folder with you for each lesson.
   2) A set of **10-part dividers** for each ring binder.
   3) A **hole-punched lined paper writing pad** that allows you to remove the pages and file in your ringbinder.
   4) A **fully equipped** clear pencil case with a **variety of coloured pens**, **whiteboard pen**, **highlighter, calculator** and **ruler**.

Building a knowledge base for A-level Economics

3. Recap GCSE Economics learning (or **bridge the gap into A-level Economics** if you've not studied Economics before) by;
    1) Watching all the YouTube videos on these playlists
       IGCSE Economics - Revision - YouTube
       IGCSE Economics: Diagrams you need to know
       IGCSE Economics Diagrams for MCQ

    2) Reading the **knowledge organisers** in the appendix of this booklet.

The World of Economics

4. An introduction to macroeconomics: Venezuela

We will spend a lot of time in lessons discussing examples from around the world. We will try to apply economic theory to explain and analyse what we see in both the UK and internationally.

Macroeconomics is the study of the economy as a whole and covers many of the concepts you might hear regularly on the news such as unemployment, inflation, trade, and recessions.

I would like you to consider the **economy of Venezuela** – it is a truly fascinating example of a country that should be far richer than it actually is.

I think it's a great case study to get you started on the wide range of topics we cover in economics – I hope you find it interesting too.

Most of the questions relate to the BBC video in the link below.

Remember you are just starting out on your Economics journey: I am not expecting you to know the answers to everything, approach the questions with an inquiring mind, and see where it takes you!

You will need to **watch from 22min for 40 – 41minutes** and you are likely to need to pause, rewind and perhaps watch some parts more than once.

Here is the link to the video:
BBC Caribbean with Simon Reeve Episode 2
Caribbean with Simon Reeve - Episode 2 - BBC iPlayer

Now answer these questions.

a. Where is Venezuela?

b. Identify 2 reasons why Venezuela should be 'one of the world's richest countries'?

c. Which other countries have large oil reserves? Think before you click!
Visualizing the Countries With the Largest Proven Oil Reserves

d. How does each country's GDP compare?

e. Watch this video Changing World Economy. How do economists make use of GDP data?
The Changing World Economy | Head Start in A-Level Economics

f. Where does Venezuela rank in GDP/capita data?

g. Do any countries have higher or lower GDP/capita than you were expecting?

h. Before you continue watching the BBC video, think of 3 reasons WHY Venezuela's GDP per capita might not be as high as expected (given the oil reserves)? You will find out some possible answers as you watch the video

i. Throughout the video, there are lots of examples of Venezuela's worsening living standards. You can come back to this question as you go along. Applying your knowledge is a key skill for economics students. The first one is done for you.

- 1 in 3 Venezuelans are poor
-
-
-
-
-

j. Simon comments that 'wealth is in the hands of the few in Venezuela'. Watch how economists measure inequality using Lorenz curves/Gini coefficient'
Lorenz Curve and Gini Coefficient - Measures of Income Inequality

Think about what it means for a country to have high levels of inequality and the impact it has on society.

Is inequality inevitable in (free market) economies?

Write a paragraph telling in me why it might be, then counter this with why it might not. Then write a brief judgement telling me whether it is or is not and what does your decision depend on.

No longer than 1 page of A4.

k. At 32min. 20 secs you will hear some of the reasons given for Venezuela's economic decline are given as 'restrictions on foreign currency meaning that businesses don't want to import and 'Soviet-style' controls on prices meaning that shops don't want to sell.

Question on objectives of producers/functions of the price mechanism.

Read about the objectives of producers
Do firms maximise profits? - Economics Help

Watch the explanation of the functions of the price mechanism.
Explaining the Price Mechanism | Reference Library | Economics | tutor2u

Now, explain why Venezuelan shops might be behaving rationally if prices are set below the free market equilibrium.

(No more than 1/2 a page)

l. At 33min. 20 secs.
   a. How much does it cost to fill a tank of petrol?
   b. What reasons are given for why petrol is so cheap?
   c. How does this compare to the price at your local petrol station?

m. How does this government policy (in question h) lead to a more unequal distribution of income in Venezuela? No more than half a page.

n. At 34min. 45secs. Simon visits a family living with an oil pump outside their house. What problems have the family suffered/witnessed as a result?

o. 36min. 15secs. Petrol in Columbia costs 100 times the price in Venezuela and large numbers of people illegally smuggle petrol at the border.

   Explain the impact of this smuggling on the Venezuelan economy. Consider the impact of the lost tax revenue? How does it change the incentives for the taxi driver to seek work?
   2 brief paragraphs

p. What is the recent situation in Venezuela?

   Watch these 4 videos. And then answer questions below.
   In particular, focus on the impact of inflation. What does inflation mean? inflation definition? What impact does it have on day to day living and working in Venezuela?

   1. Economic in crisis Venezuela
      Economic Crisis in Venezuela | Reference Library | Economics | tutor2u

   2. What is inflation?
      What is Inflation?

   3. Why is inflation a problem?
      Why is high inflation a problem? | Reference Library | Economics | tutor2u

   4. The story of Venezuela's collapse
      Maracaibo, the story of Venezuela's collapse • FRANCE 24 English

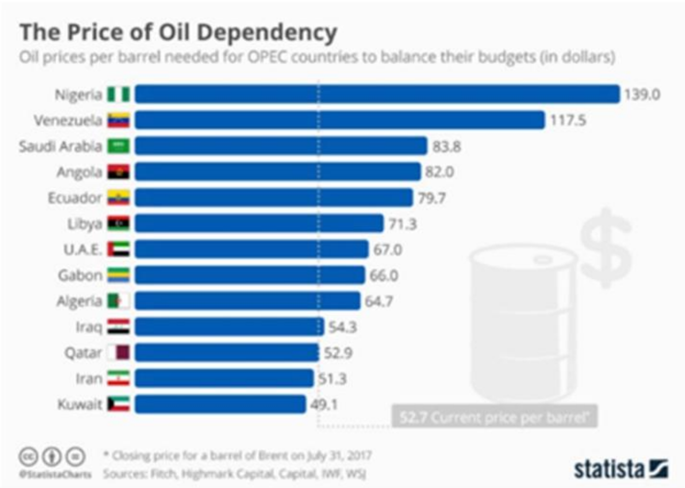
q. Define the economic term inflation

r. In the context of Venezuela, what impact does inflation have on the day to day living and working in Venezuela?

   3 brief paragraphs:
   1). The impact of inflation from the viewpoint of consumers and households
   2). The impact of inflation from the viewpoint of firms/businesses
   3). the impact of inflation from the viewpoint of the government.

s. Go back through your answers. Check, did you answer questions h, m, n?

t. Look at the 2 charts below. What impact might the current oil price of $25 per barrel have on the Venezuelan economy?
Think about: unemployment, growth, inflation, trade, inequality.
No more than 1/2 a page.



u. Finding out more about economics / further investigation.

A key (economic) question is why some countries are richer than others. Watch the videos about natural resource curses which offer a potential explanation

a). Is there a natural resource curse?
[Is there a Natural Resource Curse? | Marginal Revolution University]

b). Innovating your way out of the resource curse, An interesting article about the impact of natural resources on Qatar and Norway and policies to diversify away from sole reliance on a primary product.
[Innovating Your Way Out Of The Resource Curse]

Have you watched them?

Numeracy in Economics

5. Answer these **28 Maths questions**.

1) Milano's Pizza is a large-scale frozen pizza manufacturer based in Newcastle. They have 4 pizza machines. 1 machine can make 500 margarita pizzas an hour OR 400 ham and pineapple pizzas per hour. The manager currently has 2 machines making margarita pizzas and 2 machines making ham and pineapple pizzas.

   Assuming there are no defects or production problems, what is the maximum number of pizzas the firm makes in 12 hours.
   Show answer as x pizzas. For example 3,450 pizzas.

2) The regional demand for Milano's ham and pineapple pizzas increases after two prominent Newcastle footballers post a photo of themselves on Instagram eating them. To satisfy the extra demand, the manager at Milano's decides that she will use 3 machines to make ham and pineapple pizzas and 1 machine to make margarita pizzas.

   Calculate the new maximum number of pizzas made in 12 hours.
   Show answer as x pizzas.

3) After a few weeks, the manager decides that the only way she can cope with the surging demand is to buy 2 more machines (6 in total). She uses 1 to make margarita pizzas (2 in total) and 1 to make ham and pineapple pizzas (4 in total).

   Calculate the percentage change in production in both types of pizza.
   Show answer to 1 decimal place. Like this 20.2%

4) Geoff sells a house for £650,000 in Harrogate. The estate agent is paid 1.5% of the selling price for her services.

   Calculate how much she is paid.
   Show your answer to 1 decimal place.

5) Geoff buys a new 1-bedroom apartment in London with the proceeds from his house sale in Harrogate. The apartment costs him £500,000 to buy. This time he has to pay Stamp Duty tax on his purchase. Stamp Duty tax at this price is 3%.

   How much tax does he pay?
   Show your answer to 1 decimal place.

6) Over the next five years, London house prices go up by 45%. House prices in Harrogate decrease by 1.25%.

   Calculate how much Geoff's London apartment is worth five years later.
   Show your answer to 1 decimal place.

7) Over the next five years, London house prices go up by 45%. House prices in Harrogate decrease by 1.25%.

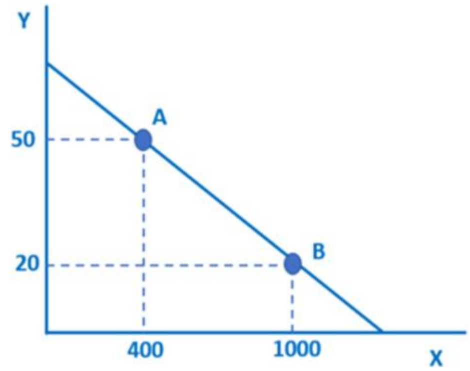
   Calculate how much his house in Harrogate would have been worth if he hadn't sold it.
   Show your answer to 1 decimal place.

8) A and B are two points on a straight line.

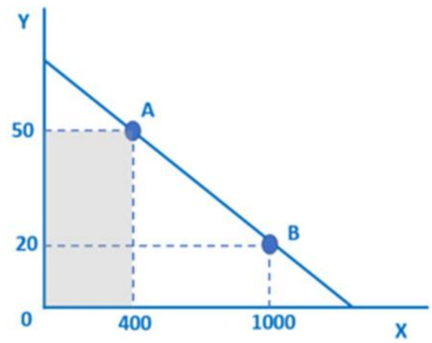
   If we move from A to B, how many X units do we gain?
   Show your answer as x units

9) A and B are two points on a straight line.

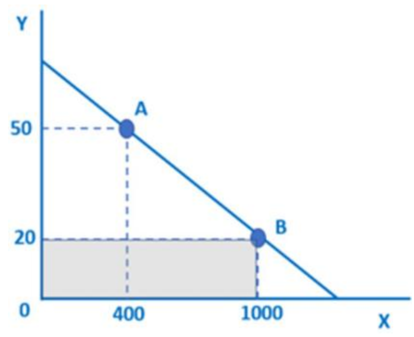
   If we move from A to B, how many Y units do we lose?
   Show your answer as Y units



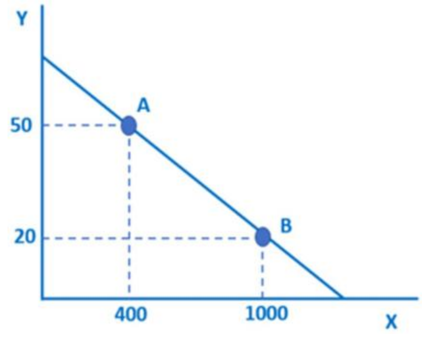
10) Calculate the area of the shaded rectangle. Show your answer as x units to the power 2.



11) Calculate the area of the shaded rectangle. Show your answer as x units to the power 2.



12) The gradient does not change but the relationship between Y and X changes. At each amount of Y there are now 400 more units of X.
   i. The new value of A on the Y axis is 450 and B is 420
   ii. The new value of A on Y axis is 800 and B 2000
   iii. The new value of A on the Y axis is 800 and B is 1400



13) In Q 11, once you draw the new line, what has happened?
   i. Shifted to the right, parallel
   ii. Shifted to the left parallel
   iii. No Change

Use the following information to complete Q14 – 19

The owner of a small carpet cleaning business looks at the annual salaries of his five employees, see info in the table.

Employee 1 (duty manager)	£32,000
Employee 2	£14,000
Employee 3	£14,000
Employee 4	£16,000
Employee 5	£18,000

14) Calculate the total expenditure on labour costs.
   i. 94000
   ii. £94,000.0

15) Calculate mean average salary for the five employees.
   i. 18,800
   ii. 18800
   iii. £18,800.0

16) Calculate median average salary for the five employees.
   i. 16000
   ii. £16000
   iii. £16,000.0

17) The boss hires a sixth employee to the business above. The employee is highly experienced and very skilled. As a result, she commands a relatively high salary of £26,000.
Calculate the extra cost of the additional employee.

18) The boss hires a sixth employee to the business above. The employee is highly experienced and very skilled. As a result, she commands a relatively high salary of £26,000.
Calculate the change in the mean average salary in the business.
Show to 1 decimal place.

19) The boss hires a sixth employee to the business above. The employee is highly experienced and very skilled. As a result, she commands a relatively high salary of £26,000.
Calculate the new median average salary for the employees of the carpet cleaning business.

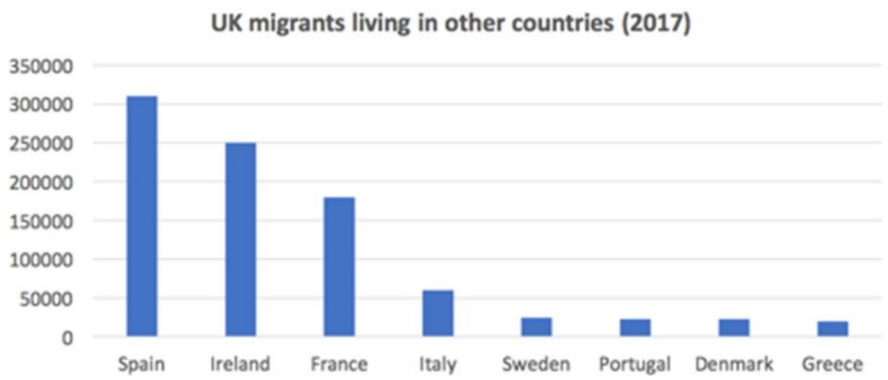
20) A British-made car costs £20,000. The current exchange rate is £1 (UK pound) to $1.30 (US dollars). 6 months ago, the exchange rate was £1 to $1.50.
Calculate how much the £20,000 car costs in US dollars now
Show to 1 decimal place

21) A British-made car costs £20,000. The current exchange rate is £1 (UK pound) to $1.30 (US dollars). 6 months ago, the exchange rate was £1 to $1.50.
Calculate how much the £20,000 car costs in US dollars 6 months ago.
Show to 1 decimal place

22) The exchange rate of UK pounds (£) to Euros (€) changes from £1 = €1.10 to £1 = €1.25.
Calculate the percentage increase of €1.1 to €1.25.
Show to 1 decimal place

23) The exchange rate of UK pounds (£) to Euros (€) changes from £1 = €1.10 to £1 = €1.25.
Calculate the UK price (£) of a €500 washing machine made in Italy, after the exchange rate change.
Show to 1 decimal place

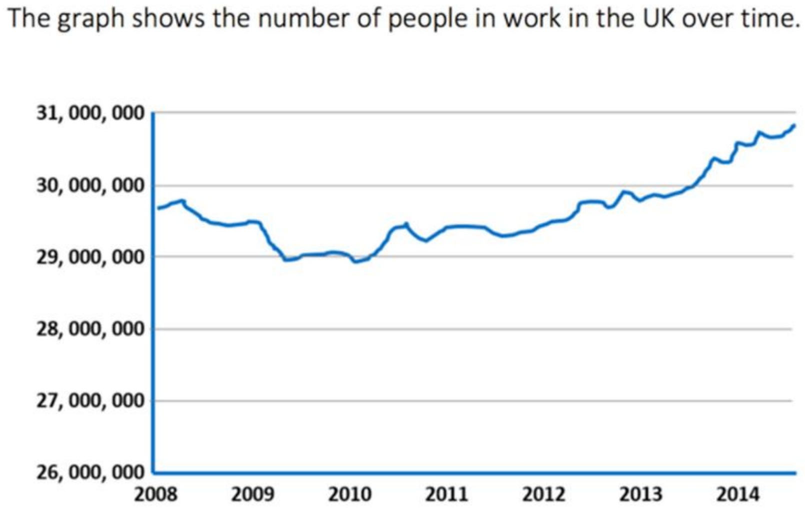
Use this image to answer Q24 – 25



24) Of the selected countries below, what percentage of UK migrants live in Spain?
Show answer to 1 decimal place

25) Compare the number of UK migrants living in Ireland compared to the number living in Portugal, see above graph.
   a. Ireland has 10% more than Portugal
   b. Ireland has 10% less than Portugal

Use this image to answer Q26 – 28



26) Calculate the percentage change from the lowest point to the highest point.

27) Assuming the UK population was constant at 63m throughout this period (it wasn't, but assume it was!), calculate the number of people in work as a percentage of the population in 2008. Show your answer to 1 decimal place

28) Assuming the UK population was constant at 63m throughout this period (it wasn't, but assume it was!), calculate the number of people in work as a percentage of the population in 2014. Show your answer to 1 decimal place

Literacy in Economics

6. In a moment you will be asked to Read extract B&C, read a typical A-Level question, and the essay answer, then mark the answer using the mark scheme.

Before you do that I'd like you to think about how you feel about writing essays, not imaginary English essays, but fact-based answers. Below is a list of typical 25-mark exam questions. Thinking about the pros and cons? Thinking about what alternatives there could be? Thinking about who wins or loses? What would you recommend government policy makers or businesses do? **Are you excited about writing about real world topical issues?**

Once you've considered these and looked at the titles can you tell me in 3/4 sentences how you feel about essay writing and what help would you need to start writing essays?

1) Evaluate the microeconomic and macroeconomic impact on the UK economy due to a decline in the level of public investment. (25)

2) Discuss the extent to which new technology, such as the internet, has increased or decreased the competitiveness of markets. (25)

3) Evaluate the view that government intervention can correct all the market failures caused by the effects of economic activity on the environment. (25)

4) In some European countries, price controls are imposed upon pharmaceutical companies. Discuss the case for government intervention to control market prices. (25)

5) Assess three labour market policies that might be used to increase the level of employment amongst incapacity claimants and lone parents on benefits. (25)

6) Discuss whether giving increased subsidies to firms providing bus services would correct the market failure arising from urban road congestion. (25)

7) Discuss the problems an economy might face in recovering from a period of recession. (25)

8) Evaluate market-based and interventionist policies for promoting economic development. (25)

9) Evaluate whether economic growth will reduce poverty. (25)

10) Compare the effectiveness of supply-side and demand-side policies to correct deficits on a country's current account of the balance of payments. (25)

11) Assess the economic effects of a significant increase in taxation on the UK economy. (25)

12) Discuss the impact of globalisation on UK economy. (25)

Can you tell me in 3/4 sentences how you feel about essay writing and what help would you need to start writing essays?

Please read the extracts below

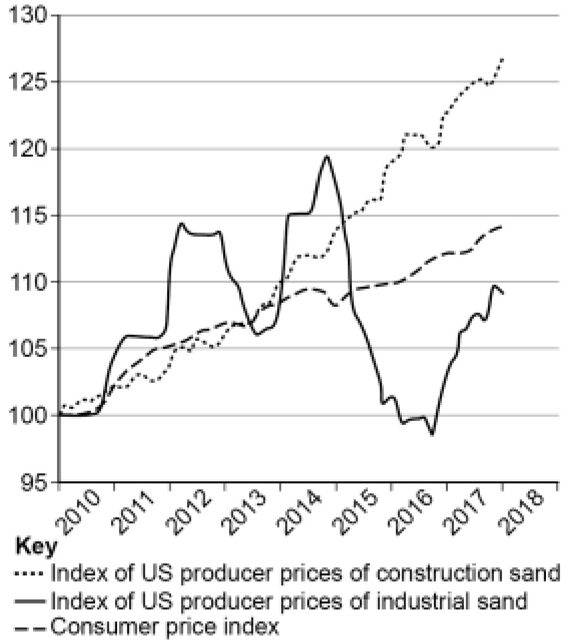
Context 1 **Total for this context: 40 marks**

The market for sand

Study **Extracts A**, **B and C**, and then answer **all** parts of Context 1 which follow.

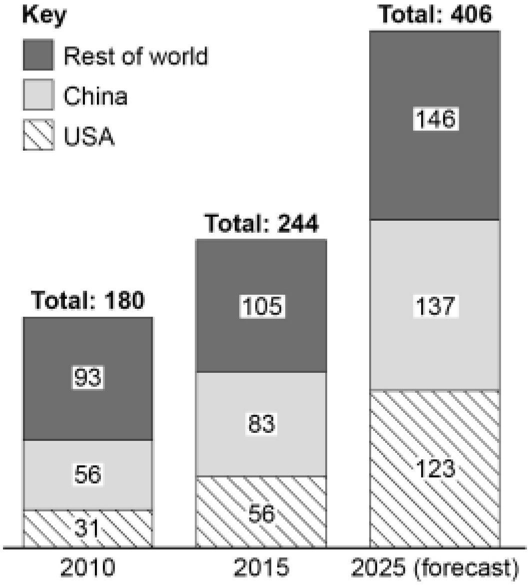
Extract A

Figure 1: Indices of US producer prices for sand, Jan 2010–Jan 2018 (Jan 2010=100)



Source: Federal Reserve Economic Data, 2018

Figure 2: Global demand for sand (millions of tons), 2010–2025



Source: The Freedonia Group/National Post, 2018

Extract B: Is the world running out of sand?

Sand is in high demand. Sand accounts for up to 85% of all mining and the global depletion of sand is rapidly exceeding its natural renewal rate. Sand is mostly used in the construction industry to make concrete and asphalt. Chinese demand has risen significantly, reflecting the country's rapid pace of construction: it built 32.3 million houses and 4.5 million kilometres of road between 2011 and 2014. Sand also has industrial uses: it is used to make glass, electronics, and to help extract oil in the fracking industry. While market demand for industrial sand has tracked overall economic growth in the USA, the demand for fracking sand has been as volatile as oil prices.

Vast quantities of sand are dumped into the sea to reclaim land: Singapore, for example, has expanded its land area by over 20% since the 1960s. Much of this sand originates from Indonesia, where sand miners have completely erased over 20 islands since 2005. The Maldives and Kiribati have used sand to shore up their islands against rising sea levels. The United Nations forecasts that, by 2030, there will be over 40 ‘megacities’, home to more than

10 million inhabitants (up from 31 in 2016), which means more housing and infrastructure will need to be built. Also, sea levels will continue to rise and so sand will only become more sought after. But why is there a shortage when sand seems so abundant? Desert sand is too smooth, and so cannot be used for most commercial purposes. Australian sand was shipped to a faraway desert to build Dubai's Burj Khalifa tower, made possible by cheaper transportation. Most countries have rules in place about where, and how much, sand can be mined. However, surging demand has sparked a lucrative illegal trade in many rapidly developing countries which is damaging the environment, causing pollution and harming local biodiversity.

Source: News reports, February 2018

Extract C: The need for international action

There are currently no international conventions to regulate sand extraction, trade and use. Critics argue that the international community needs to treat sand like a resource on a par with clean air, biodiversity and other natural endowments that nations seek to manage for the future.

In the developed world, concerns have led to restrictions on where sand can be mined. In the USA, for example, mining it offshore or near large residential areas is restricted. Regulations are also in place in many developing countries. Indonesia, Malaysia and Cambodia have all placed restrictions on exports, although the rules are not always enforced. There is a particular problem of ineffective enforcement in India, with organised criminal networks ignoring rules and conducting unregulated sand mining.

Substitutes for sand do exist. Mud can be used for land reclamation, straw and wood for building houses, and crushed rock for making concrete. In some rich countries a shift towards these alternative production processes is already under way as sand prices rise. In the UK, sand demand is 25% less than in 2007, and 28% of building materials used in the UK in 2014 had been recycled. Rising prices will eventually also force builders in developing countries to explore alternatives to sand. But without better law enforcement, high sand prices also make illegal mining more profitable.

Source: News reports, February 2018

Now, please read the answer to the questions set.

QUESTION:

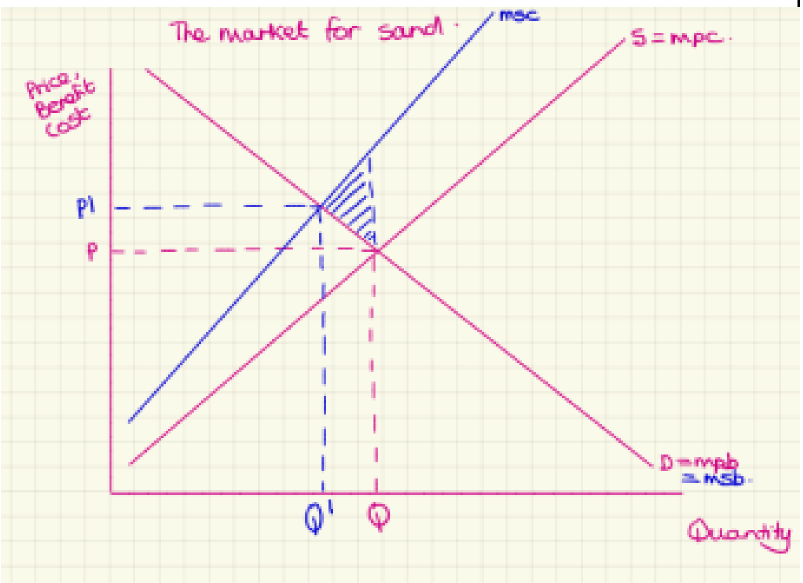
Extract C (lines 14–15) states that 'Rising prices will eventually also force builders in developing countries to explore alternatives to sand.'

Use the extracts and your knowledge of economics to assess the view that the increasing scarcity of sand is a problem best solved by market forces, rather than through government intervention.

[25 marks]

ESSAY ANSWER:

First, one argument for government intervention in the market for sand is the view that sand should be viewed as a common access resource. This means that it is a good which is rival (when one person uses it another person cannot) but which is non-excludable. It shares very similar characteristics to common land. The result is that no individual has an incentive to conserve the resource, since the lack of excludability means they cannot confine the benefit to themselves. Consumption can therefore be thought of as being associated with negative externalities since the rational behaviour leads to adverse impacts on others. An example of this would be the erasure of over 20 islands in Indonesia since 2005 and the impact more generally on biodiversity. On the diagram, the market would reach equilibrium at PQ since market participants have no incentive to take account of their actions on others. However, the negative externality means that the socially optimal equilibrium lies at Q1P1. In order for this to be an effective argument for government intervention, the market failure (shown by the shaded deadweight loss triangle) needs to be significant. All markets fail to some extent, so market failure itself is not a reason for governments to act.



Those who link the problem to clean air and biodiversity presumably think the welfare loss is sizeable. Furthermore, the fact that some governments have imposed restrictions (US, Indonesia, Malaysia and Cambodia for example) suggests that they too view the problem as significant. In the case of the developing countries, the restriction takes the form of an export ban that is especially costly. All in all, market failure seems to provide reasonable grounds for supporting the view that increasing scarcity of sand should be solved through government intervention.

Another argument in favour of government intervention would be if effective policy options exist to correct the market failure. There are a number of options that could be used, but the specific one mentioned in the extract is regulation. In the case of the US for example, there are "restrictions on where sand can be mined…" – Extract C line 4. This reduces the size of any negative externality. On the diagram, MSC would, as a consequence, lie closer to MPC and the welfare triangle would be reduced, possibly eliminated. In theory, this provides a strong argument for government intervention. However, in reality it seems that there are significant problems with enforcing regulation "there is a particular problem of ineffective enforcement in India, with organised criminal networks ignoring rules and conducting sand mining" – Extract C lines 7 – 9. Not only does this suggest government intervention might be ineffective, but by providing revenue for criminal networks it is possible that externalities more generally would increase and the result would be government failure, where the unintended consequence actually increases the welfare loss. While effective in some cases, there do seem to be particular problems with regulation in some areas of the world.

In conclusion, while there is compelling evidence that market failure exists, regulation does seem beset with problems and in some areas of the world at least the risk of government failure is present. India is such a large country that widespread failure here cannot be ignored. It is in the areas where regulation is more effective (developing countries) where market forces are having an impact, but the common access resource nature of sand suggests that leaving matters entirely to market forces is unlikely for the time being to be the best solution to the problem of the scarcity of sand. This view can be held with some certainty since it is supported by both theory and empirical evidence.

THE END

Did you notice there are diagrams in the essay answer?
Examiners expect you to be able to draw and use and make changes to diagrams when answering.

Using the Mark Scheme can you award a level and a mark for Knowledge, Application, and Analysis (KAA) as well as a level and a mark for evaluation (EV).

Level of response	Response:	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21–25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16–20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data.	**11–15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles is shown but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported.	**6–10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported.	**1–5 marks**

The Journey to A-Level Economics (CLICK on the images to find out more)

Year 11

STEP 1

1. Back to basics - if you studied economics at GCSE, then consolidate that knowledge

2. What is economics?

3. Choose a book to read

4. Watch a film about economics

5. Listen to a podcast

ECONOMICS IN TEN

6. Read economics articles - have a go at the questions

BREAKING NEWS

7. Calculations

STEP 2

8. Watch the first Crash Course Economics video

9. What makes a good Economist?

STEP 3

School

STEP 4

10. Get ahead - do some further reading and look at some useful websites and textbooks

STEP 5

11. Advice for young Economists

STEP 6

12. Stop and reflect - make sure this is the right A-Level choice for you!

Year 12

See you in September.... ready to go!

APPENDIX

- GCSE Knowledge Organisers

GCSE Economics: Theme 1.1 Economic Groups and Factors of Production

Exam Criteria

- **Explain** the role of the main economic groups: consumers, producers and the government, including their interdependence
- **Explain** the factors of production: land, labour, capital and enterprise, including how they might be combined

How can the government protect those with less influence in the economy? Why do the economic groups need one another?

What role do Consumers have in the economy?

Buys goods and services for personal use. They are the end user of a good; the decision to buy is at the very end of the production process.

Consumers make choices about their spending by weighing up the satisfaction (benefit) from using the good against the price they would be paying.

Consumers generally act on an individual basis and have little power in the market. They may need protecting by the government through legislation.

What role do the Government have in the economy?

They make and enforce rules within the country they run. Some of these rules will directly affect consumers or producers.

Governments spend money in the economy. Government also transfers money to individual consumers, enabling them to spend. Governments act as buyer of goods and services and as producers.

Governments can affect the economy through their chosen policies (taxation, interest rates). These actions can influence the price, quantity and quality of a product.

What role do Producers have in the economy?

Supply goods and services. They make choices about what and how they produce. They have influence over the quantity, price and quality.

You will look in more detail at producers in Topic 2.6

What does interdependence in economics?

Each economic group responds to the actions off another group.

The decisions that each individual consumer, producer or government take all contribute to the final decisions on the use of the economy's resources.

Why are factors of production offered for use in the economy? How can factors of production be combined for the good of society?

What are Factors of Production? What does CELL stand for?

The resources in an economy that can be used to make goods and services.

They are categorised into: **C**apital **E**nterprise **L**and **L**abour

What is Land as a factor of production?

All natural resources in the economy are classed as land. The reward for offering land for use is rent.

What is Capital as a factor of production?

All human-made aids to production.

All artificial resources that are inputs into production and all infrastructure:

Technology, **I**nfrastructure, **M**achines

TIM

The reward for offering capital for use is interest.

What is Labour as a factor of production?

All human resources that are available in the economy.

Will depend on **s**ize and **a**ge of the population, the **w**orking age in a country and the impact of **m**igration, quality of workforce (level of **e**ducation and **t**raining) and the **h**ealth of the population.

SAWMETH

The reward for offering labour for use is wages.

What is Enterprise as a factor of production?

The organisation of the other factors of production to make goods and services.

Requires an individual (entrepreneur) to:

- Organise production
- Bear the risks of the project

The reward for offering enterprise for use is profit.

How might factors of production be combined?

The world only has limited resources and increasing requirements for them from a growing population. If these resources are used to produce one thing, they can't be combined in another way to produce something else. Advances in technology play a part in how factors of production are combined – use of capital overtakes the use of labour.

You will look in more detail at the combination of factors of production when we look at Specialisation in Topic 2.1

Key Vocab

Word Wall

Consumer – A person or organisation that directly uses a good or service

Interdependence – The state of being dependent upon others

Production – The total output of goods and services produced by a firm or industry in a time period

Government – A political authority that decides how a country in run and manages its operations

Producer – A person, company or country that makes, grows or supplies goods and/or services

Enterprise – The factor of production that takes a risk in organising the other factors of production

Additional Key Terms

Good – A tangible product; one that can been seen or touched

Service – An intangible product; one that cannot be seen or touched

GCSE Economics: Theme 1.2

The Basic Economic Problem

How can we approach the basic economic problem?

What are scarce resources?

When there are fewer resources to make goods and services than are desired. Other useful words to describe scarce resources are finite, limited and insufficient

What are unlimited wants?

The desire for everything a consumer would like whether they have the resources to purchase it or not. There are too many uses for the resources.

What is the basic economic problem?

How to best use the limited resources to satisfy the unlimited wants of consumers.

1. What should be produced?
2. How should it be produced?
3. Whom should it be produced for?

How does the UK approach the basic economic problem?

1. **What goods and services should be produced with available resources?** Most decisions are made based on what consumers are willing and able to buy. The government intervenes in some markets by providing goods directly to consumers (NHS).
2. **How should resources be used most efficiently to produce these goods?** Producers will mostly determine how goods are to be produced as they look for lowest costs. *You will look in more detail at producers in Topic 2.6.* The government sometimes intervenes with legislation on production
3. **How should the goods be allocated among the population?** In most instances goods and services are allocated to consumers who can afford to buy them. The government sometimes intervenes where goods and services are deemed particularly important to the economy e.g. free education to all under 19. *You will look in more detail at limitations of markets in Topic 3.8*

What is the difference between needs and wants?

Wants are unlimited and include anything a consumer would like whether they can purchase it or not.

What is meant by opportunity cost?

Something that is given up when making a decision on the use of scarce resources.

The value of the next best alternative when making a decision.

Exam Criteria

- **Explain** what is meant by scarce resources and unlimited wants
- **Explain** the economic problem,
- **Explain** what is meant by 'what goods and services should be allocated'
- **Explain** what is meant by 'for whom goods and services should be allocated'
- **Explain** what is meant by 'how goods and services should be produced"
- **Explain** what is meant by opportunity cost
- **Explain** the impact of economic choice on economic sustainability
- **Explain** the impact of economic choices on social sustainability
- **Explain** the impact of economic activity on environmental sustainability
- **Evaluate** the costs and benefits of economic choices

How do economic choices affect us all?

What is economic sustainability?

Ensures the most responsible use of scare resources so that a firm or economy can continue to *develop and grow*.

Consideration will be given to economic factors such as **c**osts involved in production, **p**rice consumer pays, impact on **u**nemployment and impact on government **s**pending and **t**ax revenue.

CPUST

You will look in more detail at Unemployment in Topic 3.2 and at Government Spending and Tax Revenue in Topic 3.5

What is social sustainability?

Considers how economic activity (*development or growth*) affects quality of life and well-being.

It requires that any growth or development meet the basic needs of all, now and into the future, encourages fairness and a better society. It may also consider who benefits within society and who pays.

What is environmental sustainability?

Considers how economic activity (*development or growth*) impacts the environment now and in to the future.

Focuses on the impact on renewable and non-renewable resources, pollution creation and climate change, and the availability of future resources.

It is important for all countries and their governments to consider the impact on the environment

Key Vocab

Word Wall

Sustainability – The ability to be maintained at a given rate

Economic – The best use of resources

Environmental – Relating to impact of human activity on the natural world

Social – Relating to society and the people within it

Scarce – In short supply

Desired – Wished for or intended

Additional Key Terms

Scarce resources – When there is an insufficient amount of something to satisfy all wants.

Economic problem – How to best use the limited resources to satisfy the unlimited wants of people.

Economic choice – An option for the use of selected scarce resources.

GCSE Economics: Theme 2.1 The Role of Markets

How has the UK economy changed in the last 15 years?

What is a Market?

Where buyers and sellers come together to buy and sell goods and services. It can be a physical or virtual environment.

A market economy relies on the forces of supply and demand to determine the allocation of scarce resources *(see topic 1.2)* as well as government intervention.

You will look in more detail at the forces of demand and supply in chapters 2.2, 2.3 and 2.4

Exam Criteria

- **Explain** what is meant by a market
- **Explain** the difference between primary, secondary and tertiary markets
- **Explain** the difference between factor and product markets
- **Understand** the interdependence between factor and product markets
- **Evaluate** the costs and benefits of specialisation and exchange for producers
- **Evaluate** the costs and benefits of specialisation and exchange for workers
- **Evaluate** the costs and benefits of specialisation and exchange for regions
- **Evaluate** the costs and benefits of specialisation and exchange for countries

What is a product market?

A market where finished goods or services are offered to consumers, businesses and the public sector. They are not concerned with the buying and selling of raw materials.

Effective product markets ensure consumers benefit from lower prices and increased choice by increasing competition. They also encourage firms to innovate. Price is determined by the interaction of supply and demand.

You will look in more detail at Demand and Supply in Topics 2.2 and 2.3 and at Competition in Topic 2.5.

What is a factor market?

The market where the services of the factors of production (CELL) are bought and sold. Price for each factor is based on supply and demand and is a derived demand.

You will look in more detail at Demand and Supply in Topics 2.2 and 2.3 and at Derived Demand in Topic 2.7.

What is the primary sector?

The direct use of natural resources. The extraction of basic goods from the land and sea.

Products will either be consumed directly or used as raw materials in the production process.

What is the secondary sector?

All economic activity concerned with either manufacturing or construction.

Manufacturing includes both *direct* use (using raw materials to make a finished product) and indirect use (using raw materials to make a component of something else).

Construction is the process of constructing a building or infrastructure.

What is the tertiary sector?

All economic activity where a service is provided.

Services can be provided firm to firm, individuals or the government.

The only sector concerned with dealing with people directly.

Most economies have seen a shift to the tertiary sector over the past 100 years or so.

Does specialisation and exchange create winners and losers? (a)

What is specialisation?

When individuals, firms, regions or counties concentrate on producing the goods and services they have an advantage in making it more efficient and often increasing output. This can apply to all factors of production *(see 1.1)*.

This often means they have to give up producing other goods and services.

What is exchange?

Giving up something an individual has in return for something the need but do not possess. All economic behaviour involves the exchange of one scarce resource for another; today this is usually money.

Key Vocab

Word Wall

Market – A way of bringing together buyers and sellers to buy and sell goods and services

Specialisation – The process of concentrating on producing those things you are best at producing

Exchange – The giving up of something that you have in return for something that you desire but do not have

Sector – An area of the economy in which businesses share the same of related activities

Innovate – To introduce something new or make changes to something established

Key Terms

Division of Labour – Where workers specialise in, or concentrate on, one area of the production process.

Secondary Sector – All activities concerned with manufacturing or construction

Tertiary Sector – All activities in the economy that involve the idea of a service

Factor Market – Markets where the services of factors of production are bought and sold

Product Market – Markets where goods and services are offered to consumers, businesses and the public sector

Does specialisation and Exchange create winners and losers? (b)

How does specialisation impact Producers?

World output has increased through firms specialising.

Producers exchange income from selling products for the components they need to produce them.

Benefits	Costs
Higher output	Diseconomies of scale (eventually)
Higher productivity	Dependency
Higher quality	Failure of exchange
Bigger market	Movement of workers
Economies of Scale	
Time saving	

You will look in more detail at Productivity, Economies of Scale and Diseconomies of Scale in Topic 2.6.

How does specialisation impact Regions?

Originally, specialisation by region would depend on local natural resources.

Today, regional specialities are often based on services.

Regions will produce things in addition to their known speciality but the speciality will make an important contribution to the local economy.

Benefits	Costs
Efficient use of resources	Risk of fall in demand
Creates jobs for residents	Resource exhaustion
Infrastructure development	Loss of adventure

You will look in more detail at Demand in Topic 2.2, and the impact of Infrastructure on Economies of Scale in Topic 2.6.

Study Tip - Evaluation

Evaluation is based on analysis.

Make sure you have used economic ideas, concepts, diagrams etc. in the body of your answer **before** evaluating.

For evidence evaluating is taking place, examiners will look for words such as:

- Because
- However
- More important
- To a greater extent

Must take place in context of the question.

Study Tip – Use of Date

Examiners like to see up to date figures and information in answers.

How does specialisation impact Workers?

Unless totally self-sufficient all workers specialise. They exchange their labour for money in order to be able to buy goods and services.

Benefits	Costs
Increased skill	Boredom
Natural strength	Deskilling
Increased job satisfaction	Unemployment
Increased standard of living	

You will look in more detail at how increased skills can lead to higher wages in Topic 2.7, Increased Standard of Living in Topic 3.1 and Unemployment in Topic 3.2

How does specialisation impact Countries?

Originally, countries would specialise in producing what they get the greatest advantage from.

Today, many countries now specialise in particular skills and knowledge. Countries specialising leads to international trade.

Benefits	Costs
Economics of scale	Unemployment
More jobs	Over-dependence
International trade	Over-exploitation
Improved standard of living	Negative externalities
Government revenue	

You will look in more detail at Economies of Scale in Topic 2.6, Increased Standard of Living in Topic 3.1, Unemployment in Topic 3.2, Negative Externalities in Topic 3.8, International Trade in Topic 4.1 and the impact of over-exploitation of natural resources on Sustainable Development in Chapter 4.4.

GCSE Economics: Theme 2.2 Demand

What do economists mean by demand?

What is Demand?

The quantity of a good or service that consumers are willing and able to buy at a given price in a given time period.

What is Derived Demand?

Demand that comes about because of the demand for another product.

What is a normal good?

A good where demand increases as income increases.

What is the law of demand?

For most goods and services the quantity demanded varies ***inversely*** with price.

What is the relationship between price and demand?

As prices increase, demand falls. As prices fall, demand increases.

What is individual demand?

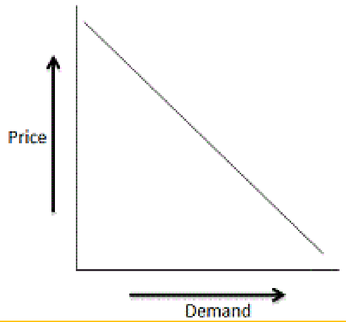
The demand for goods and services by an individual consumer. This shows they amount they would be prepared to buy at difference prices. It ***does not*** tell us how many she will buy.

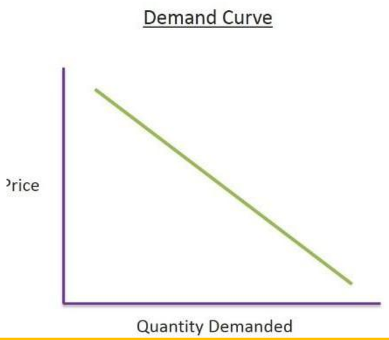
What is a market demand?

The total demand for a good or service. It can be found by adding the individual demands together.

How do you draw demand?

The demand curve is plotted sloping downwards between ***Price*** on the vertical axis and ***Quantity Demanded*** on the horizontal axis.

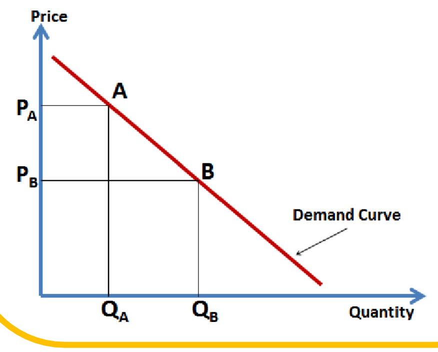




What is the difference between a movement along and a shift in Demand? (a)

What causes a movement along the curve/How do you draw a movement?

A change in price is the only thing that will cause a movement along the curve.



What are the consequences of movements along the curve?

A movement along the demand curve will lead to price and quantity moving in the opposite direction.

Movement	Effect
Increase in quantity demanded due to a fall in price causing a movement down the curve	The price falls but the quantity increases ***(an expansion in demand)***
Decrease in quantity demanded due to an increase in price causing a movement up the curve	The price increases but the quantity falls ***(a contraction of demand)***

Exam Criteria

- **Explain** what is meant by demand
- **Draw and Explain** individual demand curves
- **Draw and Explain** market demand curves
- **Analyse** the causes and consequences of shifts in the demand curve for consumers and producers
- **Analyse** the causes and consequences of movements along the demand curve for consumers and producers
- **Draw** shifts in the demand curve
- **Draw** movements along the demand curve
- **Explain** price elasticity of demand
- **Draw** demand curves of different elasticities
- **Evaluate** the importance of price elasticity of demand for consumer

Key Vocab

Word Wall

Substitute – A good or service that can be used in place of another

Compliment – A good or service that can be used in place of another

Subsidy – An amount of money the government gives directly to firms to encourage production and consumption

Derive – To obtain something from

Elasticity – the degree to which a demand or supply is sensitive to changes in price or income.

Elastic – When the percentage change in quantity demanded is greater than the percentage change in price

Inelastic – When the percentage change in quantity demanded is less than the percentage change in price

Inverse - something that is the opposite or reverse of something else

Key Terms

Demand – The willingness and ability to purchase a good or service at the given price in a given time period

Tax – A compulsory payment to the government

Law of Demand – For most products the quantity demanded varies inversely with its price

Individual Demand – The demand for a good or service by an individual consumer

Market Demand – The total demand for a good or service

Movement along the curve – When the price changes, leading to a movement up or down the existing curve

Shift of the curve – A complete movement of the existing demand curve either outward or inward

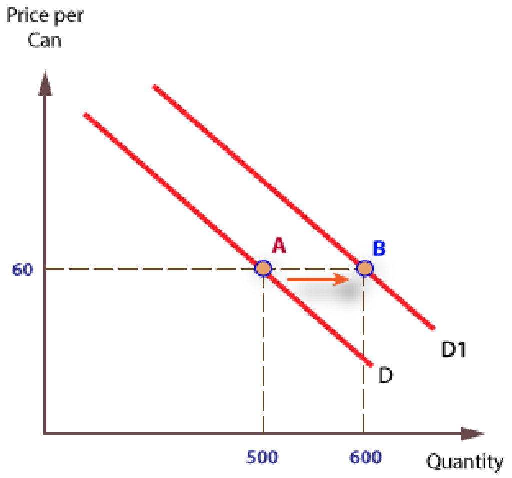
What is the difference between a movement and a shift in Demand? (b)

What causes a shift in demand /How do you draw a shift?

This is when the whole demand curve moves to the right or left. This occurs when the quantity of a good demanded changes even when price stays the same.

Factors affecting demand:

- Income
- Population
- Marketing
- Tastes/Fashion
- Substitutes/Compliments
- Government policies
- Price expectations for future



What are the consequences of shifts in demand?

In nearly all cases a shift of the demand curve will lead to price and quantity moving in the same direction.

Movement	Effect
Increase in demand due to a rightward shift of the demand curve	Both the price and quantity demanded of the product increases
Decrease in demand due to a leftward shift of the demand curve	Both the price and quantity demanded of the product decreases

Study Tips

Remember to label a diagram fully. If you leave off price and quantity then the person marking the paper has no idea wha is being measured.

Make sure you are absolutely clear as to the difference between a movement of a demand curve, a shift in demand and a change in quantity demanded.

Always remember to include the minus sign for PED values; a prices increase, QD will decrease.

Study Tip – Analysis

Analyse means the ability to present logical chains of reasoning based on knowledge and application. Appropriate use of economic terms and explanation of diagrams are likel to indicate that analysis is taking place. Analysis means usin economic ideas, terms, concepts and diagrams to help explain your answer.

Why is Price Elasticity of Demand important?

What is elasticity of demand?

A measure of the responsiveness of quantity demanded to a change in the price of the product.

What does inelastic demand mean?

The price change will lead to a smaller change in demand.

The PED value will be between 0 and -1.

What does elastic demand mean?

The price change will lead to a larger change in demand.

The PED value will be between -1 and infinity.

How do you calculate PED?

$$\frac{\%\ \text{Change in Quantity Demanded}}{\%\ \text{Change in Price}}$$

What does unitary demand mean?

The price change will lead to the exact change in demand.

The PED value is 1.

What do the PED values mean?

Value	Name	How responsive?	Impact on revenue	Slope of curve
0	Perfectly inelastic	No change in demand	Higher prices - higher revenue Lower prices – lower revenue	
0-1	Inelastic	Change in demand less than change in price	Increase prices - increase revenue	
1	Unitary	Equal changes	No change	
1-∞	Elastic	Change in demand higher than change in price	Increase prices – decrease revenue. Lower prices – increase revenue	
∞	Perfectly elastic	Any change in price kills demand	Any change in price, revenue zero	

How does PED affect consumers?

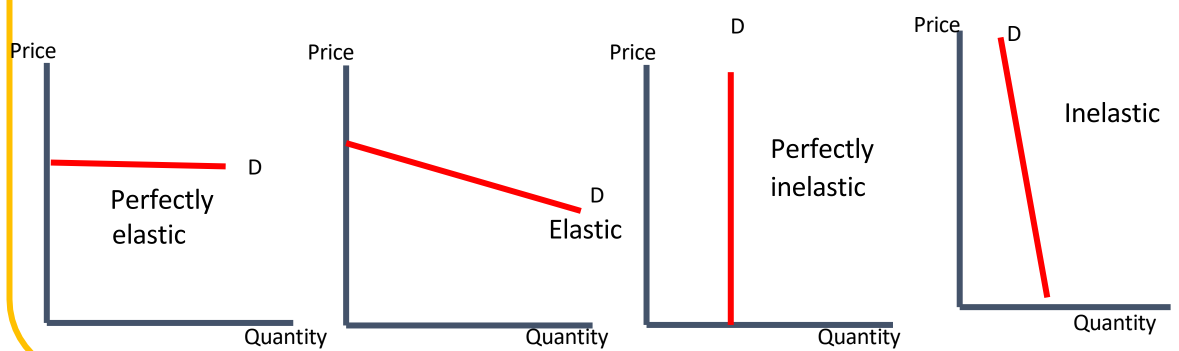
Governments could impose taxes on goods with inelastic demand.

Some customers have forced inelastic demand have to pay higher prices.

How does PED affect producers?

Knowledge of PED can be used to impact revenue by changing pricing strategies.

What do the PED curves look like?



GCSE Economics: Theme 2.3 Supply

What do economists mean by Supply?

What is Supply?

The quantity of a good or service that producers are willing and able to supply at a given price in a given time period.

What is the relationship between price and supply?

As prices increase, supply increases. As prices fall, supply falls.

What is the law of supply?

For most goods and services the quantity demanded varies ***directly*** with price.

What is individual supply?

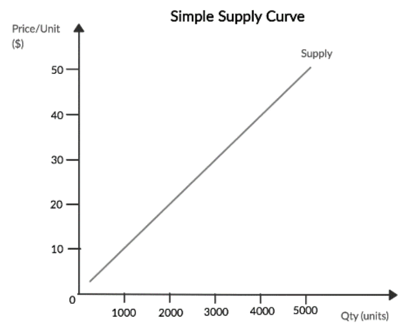
The supply of goods and services by an individual producer. This shows the amount they would be prepared to sell at difference prices. It ***does not*** tell us how many they will sell.

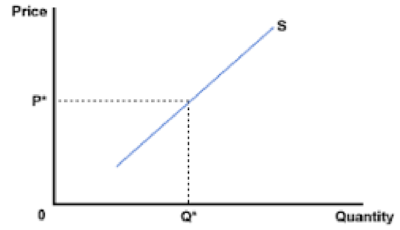
What is a market supply?

The total supply of a good or service. It can be found by adding the individual producers supply together.

How do you draw supply?

The supply curve is plotted sloping upwards between ***Price*** on the vertical axis and ***Quantity*** on the horizontal axis.

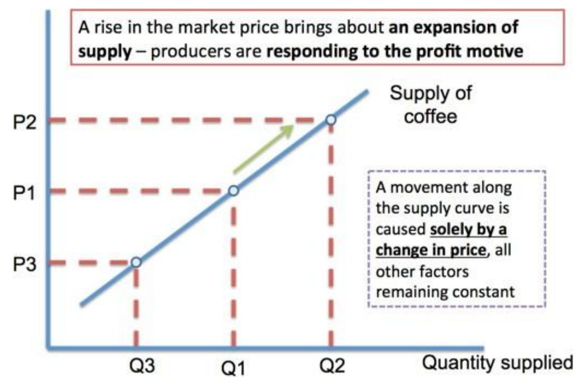




What is the difference between a movement along and a shift in Supply? (a)

What causes a movement along the curve/How do you draw a movement?

A change in price is the only thing that will cause a movement along the curve.



What are the consequences of movements along the curve?

A movement along the demand curve will lead to price and quantity moving in the opposite direction. Price increases may lead to increased profits or new firms entering the market, causing a shift.

Movement	Effect
Increase in quantity supplied due to a rise in price causing a movement up the curve	Both price and quantity supplied rise ***(an expansion of demand)***
Decrease in quantity supplied due to an fall in price causing a movement down the curve	Both price and quantity supplied fall ***(an expansion of demand)***

Exam Criteria

- **Explain** what is meant by supply
- **Draw and Explain** individual supply curves
- **Draw and Explain** market supply curves
- **Analyse** the causes and consequences of shifts in the supply curve for consumers and producers
- **Analyse** the causes and consequences of movements along the supply curve for consumers and producers
- **Draw** shifts in the supply curve
- **Draw** movements along the supply curve
- **Explain** price elasticity of supply
- **Draw** supply curves of different elasticities
- **Evaluate** the importance of price elasticity of supply for consumer

Key Vocab

Word Wall

Regulation – the action of controlling by means of rules. A rule or directive set by authority.

Subsidy – An amount of money the government gives directly to firms to encourage production and consumption

Elasticity – the degree to which a supply or supply is sensitive to changes in price or income.

Elastic – When the percentage change in quantity supplied is greater than the percentage change in price

Inelastic – When the percentage change in quantity supplied is less than the percentage change in price

Key Terms

Supply – The willingness and ability to purchase a good or service at the given price in a given time period

Tax – A compulsory payment to the government

Law of Supply – For most products the quantity supplied varies directly with its price

Individual Supply – The supply for a good or service by an individual producer

Market Supply – The total supply for a good or service

Movement along the curve – When the price changes, leading to a movement up or down the existing curve

Shift of the curve – A complete movement of the existing supply curve either outward or inward

What is the difference between a movement and a shift in Supply? (b)

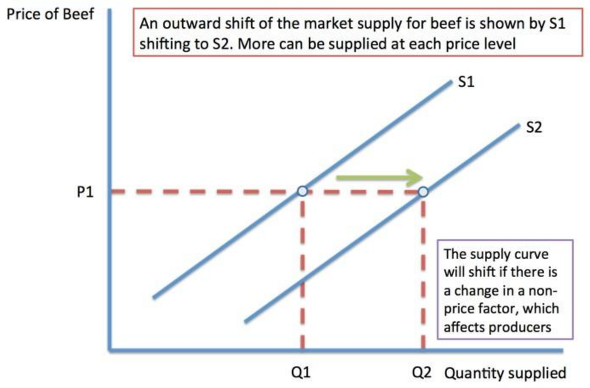
What causes a shift in supply /How do you draw a shift?

This is when the whole demand curve moves to the right or left. This occurs when the quantity of a good demanded changes even when price stays the same.

Factors affecting demand:

- Income
- Population
- Marketing
- Tastes/Fashion
- Substitutes/Compliments
- Government policies
- Price expectations for future

Illustrating An Outward Shift in Market Supply



What are the consequences of shifts in supply?

In nearly all cases a shift of the supply curve will lead to price and quantity moving in opposite directions. Other consequences are:

- Economies of scale (*chapter 2.6*)
- Efficiency (*chapter 2.6*)
- Sales
- Exports (*chapter 4.1*)
- Monopoly (*chapter 2.5*)

Movement	Effect
Increase in supply due to a rightward shift of the supply curve	Price falls and the quantity supplied increased
Decrease in supply due to a leftward shift of the supply curve	Both the price and quantity demanded of the product decreases

Study Tips

Remember to label a diagram fully. If you leave off price and quantity then the person marking the paper has no idea what is being measured.

Make sure you are absolutely clear as to the difference between a movement of a supply curve, a shift in supply and a change in quantity supplied.

Supply can also refer to the supply of labour (*chapter 2.7*) and the supply of money (*chapters 2.8 and 3.6*).

Why is Price Elasticity of Supply important?

What is elasticity of supply?

A measure of the responsiveness of quantity supplied to a change in the price of the product.

What does inelastic supply mean?

The price change will lead to a smaller change in supply.

The PES value will be between 0 and -1.

What does elastic supply mean?

The price change will lead to a larger change in supply.

The PES value will be between -1 and infinity.

How does PED affect producers?

In most cases an elastic PES is better. Elasticity can be increased by:

- Adopting the latest technology
- Creating spare capacity
- Improving storage methods
- Keeping large amounts of stock
- Training employees in more than one job

How do you calculate PES?

$$\frac{\%\text{ Change in Quantity Supplied}}{\%\text{ Change in Price}}$$

What do the PED values mean?

Value	Name	How responsive?	Slope of curve
0	Perfectly inelastic	No change in supply	
0-1	Inelastic	Change in supply less than change in price	
1	Unitary	Equal changes	
1-∞	Elastic	Change in supply higher than change in price	
∞	Perfectly elastic	Any change in price kills supply	

How does PES affect consumers?

If supply is inelastic it might make it difficult to buy more of a product without paying more.

If supply is fixed (popular concerts) the ability to pay may not guarantee the product.

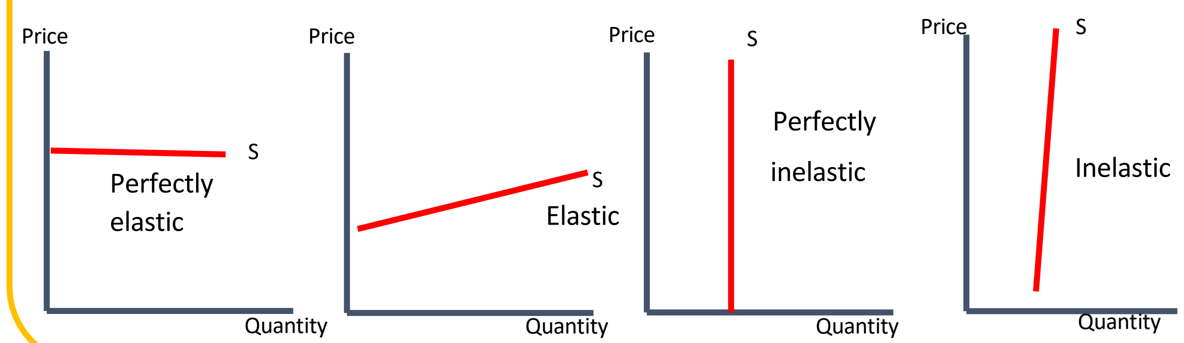
PES is elastic it is easier to obtain the product but less flexibility in negotiating price.

What does unitary supply mean?

The price change will lead to the exact change in supply.

The PES value is 1.

What do the PES curves look like?



GCSE Economics: Theme 2.4 Price

How does price determine an efficient distribution of scarce resources?

What does price mean?

The sum of money you have to pay for a good or service. It is determined by the interaction of supply and demand.

Is price a reflection of worth?

Price is used to indicate worth but is not an accurate measure of worth in all cases. Some people may place more value on something depending on their circumstances.

What three functions does price fulfil?

- Signalling
- Transmission of preferences
- Rationing

What is meant by signalling?

Prices change to signal where resources are needed.

Prices rise and fall to reflect scarcities and surpluses.

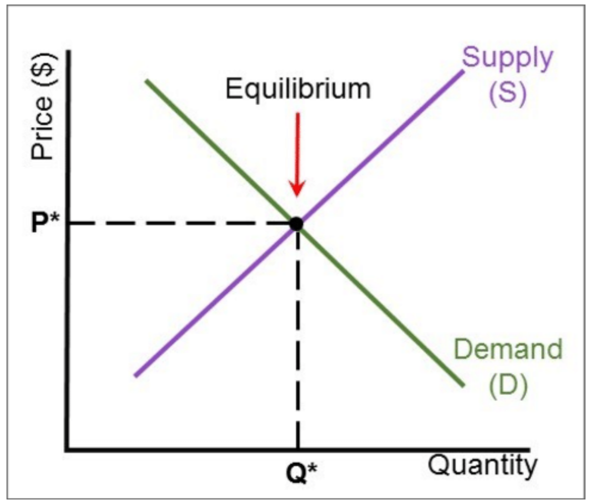
Price rises indicate more resources are needed (producers should enter the market). Price falls indicate less resources are needed.

How do we find equilibrium in markets?

What is meant by equilibrium price and quantity?

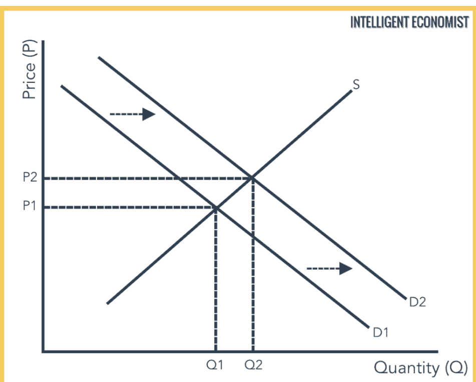
Where the quantity supplied exactly matches the quantity demanded.

We assume markets will always move towards their equilibrium. This is efficient because there is neither an excess of supply nor a shortage.



How do we draw the interaction of supply and demand?

1. Draw axes and label.
2. Draw a demand curve and label D
3. Draw a supply curve and label S
4. Label initial equilibrium (P and Q)
5. Ask whether you would expect price to rise or fall and what would happen to quantity.
6. Decide whether it is a change in demand or supply.
7. Decide whether it is an increase or decrease.
8. Draw and label the new curve.
9. Label the new equilibrium.
10. Check the finished diagram shows what you expect



How do we analyse the interaction of supply and demand?

Make use of phrases such as:

- This means that
- The effect of this is
- This has an effect on
- This can cause
- As a result

If using a diagram, make sure it is clearly referred to in the text by using letters such as P to P1 or D to D1.

Exam Criteria

- **Explain** whether price is a reflection of worth
- **Explain** the role of markets in determining an efficient distribution of resources
- **Explain** what is meant by equilibrium price and quantity
- **Draw** and **analyse** the interaction of demand and supply
- **Explain** the role of markets in the determination of price
- **Explain** the role of markets in the allocation of resources
- **Analyse** how the market forces of demand and supply affect equilibrium price and quantity

What is meant by the transmission of preferences?

Through their choices, consumers send information to producers about the changing nature of needs and wants.

Higher prices act as an incentive to raise output because the supplier stands to make a better profit.

Producers can also send signals to their resource supplier through their choices.

When economy is not doing well, some producers may choose to withdraw.

What is meant by rationing?

When resources are scarce, prices rise so that only those willing and able to pay the higher price are allocated the resource.

Key Vocab

Word Wall

Price – The sum of money you have to pay for a good or service. It is determined by the interaction of supply and demand.

Worth – How much you value something.

Efficiency – The optimal production and distribution of scarce resources.

Optimal – Best or most favourable.

Equilibrium – A state in which opposing forces (supply and demand) are balanced.

Key Terms

Market Forces – Factors that determine price levels and the availability of goods and services in an economy without government intervention

Allocation of Resources – How scarce resources are distributed among producers and how scarce goods and services are allocated among consumers.

Determination of Price – The interaction of free market forces supply and demand to establish the general level of price for a good or service.

Consumer Sovereignty – The power of consumers to influence what is produced.

How do market forces affect equilibrium?

What do we mean by market forces?

Forces that determine price level and availability of resources without government intervention. Supply and Demand.

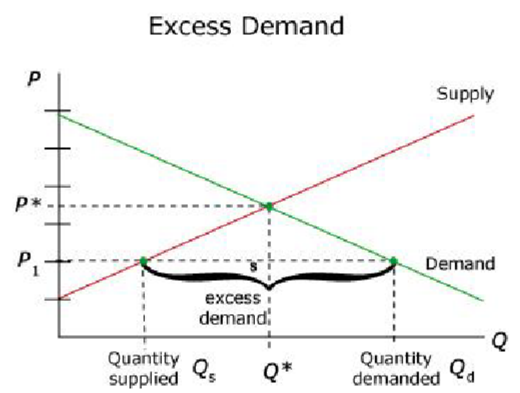
How do markets determine price?

Markets bring buyers and sellers together.

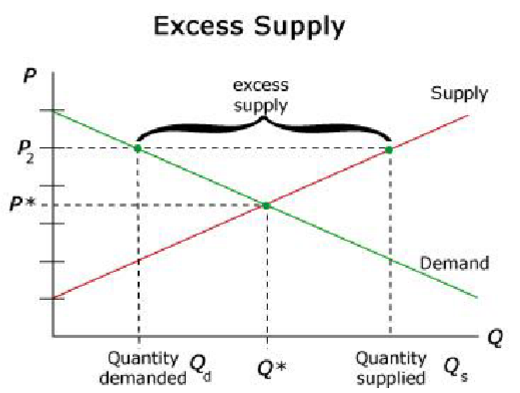
Supply and demand will interact to set the general price level for a good or service.

Market forces push prices up if there is an increase in demand or a fall in supply (excess demand) and pushes them down if demand falls or supply increases (excess supply).

Remember markets will move towards their equilibrium.



P* is equilibrium, if the low price of P1 is set by producers, more consumers will be willing and able to purchase the product (demand more) than suppliers are willing to supply at that level. The increased demand will force prices back up to the market clearing equilibrium price P*.



P* is equilibrium, if the high price of P2 is set by producers, consumers will not be willing and able to purchase the product (demand less) than suppliers are willing to supply at that level. The surplus supply will force prices down to the market equilibrium P*

What role do markets have in allocating resources?

Prices distribute scarce resources among producers and determine how the resulting good and services are allocated to consumers.

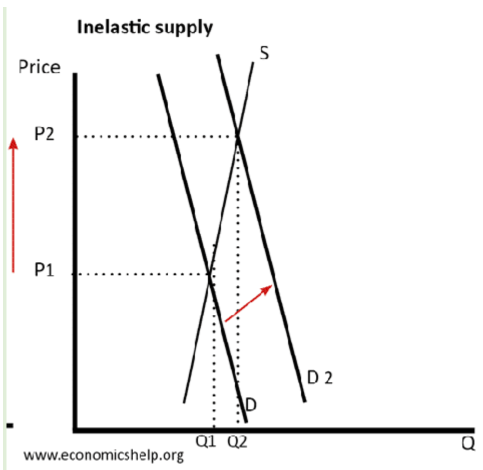
- Scarce resources are rationed
- Incentives (increased profit) are offered to producers to produce more
- Signals are given to both producers and consumers and to the owners of factors of production (signals can be seen working in case of excel supply/demand)
- Consumers can influence resource allocation through their economic choices.
- If consumers are prepared to pay more, producers will move scarce resources to the production of that good.
- This is known as consumer sovereignty

How do market forces (supply and demand) affect equilibrium price and quantity?

Market forces push prices up if there either demand rises or supply falls. Equally they will force prices down if demand falls or supply increases.

Adam Smith (founding father of modern economics) calls this ***the invisible hand***. This is where supply and/or demand change to achieve equilibrium.

An example, increased demand for land for business use:



Consumer demand has resulted in an increased demand for land from D to D2 to build factories, offices, retail outlets etc.

The supply of land is relatively inelastic.

This results in large price increases from P1 to P2 while there is only a small increase in quantity of land supplied from Q1 to Q2.

This results in a new equilibrium of P2Q2 where D2=S

Study Tips

Do not confuse price and cost. Price is the amount it takes to buy a good or service. Cost is how much money it takes to provide the product.

Having drawn a supply and demand diagram, perform a final check: have I labelled the axes and all the lines? Does demand slope downwards and supply upwards? Is the result what I expected? If not then recheck before writing your answer.

Remember to think about elasticity of the product you are discussing; use the correct shaped curve in your diagrams.

If you are answering a question about supply and demand, always try to draw an appropriate diagram and then explain it. The explanation is vital, as a diagram on its own is not analysis. The two combine to provide analysis.

Remember that price and quantity move in the same direction when there is a change in demand but in opposite directions when there is a change in supply.

GCSE Economics: Theme 2.5 Competition

How does competition affect economic activity?

What is meant by competition?

A large number of producers are trying to sell similar goods/services to a consumer.

A large number of producers compete with one another to satisfy the needs of consumers.

No single producer or groups of producers can decide how the market operates.

Consumers cannot influence the price or quality in the market.

What is price competition?

Most obvious form of competition – firms lowers their prices to try and gain customers and market share. Any firm that cannot compete will lose customers and potentially going out of business.

Firms cannot sell at less than cost price for any length of time as this would also cause them to go out of business.

Most likely where there are a number of larger firms.

Exam Criteria

- **Explain** competition between producers in a market economy
- **Explain** the reasons why producers compete
- **Analyse** how competition affects price
- **Evaluate** the economic impact of competition on producers
- **Evaluate** the economic impact of competition on consumers
- **Explain** what is meant by monopoly
- **Explain** what is meant by oligopoly
- **Explain** how monopoly and oligopoly differ from competitive markets

What is non-price competition?

- Offering a specialised product or service
- Better/more personalised customer service
- Convenience
- Quality of the product
- Marketing

Serve to create brand loyalty.

How does competition impact producers?

Forces an improvement in efficiency, including looking for ways to reduce costs. This has been the driving force behind technical innovation and the application of computerisation to technology.

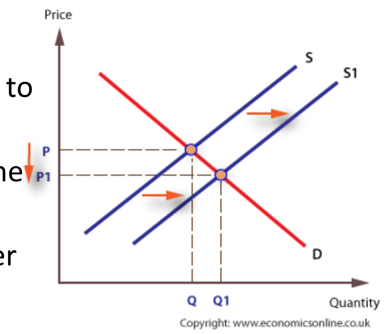
Increased innovation and computerisation will lead to increased productivity in all factors of production *(topic 1.1 and 1.6)* a growth in the economy *(topic 3.1)* and an increase in demand and supply. This leads to greater profits for more efficient producers.

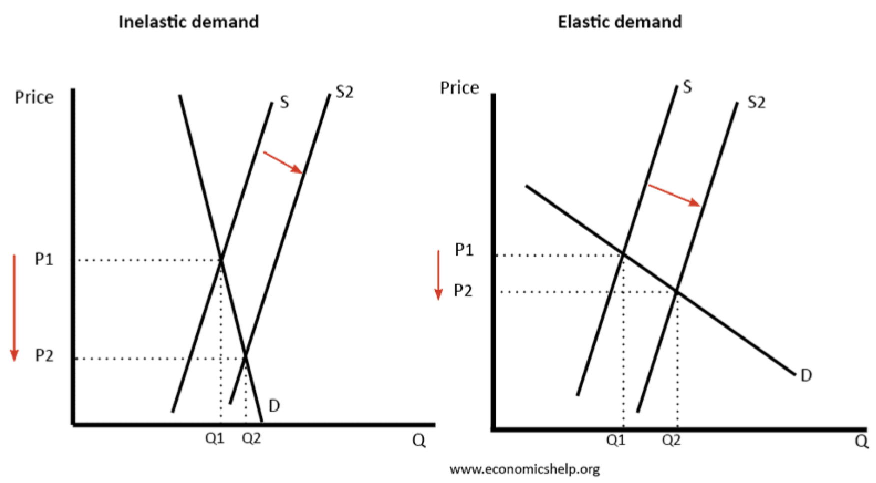
Producers who innovate will stay ahead of competition and attract more consumer demand which will attract more investors (topic 2.8)

Those slow to respond to innovation may go out of business or be forced out of markets. There could be an impact on demand for labour *(topic 2.7)* as machines take over jobs.

How does competition affect price/How is the effect on price shown on a diagram?

It has the potential to drive prices down so that firms produce at the point where total revenue = total costs. Increased competition has caused the supply curve to shift to the right to S1. Prices will fall to P1 and quantity sold will increase to Q1. How much prices will fall will depend on the PED; inelastic PED will result in larger price falls for small quantity increased whereas elastic PED will result in smaller price drops and large increases in quantity.





It has the potential to drive costs (and prices) up. Marketing costs are increased and producers will try to pass these on to their customers. Inventions and innovations cost producers in time and research and development in order to be in front of their competitors. If they are the first to have a product they can charge higher prices.

Why do producers compete?

- To enter a market
- To survive in a market
- To make a profit

You will look at profit more in Topic 2.6

How does competition impact consumers?

Positive - Lower prices, higher quality, increased innovation will lead to more choice. Goods highly priced or poor quality will be forced out of market.

Negative – Producers may introduce harmful goods into production process, consumption may cause negative effects. Consumers may be persuaded to buy goods they do not need.

You will look at negative externalities in more detail in Topic 3.8

Key Vocab

Word Wall

Competition – Where different firms are trying to sell a similar product to a consumer.

Monopoly – A solo producer or seller of a good or service.

Oligopoly – Where a small number of firms control the large majority of the market share.

Homogenous – All the same; alike.

Collusion – an agreement among firms or individuals to divide a market, set prices, limit production or limit opportunities.

Key Terms

Market Share – the portion of a market controlled by a particular company or product.

How do different market structures do things differently?

What is meant by monopoly?

A solo producer or seller of a good or service. This could be in a country or a region.

Characterised by lack of competition.

Legally a producer has to have 25% market share.

They exist because there are no barriers to entry:

- Legal barriers
- Greater efficiency/economies of scale
- Location
- Copyright and patents

What is meant by oligopoly?

A small number of firms control a large majority of the market share. Oligopoly exists if the 5 largest firms control 50% of the market share.

No limit on number of firms but must be low enough to ensure that the actions of one have a significant effect and influence over others.

There will be barriers to entry but not significant enough to stop firms entering the market and increasing competition.

Often try to control the market through collusion. This is illegal in the UK and fines can be issued/the action stopped.

How do oligopoly and monopoly differ from competitive markets?

Firms involved in monopoly and oligopoly are usually much larger. If firms do grow in competitive markets they are moving towards oligopoly.

Higher prices are often assumed as there is no need for a monopoly to be efficient. But, firms tend to be much larger and are able to take advantage of economies of scale to lower costs and are able to charge lower prices.

Study Tips

Make sure that you remember that competition takes many forms, it is not just about price.

Remember that when writing about the economic impact of competition on producers and consumers there will be both positive and negative points.

In addition, the emphasis must be on economic impact. For example, high fat cheap food may lead to poor health. But what is the economic impact of this?

More competitive ← → More concentrated

Perfect competition — Monopolistic competition — Oligopoly — Monopoly

Difference	Competitive markets	Oligopoly	Monopoly
Size	Normally relatively small	Can be very large but may also have smaller firms	Usually very large
Number of firms	Many	A few	1
Control of prices	The price is set by the market forces of supply and demand	Can influence the price but is restrained by the reactions of rivals. May try to collude	Is able to set the price but cannot then control the quantity
Level of price and output	Price and quantity are both set by market forces. In theory the prices will be low and quantity greater	Both price and quantity will depend on how strong the competition is and the ability to collude	In theory can charge a higher price and produce a smaller quantity
Efficiency	Competitive markets normally lead to economic efficiency	Usually seen as not being economically efficient	In theory, monopolies are seen as not being efficient, but by achieving larger economies of scale they can be efficient

GCSE Economics: Theme 2.6 Production

Who are the producers in the economy?

What is the role of the producer?

A producer makes and supplies goods and services by combining factors of production. They can be any size from individuals to large multinational corporations.

Producers are responsible for the supply element of supply and demand and help to influence price. They often aim to make a profit.

They are important because the employ people and pay wages. Employment means goods and services are being produced and paying workers enables them to buy the goods and services.

What three groups can be producers?

- Individuals
- Firms
- Governments

How can individuals be producers?

Producers of non-market goods such as cooking, cleaning and child-minding.

Self-employed people work for themselves to provide goods and services to the market.

How can firms be producers?

Can be small local firms or can sell nationwide and/or abroad.

Smaller firms are usually involved in competition where larger firms may be oligopolies or monopolies. Larger firms have power over markets by limiting the amount they supply or by lowering prices to drive out competition (*see topic 2.5*).

How can governments be producers?

Governments produce a range of services that the private sector wouldn't produce themselves because the public wouldn't pay for them directly (police/defence). Sometimes the private sector can provide some of these services; private options are often too expensive for some people.

The government can also produce goods although many of these industries have now been privatised.

Why is productivity important?

What is production?

The total amount of goods and services produced by a firm or industry in a given amount of time. It requires combining factors of production (*see topic 1.1*).

What is productivity?

A measure of efficiency measured in terms of output per unit of input.

$$\frac{\textbf{Total Output}}{\textbf{Total Input}}$$

What does productivity depend on?

Improving inputs to the production process:

- Investment in the production process
- Workforce education and training
- Better quality raw materials

What is an increase in production likely to bring about?

- An increase in employment (unless greater productivity reduces it *(Topics 3.1 and 3.2)*
- An increase in profits for firms and the industry
- Larger economies of scale
- An increase in market share if the production of one firm increases against the other firms
- Economic growth for the economy *(Topic 3.1)*
- A rise in the standard of living *(Topic 2.1)*

What is a diseconomy of scale?

Costs of production increasing as the firm grows in size due to disadvantages of growing.

How can producers increase productivity?

- Workers specialising in part of the production process *(see topic 2.5)*
- Investment in new technology and more capital equipment
- Improving the skills of the workforce

Exam Criteria

- **Explain** the role of producers
- **Know** the difference between production and productivity
- **Evaluate** the importance of production for the economy
- **Evaluate** the importance of productivity for the economy
- **Calculate** and **explain** total cost
- **Calculate** and **explain** average cost
- **Calculate** and **explain** total revenue cost
- **Calculate** and **explain** average revenue
- **Calculate** and **explain** profit and loss
- **Evaluate** the importance of cost for producers
- **Evaluate** the importance of revenue for producers
- **Evaluate** the importance of profit and loss for producers
- **Understand** how costs and revenues affect profit and supply
- **Explain** economies of scale

Key Vocab

Word Wall

Profit - The amount of money a producer has left after all the costs have been paid i.e. when total revenue is greater than total cost.

Production - The total output of goods and services produced by a firm or industry in a given period of time.

Productivity - One measure of the degree of efficiency in the use of factors of production. It is measured in terms of output per unit of input.

Loss - When a firms revenue is less than its costs. I.e. total cost is greater than total revenue

Revenue - Income from the sale of goods and services.

Key Terms

Market Share – the portion of a market controlled by a particular company or product.

Average Cost – The cost of producing a unit (unit cost of production)

Total Cost - All of the costs of the firm added together

Average Revenue – The revenue per unit

Total Revenue - The total revenue from a firm from the sale of goods and services

Why is high productivity important?

Individuals are likely to see higher wages and higher standards of living.

Firms will see:

- Lower average costs and increasing economies of scale. More competitive on a global scale, increasing GDP and improving balance of payments.
- Greater profits – can be reinvested (higher wages or new equipment) to improve productivity further

Governments will see:

- Increased total output (greater employment, increased government revenue)
- Greater exports and thus economic growth

You will learn more about wages in topic 2.7, GDP and economic growth in topic 4.1, Balance of payments in topic 4.2, Exports and economic growth in 3.1, 4.1, 4.2 and 4.4 and Economic growth and taxation in topic 3.1 and 3.5.

What are the costs of productivity?

An increase in use of capital equipment could lead to unemployment. This leads to the government having to support the workers in the short term as well as longer term impacts on the family.

Greater international competitiveness could lead to countries retaliating causing a fall in GDP.

You will learn more about GDP and the Balance of Payments in topic 4.2

Study Tips

Be careful that you do not confuse production and productivity. They are quite different even if there are links between the two.

Be very careful that you do not confuse revenue and profit. They are very different concepts and in an exam it must be clear that you realise they are not the same.

Do not state that only large firms gain economies of scale. All firms can gain some economies by growing.

Is it important to know your costs and revenue as a producer?

What is total cost?

The costs of actually producing an item. It will include raw materials and the costs the firm has for simply existing.

Total cost = total fixed costs + total variable costs

TC = TFC + TVC

What is profit and loss?

Profit - Firms gain more revenue than it pays in costs. Profit maximisation is an aim of most firms.

Loss - Firms lose money because their revenue is less than costs.

How important is revenue?

Without an inflow of money from sales producers cannot make a profit.

Growth in revenue attracts investors.

Steady levels of revenue allow producers to secure loans/overdrafts. Overdrafts mean less short-term worries about paying suppliers/workers etc.

Creates confidence in the firm.

What are external economies of scale?

Firms benefit from these due to industry or location. They are out of the control of the firm:

- Improvement in transport links
- Education and training facilities
- Concentration of firms (suppliers etc)
- Reputable locations

What is average cost?

The cost of producing a single unit. A fall in AC shows that the firm is becoming more efficient and gaining economies of scale.

$$\textbf{Average cost} = \frac{\textbf{total fixed costs}}{\textbf{quantity}}$$

$$AC = \frac{TFC}{Q}$$

What is average revenue?

Revenue per unit sold.

$$\textbf{Average revenue} = \frac{\textbf{total revenue}}{\textbf{quantity}}$$

$$AR = \frac{TR}{Q}$$

How important is Profit?

- It generates finance for investment
- It acts as a signal and tells other producers that they too might be able to make a profit in that market
- It allows a producer to attract more resources to the firm/industry

What are internal economies of scale?

Result from the growth of the business itself. They lead to cost savings and lower average cost:

- Technical economies
- Economies of increased dimensions
- Purchasing or bulk-buying economies
- Division of labour
- Financial economies
- Managerial economies
- Marketing economies
- Risk-bearing economies
- Research and development economies

How important is Loss?

- Short-term may not result in business closing (use reserves or borrow)
- Long term reverses will run out or will have to pay back loans
- It acts as a signal, telling factors of production to leave it to find a market making a profit

What is total revenue?

Total income from the sale of goods and services. Also known as *sales revenue* or *turnover*.

Total revenue = Price x Quantity

TR = P x Q

How important are costs?

If costs of production fall, firms can supply more at each price causing the supply curve to shift to the right. If costs of production rise the supply curve shifts to the left; less is supplied at every price.

Firms try to keep their costs low to make or increase profits.

Costs are only one factor in determining price. In some specialised markets, prices are based on cost.

Production costs generally rise as output increased, as costs rise with increasing output so does price, causing the supply curve to slope upwards *(Topic 2.5)*

GCSE Economics: Theme 2.7 The Labour Market

Why do people do the jobs they do?

What is the labour market?

The labour market consists of the supply of labour from households and the demand for labour by firms. The interaction of these will give the price for labour (wages).

Wages provide an income to households but are a cost to firms.

In a free market the forces of supply and demand would set the wage level but governments and trade unions will influence the wage level.

What is the role of the labour market?

To enable workers who are willing and able to sell their labour to meet employers who are willing and able to give them a job.

To determine the wage rate for this work.

What might prevent the perfect operation of the labour market?

There is not perfect mobility in the labour market. Labour cannot move freely from one job to another. Possible reasons:

- Lack of skills
- Unwillingness to relocate
- Personal factors
- Lack of information about available jobs (information failure)

You will learn more about information failure in Topic 2.8

What main labour markets exist?

Local	Within a short commuting distance of a worker's home
National	This covers the whole of the UK
International	The whole world or a large section (EU)

What smaller interacting markets exist within each labour market?

- Qualifications
- Skills
- Geographical locations

What information exchange do labour markets rely on?

- Wage rates
- Conditions of employment
- Level of competition
- Location of the job

What is meant by the interaction of workers and employers?

- Individual workers can deal directly with their employer to establish wages, working conditions etc
- Many workers belong to a trade union. The trade union will interact with employers on behalf of its members to establish wages, working conditions etc. This is known as collective bargaining.

How are wages determined? (a)

What is the supply of labour?

The working population; those who are both willing and able to supply their labour. A potential additional supply of people who are currently inactive.

Active labour supply	Inactive labour supply
Employed consisting of:	Unemployed consisting of:
Employees	Looking after family
Self-employed	Short term sick
Those on government schemes	Long term sick
Unpaid workers	Discouraged workers
Unemployed	Students
	Retired

What factors affect the supply of labour?

- ***Wage rate*** – higher wages will attract more workers
- ***Other money payments*** – overtime, bonus payments etc
- ***Size of working population*** – affected by retirement and school leaving ages, migration etc
- ***Non-monetary factors*** – working conditions, job security etc
- ***Barriers to entry*** – necessary qualifications, trade unions, discrimination etc
- ***Education and training*** – will increase the number of skilled workers

Exam Criteria

- **Explain** the role and operation of the labour market
- **Explain** the interaction between workers and employers
- **Analyse** the factors affecting the supply of labour
- **Analyse** the factors affecting the demand for labour
- **Analyse** the determination of wages through supply and demand
- **Explain** and **calculate** gross pay
- **Explain** and **calculate** net pay
- **Explain** deductions involved in moving from gross to net pay including income tax, national insurance and pension contributions

Key Vocab

Word Wall

Pension- A fixed amount paid at regular intervals to a person or their surviving

Gross - Total amount of pay earns before deductions

Net – Pay after deductions have been made.

Levy – Impose a tax

Key Terms

Labour market – Where workers sell their labour and employers buy the labour: it consists of households' supply of labour and firms' demand for labour

Supply of labour – The total number of people who are willing and eligible to supply their labour, including the unemployed

Gross pay – The amount of money an employee earns before any deductions are made

Income tax – A tax levied directly on a personal income (a wage)

National Insurance – A contribution paid by workers and their employers towards the cost of state benefits

Net pay – The amount of money that an employee is left with after deductions are made from gross pay

Trade Union – An organisation of workers who act to protect and further their rights and interests

How are wages determined? (b)

What is the demand for labour?

A derived demand as it depends on the demand for the product that the labour helps to produce. If consumers want more of a product, firms will demand more labour.

Study Tips

Remember that the price of labour is wages. Wages, not price should therefore be used on labour market diagrams.

How are wages calculated?

What is gross pay?

The amount of money an employee actually earns before any deductions are made. It includes overtime payments, bonuses and allowances. It is gross pay that is quoted when advertising jobs

What is net pay?

Net pay is also known as 'take-home pay'. It is the actual amount of money an employee has to spend or save after all deductions have been made.

Deductions include:

- Income tax
- National Insurance
- Pension contributions

How do we calculate gross and net pay?

Gross Pay – Take your base pay (stated on contract) and add any extra payments:

Payments per month	£
Wage	2,500
Bonus	300
Total	2,800

Net Pay – Depends on which deductions are made

Gross pay and deductions per annum	£
Gross pay	24,000
Income tax	2,512
National insurance	1,925
Pension contribution	1,440
Net pay	18,123

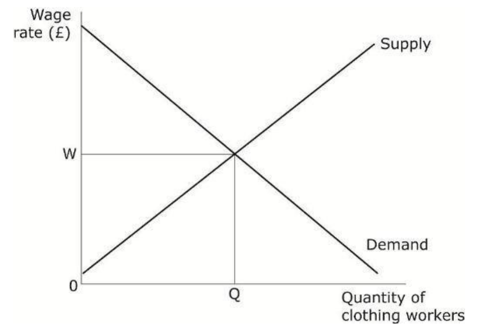
n.b. Pension contributions are the monies a worker pays into a workplace pension scheme which the employer also pays into. Student loan repayments are also classed as a deduction.

What factors affect the demand for labour?

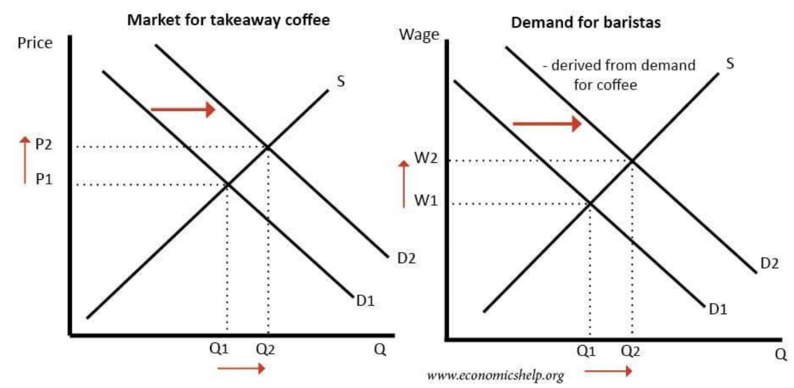
- ***The state of the economy*** – more labour is demanded as the economy grows
- ***Demand for goods*** – If demand in a particular market is growing fast then the demand for labour in the market will increase
- ***Wage rates*** – there is an inverse relationship between ware rates and the demand for labour; less labour will be demanded at higher wages
- ***Real wages*** – a fall in real wages may encourage producers to employ more rather than invest in capital
- ***Productivity of labour*** – If this rises, labour may become cheaper than capital investment
- ***Profitability of firms*** – firms making large profits are likely to expand and therefore need more workers.

How does supply and demand determine wages?

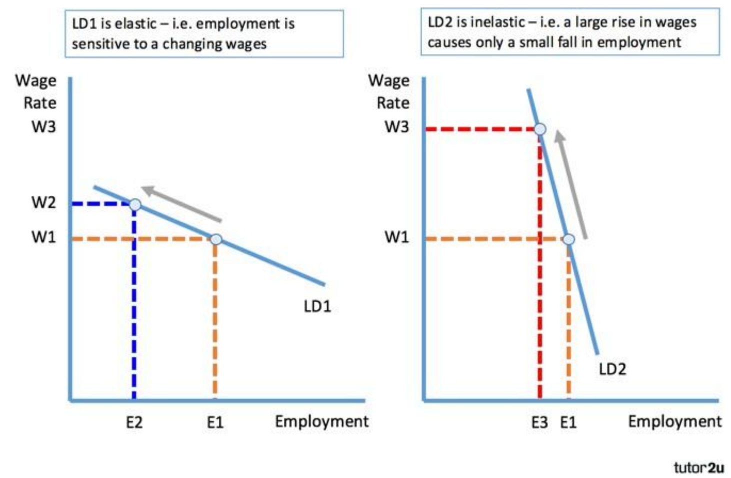
The labour market works in exactly the same way as the markets for goods and services in topic 2.4; where supply and demand meet is the equilibrium price for labour (the wage).



The demand for labour is dervived from the demand for the product or service being produce:



The size of any change will depend on the PED and PES of labour. Supply of labour will be inelastic if there are limited people who could fulil the role and more elastic if many people could fulfil it.



GCSE Economics: Theme 2.8 The Role of Money and Financial Markets

Why is money important?

What is money?

Anything that is accepted as a means of payment for goods and services. Consists of notes and coins (legal tender) and bank deposits in current accounts and savings.

Cheques, debit cards and credit cards are NOT money but they allow money to be transferred between buyers and sellers.

What is a debit card?

Transfers money from your current account to the seller.

If you do not have enough money in your current account you cannot buy the product.

What is a credit card?

Enables you to buy goods and services whether or not you have money in your account. If you cannot pay this short term loan back within 30 days you are charged interest on it.

Retailers are charged for allowing you to use credit cards as a form of payment.

What is meant by medium of exchange?

Anything that sets the standard of value of goods and services to all parties in a transaction. Money is the common form of medium of exchange.

What organisations operate in the financial sector?

What is the financial sector?

Consists of financial organisations and involves the flow of capital.

It helps markets to function and consumers/households, firms and governments to economic activities all within a regulatory framework.

This normally involves the lending and borrowing of money between those who have it but do not need to use it immediately (savers) and those who want to use it now (borrowers).

What is the role of the central bank?

- Issue bank notes and control the supply of money to the economy
- Control monetary policy by setting the bank rate
- Provide financial stability
- Manage the country's foreign reserves
- Act as a bank for commercial banks
- Be the bank for the government

What is the role of commercial banks?

Take deposits (savings) from customers and turn them into assets for the bank. Generally changer interest rates higher than the bank rate.

- Accept deposits and pay interest on them
- Make payments on behalf of their customers
- Issue loans to individuals and firms and issue overdraft facilities
- Offer safe deposit boxes for very expensive items

What is the role of insurance companies?

A financial institution that provides compensation for specified loss, damage, illness, death in return for an agreed payment.

- Life Insurance
- General insurance

What is the role of building societies?

Not companies but mutual institutions. Their members (the people who have money deposited) own them. Provide saving products and mortgages for their members.

Different to banks as banks are often listed on the stock exchange. Many building societies have now converted to banks following changes in the law.

Exam Criteria

- **Explain** what is meant by money
- **Explain** the role of money as a medium of exchange
- **Explain** what is meant by the financial sector
- **Explain** the role of banks
- **Explain** the role of building societies
- **Explain** the role of insurance companies
- **Explain** the role of the financial sector for the economy
- **Evaluate** the importance of the financial sector for consumers
- **Evaluate** the importance of the financial sector for producers
- **Evaluate** the importance of the financial sector for the government
- **Analyse** how different interest rates affect the levels of saving
- **Analyse** how different interest rates affect the levels of borrowing
- **Analyse** how different interest rates affect the levels of investment
- **Calculate** the effects on savings of changes in the rate of interest
- **Calculate** the effects on borrowings of changes in the rate of interest

Key Vocab

Word Wall

Money- Anything that is generally accepted as a means of payment for goods and services

Investment - The purchase of capital goods that are used to produce future goods and services. Also an asset purchased to provide an income in the future and/or to be sold at a profit

Annum – By the year, in or for each year, annually

Mortgage – An agreement with a financial institution to borrow money to purchase a property

Key Terms

Medium of exchange - Anything that sets the standard of value of goods and services to all parties in a transaction.
Financial sector - Consists of financial organisations and involves the flow of capital
Insurance company - A financial institution that provides compensation for specified loss, damage, illness, death in return for an agreed premium.
Building society - A mutual financial institution that is owned by its members. Its primary objectives are to receive deposits from its members and to lend money for members to purchase property.
Rate of interest/interest rate – The cost of borrowing money
Bank rate - The interest rate set by the central bank; all other interest rates are calculated from this.

Why is the financial sector important?

Why is credit provision important?

Without credit the level of activity in the economy would be greatly limited. Credit cards increase consumption by allowing consumers to buy now and pay later; this has encouraged some people to live beyond their means.

Producers can borrow money to enable them to grow without first having to save the money.

Governments use credit to enable them to spend before tax revenue is raised or even allowing them to spend more than they plan to raise in tax revenue (fiscal policy).

You will learn more about Fiscal Policy in Topic 3.5

Why is liquidity provision important?

Liquidity refers to ho quickly assets can be turned into cash. Banks provide the facility to do this to households and firms and this allows them to function when receiving unexpected bills.

Why is risk management important?

Financial institutions allow individuals and businesses to pool their risks from exposure to financial markets.

By taking savings from a range of customers and investing in a number of companies, the risk of a customer losing all of their money is lowered as even if one investment fails, another might be doing well.

Study Tips

Be careful how you use the words 'saving' and 'investment'. In economics saving is done largely by individuals and investment mainly by firms. However, in finance, investment has another meaning (see key terms).

Remember that when reading the news or looking information up on the internet, you may come across 'rate of interest' and 'interest rate'. These are basically the same thing.

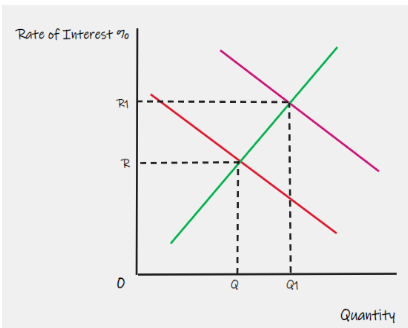
Be careful not to say that commercial banks issue notes and coins. The Bank of England and Wales issues them through the commercial banks.

Why are interest rates important?

How do interest rates affect the level of saving?

In general, higher interest rates will attract savers and falls in interest rates will result in people reducing their level of saving. Individuals are compensated for not spending their money immediately with the interest they gain from saving. The ***opportunity cost*** of receiving interest is not spending money immediately.

If the interest rate rises from R to R1 this results in an increase in demand for savings from D to D1resulting in an increase in savings from Q to Q1.



How do interest rates affect the level of borrowing?

Higher interest rates increase the cost of borrowing. New borrowing is more expensive and people have to pay more for any existing borrowing. Both firms and households tend to borrow less at higher rates of interest.

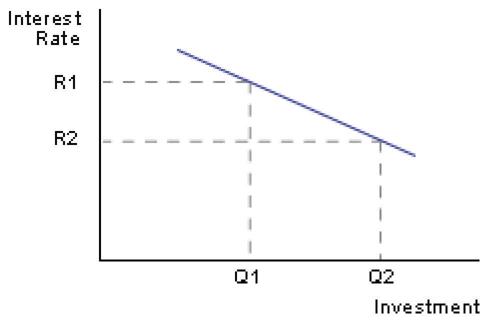
Also, rising interest rates may encourage people to save rather than spend which means less goods and services are purchased which could further deter firms from borrowing as their revenue falls.

Higher interest rates are likely to lead to an increase in the foreign exchange value of the pound making exports more expensive and less competitive; firms will sell less and reduce borrowing.

How do interest rates affect the level of investment?

The level of investment is inversely related to the rate of interest. A fall in the rate of interest means the cost of borrowing will fall and also there is lower opportunity involved in sacrificing saving. Also, lower interest rates will encourage consumer spending and firms will want to expand to meet demand.

If firms and consumers lack confidence in the economy firms might not increase investment.



How do you calculate the effect of changes in the interest rate?

Interest on saving:

$$\frac{\text{Amount saved} \times \text{Interest rate}}{100}$$

Interest on borrowing:

$$\frac{\text{Amount borrowed} \times \text{Interest rate}}{100}$$

In both situations, you need to calculate the original interest payments and the new interest payments so that you can calculate the effect of the rate changes.

e.g. Nikki has borrowed £100,000 for one year and is being charged an interest rate of 5%.

$100{,}000 \times \frac{5}{100}$ = *£5,000 interest is being paid on the loan*

If the interest rate was 5.5%

$100{,}000 \times \frac{5.5}{100}$ = *£5,500 interest is being paid on the loan*

This method enables you to calculate and draw conclusions about the effect of a change.

GCSE Economics: Theme 3.1 Economic Growth

What is the meaning of Economic Growth?

Economic Growth

Economic growth is the increase in the economic activity in a country. It is shown by the growth in the value of output. The value of output is called **GDP**.

GDP

The total value of output produced in an economy is GDP. It is also equal to the total of incomes in an economy and the total amount spent in an economy.

For example, if a student purchased a textbook for £20, the bookseller's output would be £20, their income from the sale would be £20 and the student wold have spent £20. So when there is economic growth, output, incomes and spending are rising.

Total Output = Total Income = Total Spending

Exam Criteria

- **Explain** what is meant by economic growth
- **Calculate** and explain how economic growth is measured with reference to Gross Domestic Product (GDP) and GDP per capita
- **Analyse** recent and historical GDP data
- **Analyse** the determinants of economic growth, including investment, changes in technology, size of workforce, education and training, availability of natural resources and government policies
- **Evaluate** the costs and benefits of economic growth, including the impact on economic, social and environmental sustainability

How do we Calculate Economic Growth?

To **calculate** economic growth, the government measures the value of output and calculates the rate at which it has changed. It is measured by the percentage change in GDP and the formula is:

$$\frac{\text{Change in GDP}}{\text{Original GDP}} \text{ X } 100$$

Example:
If a country has a GDP in 2021 of £500 billion and the next year it has risen to £510 billion, the rate of growth is:

$$\frac{\text{£10 billion}}{\text{£500 billion}} \text{ X } 100 = 2\%$$

Total **GDP** figures are useful to show the size of an economy as a whole and is calculated by adding together the value of all output of goods and=d services in an economy

GDP Per Capita is GP divided by the population and therefore output per head of population. It is also average income of each person in the country. In the UK GDP per capita grew by 0.8% between 2018 and 2019 but then fell by 10.3% in 2020. REMEMBER GDP per capita is an average and the actual GDP will be distributed unevenly.

The **standard of living** is often measured by GDP per capita and is used as a comparison between countries of how well off people are.

Key Vocab

Key Terms

Economic growth - Growth in GDP (value of output)

Gross Domestic Product (GDP) - Total value of goods and services (output) produced in an economy in a year.

GDP per capita - GDP divided by the population.

Determinants of economic growth – Things that make the economy grow - achieved through an increase in the quantity or quality of factors of production

Investment – Spending on capital goods.

Changes in technology - Better technology leads to better quality of capital.

Size of workforce - A larger workforce means there is more labour (a factor of production).

Education and training - An increase in the skills of the workforce will improve the quality of labour.

Availability of natural resources - If there is the discovery of more natural resources, it enables an economy to grow.

Government policies - Government investment in infrastructure; management of the macro economy and having adopted a mixed economy.

Mixed Economy – A mixed economy means that part of the economy is left to the free market, and part of it is managed by the government.

Macro Economy -deals with performance, structure, behaviour, and decision-making of an economy as a whole. For example, using interest rates, taxes, and government spending to regulate an economy's growth and stability.

Standard of living – how well off people are, often measured by GDP per capita

How Useful is recent and Historical GDP Data?

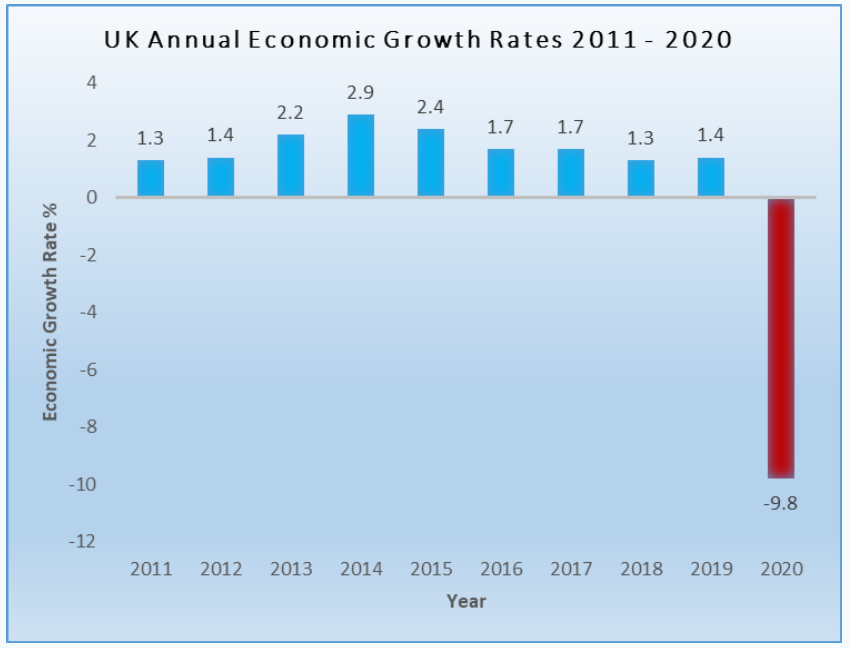
What is a Boom?

A boom is a period of high economic activity and high levels of employment

What is a recession?

A recession is a period of time when a country's GDP falls for two or more consecutive quarters

Economists use the terms BOOM and RECESSION when analysing a country's GDP



Analysing the Data

The figure above shows that economic growth rates are not the same every year. For all years above growth was positive except 2020 which was negative. A period of negative growth is known as a recession. During such times GDP falls so the economy is producing less than it was previously. Economists say that a recession is technically when GDP falls for two or more consecutive quarters of a year. If economic growth is positive and high over a period of time it is called a boom.

Between 2011 and 2019 there was a positive annual growth rate. In 2020 the pandemic happened and the UK went into recession with output falling (red bar). Output fell as firms closed and government spending reached its highest to fund the vaccine roll out and the furlough system. Consumer spending fell overall further affecting output.

Study Tip

Don't confuse GDP and GDP per capita. While GDP is the value of the output and incomes for the whole economy, GDP per capita is the average income of each person.

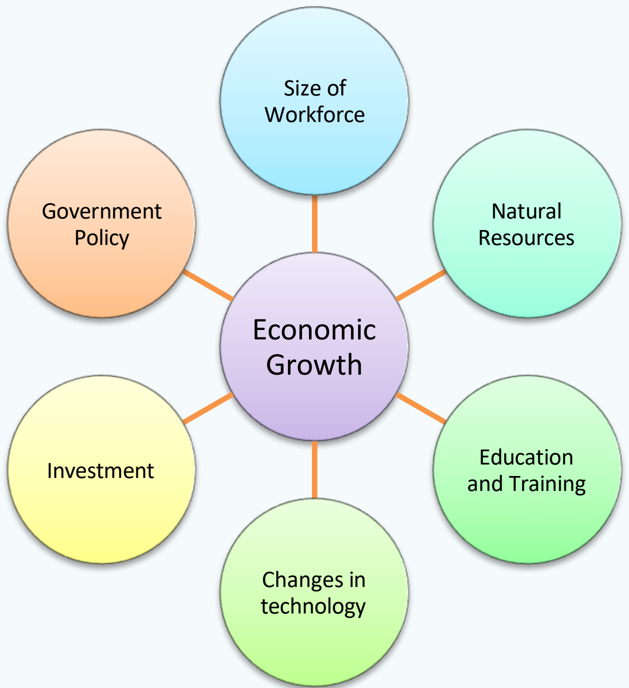
Analysing the Data

The graph above shows that when the UK economy entered recession in 2008, output fell. Less labour was needed to produce fewer goods so unemployment rose and thus incomes fell leading to a fall in demand. This led to a deeper recession in 2009.

However the graph shows that by 2010 the economy had come out of recession, output was rising so more workers were required to produce goods and services and employment rose. This meant higher incomes and more demand until 2020 with the impact of the pandemic caused output to fall steeply.

What are the Determinants of Economic Growth?

- Economic growth can be caused by an increased ability of an economy to produce goods and services
- The quality or quantity of factors of production affect an economy's potential to make goods or services
- Determinants of economic growth change the quality or quantity of these factors of production



Study Tip

To analyse these determinants of economic growth, you need to be able to explain how they might cause economic growth using logical chains of reasoning

Analysing the Determinants of Economic Growth

Investment

Investment is spending on capital goods by firms

- Capital goods are man made aids to production such as delivery vehicles and computers
- They can be faster and more efficient than workers doing a job
- They might also be used by workers to help them work more efficiently
- This can lead to the economy being able to make more in the future .

Changes in Technology

- Advances in technology can improve the quality of capital goods
- This means the same amount of capital can make more goods and services
- E.g. if a restaurant's oven is replaced with one that heats up faster, customers are now served more efficiently
- Improved capital may mean a country can use all its factors of production more efficiently.

Size of Workforce

- The size of the labour force is the quantity of people willing and able to work in an economy
- This is the number of people who either have jobs or who are looking for them
- An increase in the number of potential workers means more can be made
- This is because there is an increase in the factors of production
- E.g. and increase in immigration may increase the quantity of labour available to work

Education and Training

- Affects the quality and quantity of the labour factor of production
- An increase in spending on education may lead to a more skilled future workforce
- These workers are more productive and can increase the number of goods and services produced
- This increase in output could mean an increase in GDP and economic growth

Study Tip

To analyse these determinants of economic growth, you need to be able to explain how they might cause economic growth using logical chains of reasoning

Natural Resources

- The quantity affects the land factor of production
- If a country finds new natural resources such as oil, it can either sell to other countries or use them to make more goods and services
- Both of these could lead to an increase in output, GDP and economic growth
- A country may also face a decrease in natural resources such as losing land due to rising sea levels
- This can mean it's less able to make as much output and economic growth may decrease or become negative

Government Policies

- The amount of government intervention in a country will depend on the type of economy – mixed, command or market
- Policies may be ones that affect specific markets or the whole economy
- A supply side example maybe providing more roads or broadband
- Improved infrastructure could make it easier to supply goods and services therefore increasing efficiency and lowering costs
- This can lead to increased output GDP and economic growth
- Policies can also affect total demand within an economy and economic growth e.g. income tax levels

Evaluating the Costs and Benefits of Economic Growth

Benefits

- More output created
- Greater supply of goods and services leading to a reduction in prices and increase in standard of living
- More workers needed leading to more jobs and lower unemployment
- More tax revenue e.g. through income tax which could be used to improve welfare
- Increase in tax revenue along with reduction in unemployment benefit would improve the budget balance

Costs

- More pollution affecting quality of life
- More pollution affecting the environment
- Depletion of non renewable resources due to increased use of raw materials
- More pressure on workers leading to workplace stress and affecting mental health
- Increase in inflation if demand increases faster than supply
- Increased inflation makes goods more expensive for export, leading to decreased competitiveness
- Inequality of incomes if increases are not spread evenly

Study Tip

To work out whether there is a positive or negative impact on supply and economic growth, think about whether the intervention makes it easier/harder or more costly/cheaper to produce

Economic, Social and Environmental Sustainability

- Economic growth should improve quality of life now without reducing it in the future
- Costs and benefits of growth can impact factors of production both now and into the future
- Increased production could lead to more pollution causing global warming therefore harming economic stability:
  - Reduced factors of production such as land reducing future production
  - If homes are lost due to flooding reducing the quality of life
  - Areas of the world may experience more extreme weather leading to damage

GCSE Economics: Theme 3.2 Low Unemployment

What is the meaning of Employment and Unemployment?

Full Employment
This occurs when an economy is using most of its workers to produce output. It is when everyone willing to work is able to get a job.

- **Employment** means people have a job
- People who are willing and able to work make up the labour force or workforce
- The labour factor of production is used or employed to make goods and services
- Wages incentivise and motivate people to work
- As demand and supply change for goods and services so will the need for workers within these different markets so there will always be some people looking for new jobs

- **Unemployment** means people who are of working age and are looking for work at the current wage rate are unable to find a job (Usually above 16)
- Economically inactive people are not included e.g. pensioners, full time students, sick, family care
- Low unemployment is a key govt. objective
- Low unemployment means less money needed for unemployment benefits
- Wages are a main source of income and can help people out of poverty

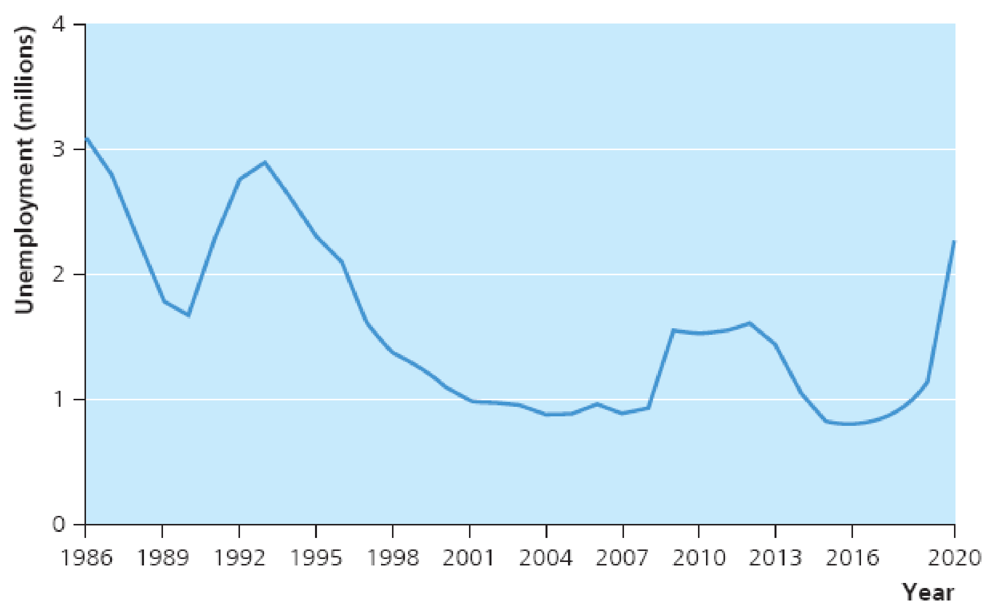
How is unemployment measured?

The Claimant Count is a method of measuring unemployment and includes people who are claiming unemployment related benefits such as jobseekers allowance or universal credit.
The unemployed register for these benefits so it is a method the govt. can use to measure.

Extension

Labour Force Survey

The LFS is a sample of households and counts people as unemployed if they are willing to work, actively seeking work could soon start work but currently do not have a job. It uses standard international labour organisation methods and is therefore useful for comparing unemployment between countries



Source: ONS

<u>Exam Criteria</u>

- **Explain** what is meant by employment and unemployment
- **Explain** how unemployment is measured using the claimant count
- **Calculate** the unemployment rate
- **Analyse** recent and historical unemployment figures
- **Explain** the types of unemployment, including cyclical, frictional, seasonal and structural unemployment
- **Evaluate** the causes and consequences of unemployment for individuals, regions and government

Key Vocab

<u>Key Terms</u>

Employment The use of labour in the economy to produce goods and services and when people who are willing and able to work can find a job.

Unemployment Occurs when workers able and willing to work at the current wage rates are unable to find employment

Claimant Count The method of measuring unemployment according to the number of people who are claiming unemployment related benefits

Level of unemployment The number of people in the working population who are unemployed

Rate of unemployment The percentage of the country's workforce that is unemployed

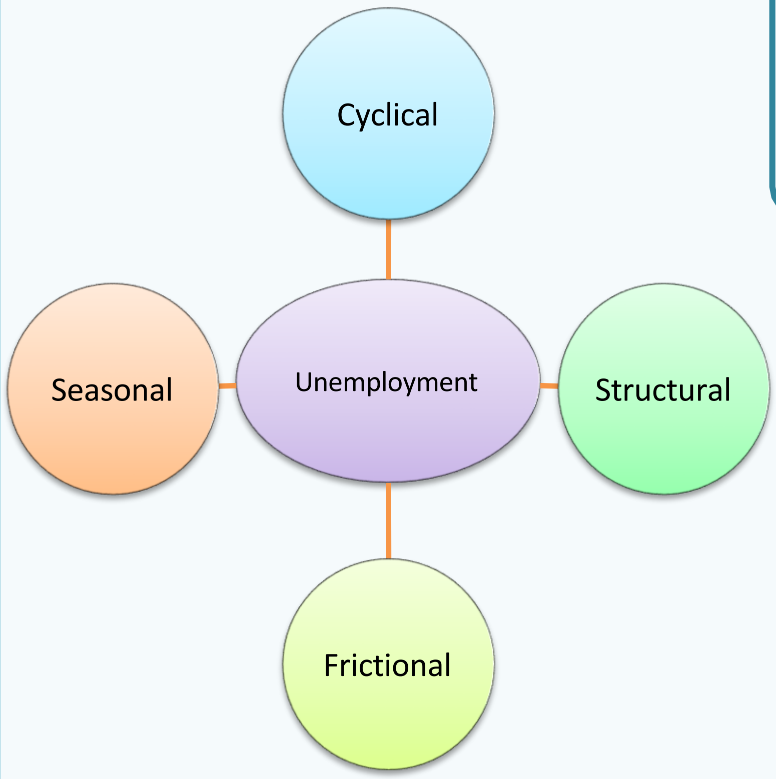
Seasonal unemployment Lack of employment caused by a fall in demand during a particular season

Frictional Unemployment Lack of employment caused by time lags when workers move between jobs

Structural Unemployment Unemployment caused by a permanent decline of an industry or industries

Cyclical unemployment Lack of employment caused by a lack of demand in the economy

What are the causes and types of unemployment?



- Unemployment may be affected by or worsened by a range of causes that are referred to as types of unemployment.
- These may vary between individuals and regions
- If a govt. identifies the causes of unemployment, it can change its policies.

- **Cyclical** Unemployment is caused by problems in the economy, so total demand falls therefore fewer workers are needed to make less output
- **Frictional** Unemployment is caused when people are 'between jobs' for a short time
- **Seasonal** Unemployment is caused when labour is only demanded at certain times of the year such as Christmas workers or ice cream sellers
- **Structural** unemployment is caused due to changes in demand and supply. Certain industries decline and jobs are reduced e.g. steel production

How do we Calculate The Unemployment Rate?

To **calculate** unemployment rate we use the following formula:

$$\text{Unemployment rate} = \frac{\text{Number of unemployed}}{\text{workforce}} \times 100$$

The unemployment rate is the **percentage** of a country's workforce that is unemployed whereas the unemployment level is the **number** of a working population that are unemployed.

Study Tip

If you are asked to identify the **level** of unemployment from some data, your answer must be a number e.g. 1.4 million. If you are asked to identify the **rate** of unemployment, your answer must be a percentage e.g. 6.4%

Calculation Points

- The level of unemployment and unemployment rate can move in different directions. For example, the level of unemployment can increase in a country, but if the size of its workforce increases by proportionately more, then the unemployment rate falls
- A rising unemployment rate over time can mean economic growth is slowing down or has become negative, so fewer workers are needed to produce less output
- A falling unemployment rate over time can mean there is economic growth so more workers are needed to produce more output.

How do we Analyse Recent and Historic Data?

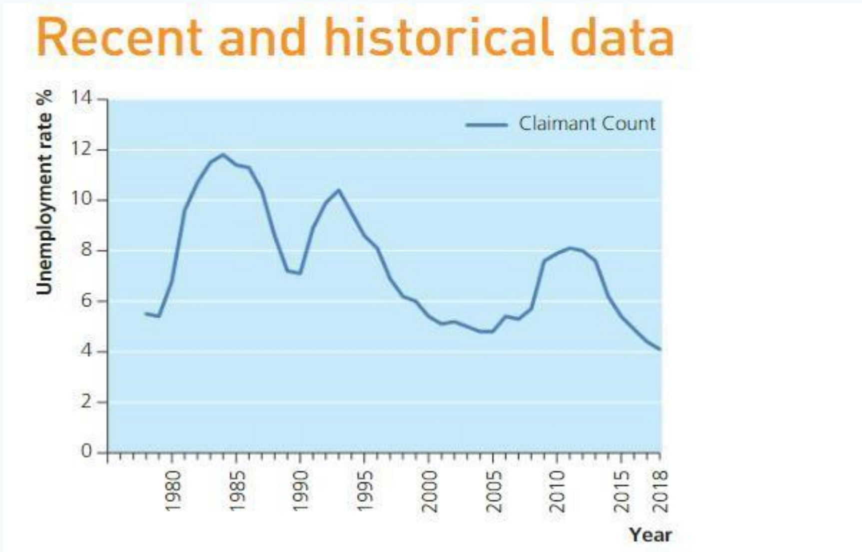


Figure 12.1 UK unemployment rates, 1978–2018

Source: www.ons.gov.uk

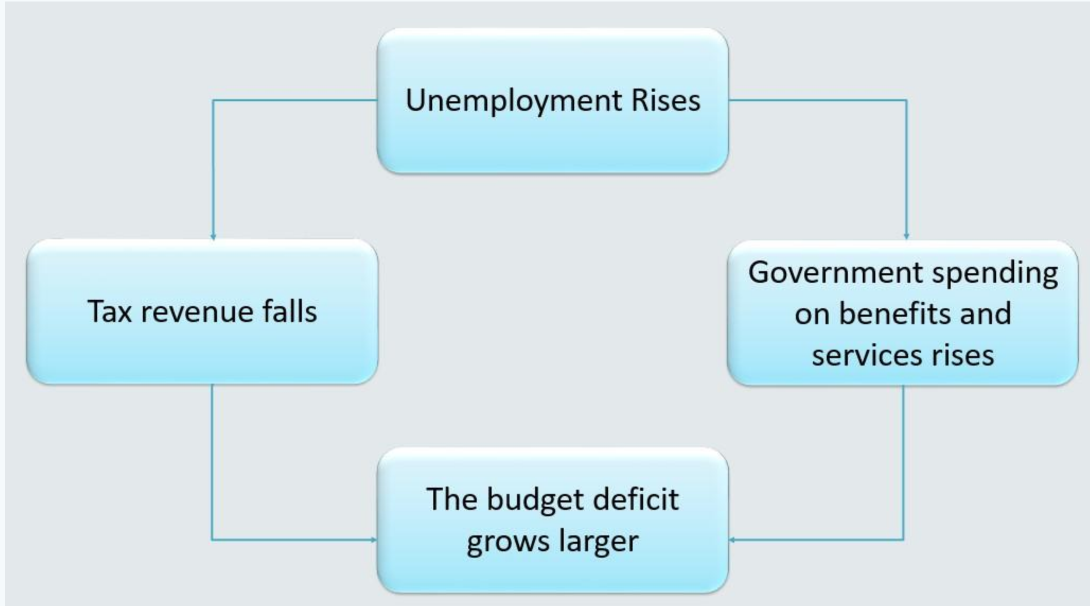
Analysing the Data

- Over time in the UK the unemployment rate has both risen and fallen
- Figure 12.1 was produced by the ONS using data from the Labour Force Survey (LFS) and could have been plotted using the claimant count
- The unemployment rate rose at points in the 1980s, 1990s and from 2007 to 2011
- This often linked to points in the economy where output fell and fewer workers were needed to make this lower level of goods and services
- Since 2011 the unemployment rate in the UK has fallen
- Some of these new jobs have been in low paid, low skilled areas e.g. warehouse staff
- Employing workers may be a cheaper option than buying new machinery
- There has been an increase in self employment e.g. Uber drivers, which reduces risks and costs for firms but leavers individuals with fewer employment rights

Evaluating the Causes and Consequences of Unemployment

Benefits of Unemployment

- Easier to recruit: if there are more workers looking for employment, it is easier for firms to find new workers and expand output
- Dynamic economy: unemployed workers help and economy to be responsive if they can move from one industry to another as demand patterns change
- International competitiveness: workers may have to accept a lower wage rate to get a job, which reduces the costs for firms, meaning they can lower prices and be more price competitive against overseas firms
- Inflation: lower wages means individuals could buy less, so there is less demand for goods, resulting in less demand for goods, resulting in lower general price level



Consequences of unemployment on the budge deficit

Costs to individuals

- Lower standard of living: individuals have less income so can afford fewer goods and services that contribute to their wellbeing
- Lower income: unemployment benefit is relatively low and wages are pushed down due to a surplus of workers
- Excluded workers: firms may not want to employ the long term unemployed, e.g. due to outdated training
- Lower standard of living: due to less income tax revenue, the government may cut spending on services
- Tax increases: income tax may increase for those employed if a government needs to raise more money to pay increased benefits

Costs for Regions

- Differing level of problems: depends on the level of employment in an area e.g. due to the decline of a specific industry a region may have higher costs and need more help from the government
- Regional standard of living: a cycle of increasing negative impacts due to high local unemployment e.g. shops closing

Costs for Government

- Lower output than potential: one of the factors of production not being used (labour) so there is a waste of scarce resources
- Budget deficit: the government may spend more than it receives in tax revenue due to increasing costs such as unemployment benefit and falling revenue due to reduced income tax
- Costs linked to social problems: e.g. less money to spend on healthy food resulting in health problems
- Cycle of increasing unemployment: lower incomes lead to lower consumption leads to less total demand leads to fewer workers needed to make less output, leads to increased unemployment ...

GCSE Economics: Theme 3.3 Fair Distribution of Income

What is the meaning of distribution of income?

Distribution of Income

This refers to how the total incomes of the economy are shared out among its people. As it is not shared out equally, there is an uneven distribution of income. Some individuals and households have low incomes while others have much higher incomes. This is called inequality of income.

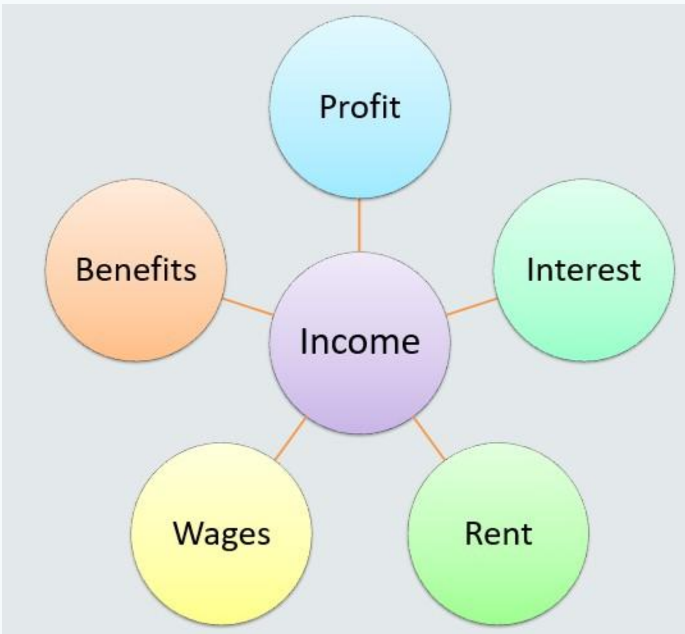
The UK has a high level of inequality of income: the top fifth of the population received 40% of total income in 2015.

Total income is measured by GDP in a country

What are the different types of income?

The reward for enterprise

State benefits: the government transfers income by taxing some people and paying benefits to others e.g. jobseeker's allowance and state pensions. This is not a reward for the use of a factor of production.



The reward for saving or lending

The reward for work. For highly skilled jobs such as neurosurgeons, a limited supply of labour results in a higher wage a hospitals have to compete to attract them

The reward for use of land for a period of time, e.g. renting a house

Exam Criteria

- **explain** what is meant by the distribution of income, including different types of income and the difference between income and wealth
- **calculate** income and wealth
- **evaluate** the causes of differences in the distribution of income and wealth and the consequences for an economy

Key Vocab

Key Terms

Distribution of Income How incomes are shared between individuals and households

Income The reward for the service provided by a factor of production, including labour – a flow of money over time

Wealth The market value of all the assets owned by a person, group or country at a specific point in time. Wealth is a stock of assets e.g. money, houses and land, whereas income is a flow over time

Gross Income Income received before any taxes are taken or benefits given

Net Income Income available after the effect of direct taxes and benefits, often called **disposable income**

Distribution of Wealth How wealth is shared out between individuals and households

What is the difference between income and wealth?

- **Income** is a flow of money over time e.g. the amount of money an individual earns in a year.
- **Wealth** is the monetary value of assets owned at a specific time e.g. the total value of all properties owned by a landlord at a point in time
- Examples of assets that could be valued and contribute to an individual's wealth include houses, cars, antiques, jewellery, savings and shares
- Income and wealth can be linked e.g. more income enables individuals to buy more assets, which in turn may lead to greater rewards and income

Study Tip

Remember to use the words 'income' and 'wealth' correctly in your answers. Wealth is a stock and income is a flow. So an individual may have savings that are a stock and count as wealth but if they generate interest that is income.

How do we Calculate Income and Wealth?

To **calculate income and wealth:**

1. Identify whether the items are income or wealth
2. Split the items into two lists – income and wealth
3. Add together all the current monetary values of income to give total income
4. Add together all the current monetary values of wealth to total wealth

- Gross income or pay is income before tax
- Net income is income after tax plus benefits

What are the Consequences of Differences in Wealth and Income Distribution?

Costs of inequality

- Poverty: in some countries without jobs or benefits people may be in absolute poverty unable to buy necessities and having less than the minimum standard of living. In others inequality leads to relative poverty where people earn less than 60% of average income so have a lower standard of living
- Housing: low incomes mean inability to afford a house or poor quality housing
- Health: low incomes mean inablility to buy healthy food or medicines leading to health problems and lower life expectancy
- Education: in countries with no state education, low incomes my result in the inability to afford education, leading to fewer skills resulting in a lower wage and a poverty cycle
- Social problems: combination of poverty, poor housing, health and education may lead to unhappiness with the unfairness and social unrest
- Lower economic growth: less – educated, unhealthy, unhappy workers are less productive so there is less output in an economy

What are the causes of differences in distribution of income and wealth?

Income:

- Assets distributed unevenly: no land, capital or shares means no income from rent, interest or profits
- Wage differences: wage rated are based on demand and supply for specific jobs so the equilibrium price varies. E.g. minimum wage jobs vs jobs with a high demand and low supply with a high wage rate
- Benefit reliance: state benefits are usually lower than wages and may be the only source of income e.g. pensioners, unemployed or disabled
- Age: Young and old are likely to have a lower share of income. People under 25 have a lower level of minimum wage and less experience so are paid less. Older people who are retired will have pensions likely to be lower than wage
- Gender: in the UK average wage for a woman is less than a man. Legally they are supposed to be paid the same for the same work however time taken out for families or gender bias are cited as reasons for lower pay for women.

Wealth:

- Inheritance: some families own more possessions like property to be passed down
- Savings: people with enough income choose to save some and savings receive interest increasing wealth over time
- Property: people with enough income may buy property or shares which can generate rent or increase in value and therefore increase wealth
- Enterprise: entrepreneurs may invest income or borrowings and if successful, the business would increase in worth and the increase would be a for of wealth.

Benefits of inequality

* Incentives: possibility of higher income may motivate hard work leading to greater productivity and its benefits
* Trickle down effect: if some individuals are on higher incomes, they may spend more in an economy or set up businesses which may lead to more income for others

GCSE Economics: Theme 3.4 Price Stability

What are price stability and inflation?

The general price level is the measure of overall prices of goods and services in an economy at a particular point in time, often expressed as an index.

Price Stability

This is when the general price level is fairly constant over time

Inflation

This is when the general price level increases over time

- Inflation can lead to a fall in purchasing power where consumers can buy less with the same amount of money
- Inflation means the cost of living has increased
- The rate of inflation is shown as a percentage and is a positive number
- A negative number would mean that the general price level has fallen over time.

What is the rate of inflation?

The Rate of Inflation is the percentage rise in the general level of prices over time. It is usually expressed as an annual rate of inflation. For example, if an economy has had a 4% increase in the general level of prices over time, then the rate of inflation is 4%.

What are real and nominal values?

- Economists take inflation into account when comparing information over time.
- A real value takes into account inflation whereas a nominal value does not. E.g. a saver earning 2% interest with a 5% inflation rate would have a real rate of interest of -3%.
- A worker would need to have a wage increase of 5% to maintain the same buying power so if the wage increase was only 2%, then wages would fall by 3% in real terms.

Study Tip

When the rate of inflation falls, the price level is still rising so long as the inflation rate is positive. Don't make the error of stating that prices fall when inflation falls unless the inflation rate is negative.

Exam Criteria

- **explain** what is meant by price stability and inflation, including the difference between real and nominal values
- **explain** how inflation is measured using the Consumer Price Index (CPI)
- **calculate** the effect of inflation on prices
- **analyse** recent and historical inflation figures
- **evaluate** the causes of inflation and the consequences for consumers, producers, savers and the government

Key Vocab

Key Terms

Price Stability When the general level of price stays constant over time, or grows at an acceptably low rate

Inflation A sustained rise in the general price level over time

Cost of living The price level of goods and services bought (by the average family)

Rate of Inflation The percentage rise in the general price level over time

Consumer Price Index (CPI) Method used to calculate the rate of inflation

Nominal Value The monetary value of something

Real Value is the **nominal value** adjusted for inflation

Cost push inflation Occurs when firms respond to the rising costs of production by increasing prices

Demand pull inflation This is caused by excessive demand for goods and services. There is too much money chasing too few goods.

How is inflation measured?

- Inflation is measured using the CPI – Consumer price index.
  - Consumers are surveyed to create a basket of goods and services that they are buying
  - The amount they buy of these goods and services is tracked so they can be given more importance in the basket – known as weighting
  - Prices are checked every month
  - Index numbers show the overall change in the general price level compared to a base year
- The CPI is set to 100 in the base year
- Numbers above 100 show inflation has risen

Study Tip

Inflation rate figures can be compared between countries but do not show the actual current general price level. So, although one country may have a higher inflation rate than another, its actual prices may still be lower

How are the effects of inflation calculated?

If inflation is positive, it means prices are higher (on average) than they were a year ago.

- To calculate the change in price due to inflation:

$$\frac{\text{Original price}}{100} \times \text{inflation rate}$$

  - For example, the effect of a 10% inflation rate on a price of £5 would be to increase it by 50p.

$$\frac{500}{100} \text{ X } 10 = 50\text{p}$$

- To calculate a new price after inflation:

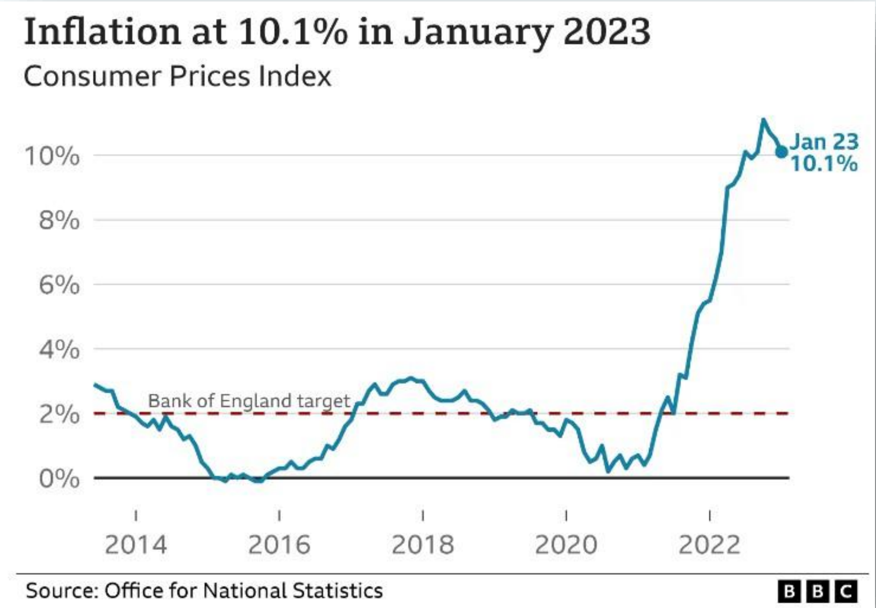
$$\text{Original price} \times \left(1 + \frac{\text{inflation rate}}{100}\right)$$

  - For example, if inflation is 10% and the original price is £5.00, this would give a new price of £5.50

$$£5.00 \times \left(1+ \frac{10}{100}\right) = £5.00 \times 1.01 = £5.50$$

How do we analyse inflation?

We look at recent and historical data



https://www.bbc.co.uk/news/business-12196322

Very recently inflation has shot up with energy prices being a key factor. Oil and gas were in greater demand as life got back to normal after Covid and at the same time, the war in Ukraine meant that less was available from Russia increasing pressure. The war has also reduced the amount of grain available pushing up food prices. Food inflation was 16.7% in January 2023.

Fig 3.4.2 shows inflation has fluctuated over time although has been relatively stable up to 2020. This is likely because the Govt. has been more successful in meeting its 2% target.

If inflation rate is +ve then prices are rising. E.g. if it was 4% in 2012 and 1% in 2015 there is a fall in the inflation rate of 3%, however the price level has still risen in 2015 – 1% higher than 2012.

It is only when the inflation rate falls below zero that the price level actually falls. The price level has not been negative during the time period shown.

If one country has a higher inflation rate than another it does not mean the prices are higher. It is possible that prices are lower but the rate is higher.

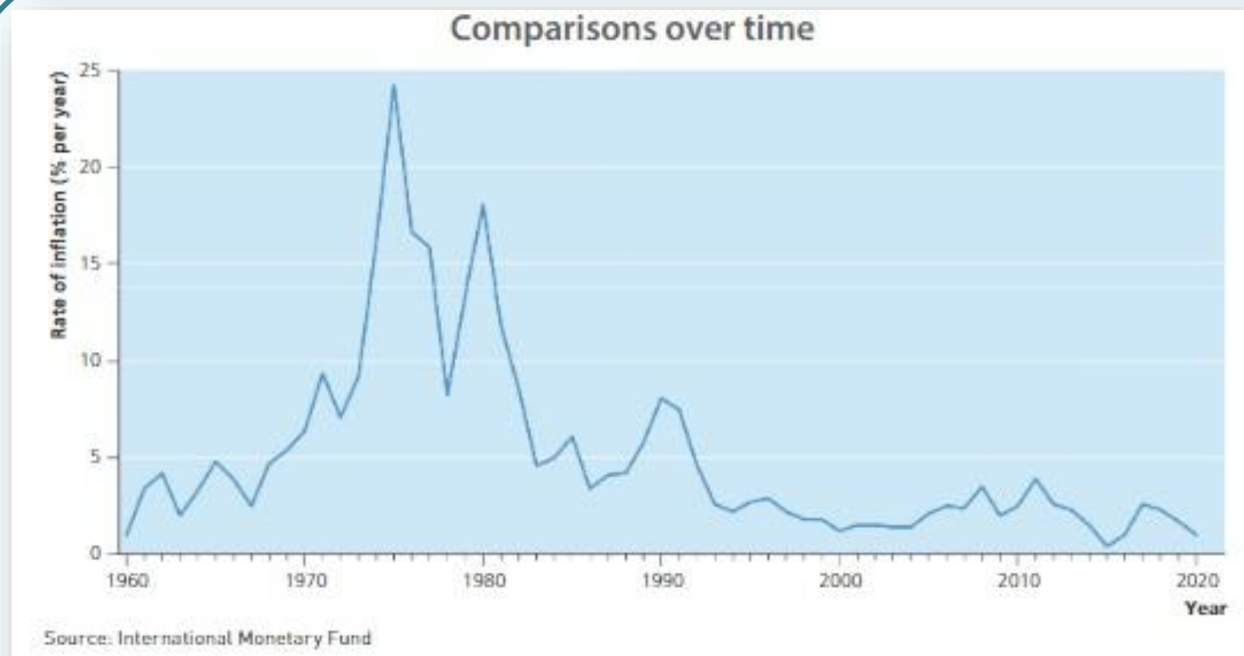


Figure 3.4.2 UK inflation rates, 1960–2020

What are the causes of inflation?

Demand Pull inflation occurs when total demand rises faster than total supply in a country

- Increased incomes as more goods and services can be afforded
- Leads to increased competition for these goods and services pushing prices up
- More likely where an economy is working close to capacity and firms are less able to respond quickly to increase supply to meet the demand increase
- The economy is close to full employment so hard to find unemployed workers to increase output
- Rises in investment by firms
- Rises in government spending
- Increased demand for exports or decreased demand for imports
- Excess printing of money

Cost push inflation is caused by a rise in the costs of production which firms try to pass on to consumers to maintain profits. This leads to a general rise in prices

- Costs of production include wages and salaries, raw materials, fuel, tax and NI and interest on borrowing.
- A fall in the exchange rate could increase the cost of inputs to production if imported
- A fall in productivity can lead to higher average costs which can be passed on to consumers in higher prices
- An increase in trade union power can lead to higher wages
- A wage price spiral can worsen inflation

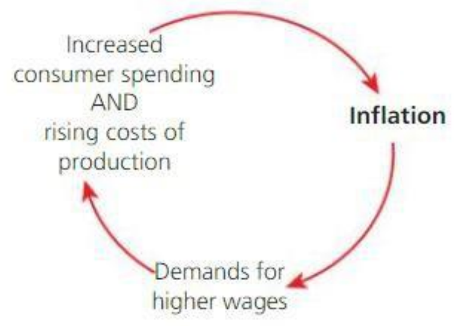


Figure 14.2 The wage-price spiral

What are the consequences of inflation for savers?

- Reduced purchasing power of money meaning a fixed amount can buy fewer goods
- Inflation reduces the impact of interest and reduces the real value of money saved e.g. price of item being saved for rises faster than money can be saved
- The real rate of interest is calculated by:

nominal rate of interest minus inflation rate

What are the consequences of inflation for consumers?

- Loss of consumer confidence – uncertainty with rising prices can stop consumers buying goods and services
- Shoe leather costs: as prices change consumers and firms have to keep comparing prices of different goods from different suppliers. This costs time and effort
- Fall in real income: if income rises at a slower rate than inflation , consumers will have less purchasing power
- Income redistribution: some workers e.g. with strong trade unions can negotiate higher wages so they can maintain their standard of living whilst others can't.
- Consumers as debtors: if consumers have borrowed money e.g. mortgages, the real value of the debt falls if there is inflation .

What are the Consequences of inflation for producers?

- Increased production costs: inflation may increase the price of inputs, increasing costs and possibly reducing profits
- Menu costs: firms may need to update pricing information which can increase printing and distribution costs
- Labour market disputes: wage negotiations may take time and result in possible pay increases for workers
- Lower exports: is UK inflation is higher than other countries then UK goods may seem relatively more expensive to overseas consumers who could then buy less
- Producers as creditors: this includes banks who are owed money. If there is inflation, the real value of their loans to borrowers may fall.
- Producers as debtors: firms with debts may gain as the real value of their debt falls.
- Loss of business confidence: if firms are uncertain about the prices of their input costs and the selling price for their goods, this may make them reluctant to invest, which can lead to lower productivity.

What are the consequences of inflation for government?

- Government as employer: inflation leads to pressure on the government to increase wages for its employees, such as NHS and state school staff. This can lead to costly industrial disputes and, if wage rises are agreed, increased government spending.
- Government as benefits provider: benefits, such as state pensions and unemployment benefits, may be linked to rise in line with inflation. This means an increase in government transfer payments.
- Tax revenue: if there is inflation, some tax revenue may increase, e.g. VAT and income tax. VAT may increase because it is a percentage of higher prices. Income tax may increase if it is a percentage of higher incomes and people may be dragged into higher tax brackets. However, taxes that are fixed as a specific amount, e.g. tax on alcohol may fall in real terms.
- Government as debtor: the government borrows money to cover a fiscal deficit. The real value of the national debt can fall if there is inflation, so this may be a benefit for government.

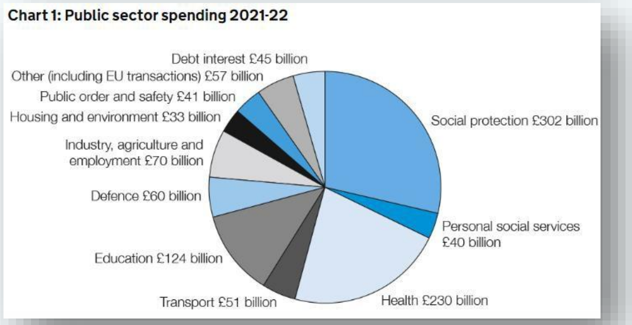
GCSE Economics: Theme 3.5 Fiscal Policy

What are the purposes of government spending?

A government needs to raise revenue, largely through taxation, to be able to spend money, mainly on services.

The purposes of government spending:

- to supply goods and services that the private sector would fail to do, e.g. defence
- to supply goods and services that would be too costly for many people, e.g. healthcare
- to reduce poverty through welfare payments and benefits, e.g. unemployment benefit
- to support the economy when there is insufficient private sector investment/spending.



Type of spending	Purpose of this spending
Social protection	To provide everyone with a basic minimum living standard To reduce inequality in income distribution (see Chapter 13)
Education	To provide everyone with education whatever their income To ensure that everyone is equipped with basic skills, e.g. reading
Healthcare	To provide everyone with healthcare whatever their income To increase the welfare of all, e.g. by preventing diseases
Defence, law and order	To provide essential services the private sector could not do
Debt interest	To repay the money government has borrowed

What are the sources of government revenue?

Government revenue is the amount of money a government receives from taxes and other sources such as privatisation and is used to finance government spending.

Direct Taxes

Direct tax	Explanation
Income tax	Paid on all incomes including wages, pensions, dividends etc. Each person gets an income tax allowance before tax is paid
National insurance contributions (NIC)	Paid by both employer and employee
Capital gains tax	Paid on the profit when an asset is sold
Inheritance tax	Paid on the transfer of wealth to relatives when someone dies
Corporation tax	Paid by firms on the profits they have made

Indirect Taxes

Indirect tax	Explanation
Value-added tax (VAT)	Paid on most goods and services at three different rates: ● 20% standard rate applied to the majority of goods and services ● 5% reduced rate on, for example, children's car seats and fuel for the home ● 0% zero rates on most food and children's clothes
Excise duties	Taxes on specific goods such as alcohol, petrol, tobacco
Customs duties	Taxes on imports of goods into the country

In addition there are other indirect taxes such as: insurance premium tax, landfill tax and air passenger duties

Exam Criteria

explain purposes of government spending and sources of government revenue, including direct taxes and indirect taxes
explain what is meant by a balanced government budget, budget surplus and budget deficit
explain what is meant by fiscal policy and how it can be used to achieve economic objectives
calculate and analyse how taxes and government spending can affect markets as well as the overall economy
evaluate the costs, including opportunity cost, and the benefits of fiscal policy on the economy to achieve economic objectives
evaluate economic consequences of measures to redistribute income and wealth, including progressive taxes

Key Vocab

Government revenue The amount of money the government receives.
Government spending The total amount of money spent by the government in a given time period.
Direct tax A tax on income and wealth.
Indirect tax A tax on spending which is imposed on the producer but may then be passed on to consumers through an increase In price.
Balanced budget is when revenue is equal to government spending.
Budget surplus Is when revenue is greater than government spending.
Budget deficit Is when revenue is less than government spending.
Fiscal Policy is a policy that aims to control the economy through the use of government revenue and spending
Progressive Tax – taxes that take a greater % of tax the higher the income

Local Taxes

In addition there are two taxes that provide revenue for local authorities:

- Council tax which is a tax on the value of a person's home
- Business rates which are a tax on the value of the property of a business

What is meant by a balanced government budget, budget surplus and budget deficit?

Government budgets
The budget shows the revenue and expenditure of the government for the tax year (6 April to 5 April). The budget can be of three different types:
I. **Balanced budget** where the total amount the government is expected to receive in the tax year equals the expected expenditure.
2. **Budget surplus** where the expected revenue is greater than the expected expenditure for the year. The surplus is added to reserves or used to pay off debt.
3. **Budget deficit** where the expected expenditure is likely to be greater than the expected revenue so the government has to use reserves, borrow money (both sensible) or print more money.

What are economic objectives?

Fiscal policy/economic objectives - Government objectives consist of:
- economic growth
- low unemployment
- price stability
- improved balance of payments
- fair distribution of income

What is Fiscal Policy?

Fiscal policy is the use of taxation and government spending to affect the level of economic activity:
Budget surplus will reduce economic growth and inflation.
Budget deficit will increase economic growth and employment.

Study Tip
When doing calculations it is important to show your workings. There is 1 mark for workings and 1 mark fro the correct answer so failing to do this will result in a loss of the mark.
Always make sure you have used the unit symbol in an answer e.g. £

How can fiscal policy be used to achieve economic objectives?

Objective	Type of budget	Taxation	Spending	Outcome
Rise in economic growth	Deficit	Reduced	Increased	Greater output and employment, perhaps higher inflation and possibly more exports
Lower unemployment	Deficit	Reduced	Increased	More employment and output, perhaps higher inflation/more imports
Price stability, or lower inflation	Surplus	Increased	Reduced	Prices are stable or rise more slowly, balance of payments improves, but growth may fall
Improved balance of payments	Surplus	Increased	Reduced	Imports fall, economic growth may rise as exports exceed imports
Fair distribution of income	Deficit	Increased	Increased	The rich lose income while the poor become better off, both financially and in terms of more services

The opposite will be true if deficit and surplus are swapped around

How do we calculate tax payments?

Calculations could be for either direct or indirect taxes. Below is an example for each.

Direct: Sian pays tax at the standard rate (20%) on her income of £40,000. If her personal allowance is £112,500, how much tax will she have to pay?

£40,000 - £12,500 = £27,500 which is her taxable pay.
£127,500 X 20% = £5,500. She will have to pay £5,500 in tax.

Indirect: John has been quoted £5,000 excluding VAT for repairs to the drive of his house. If VAT will be charged at the standard rate, how much will the repair cost him?

£5,000 X 20% = £1,000. Total cost is £5,000 + £1,000 = £6,000.

Taxes can be either direct (imposed on people) or indirect (imposed on goods and services)

How do taxes affect markets and the economy ?

Tax change	Affect on markets	Affect on the economy
Rise in income tax and NIC	Workers' disposable income falls so they may decide not to work resulting in fall in supply in the labour market Lower income leads to fall in demand especially for non-essential goods and services	Lower demand leads to lower output and economic growth and thus more unemployment. Lower demand leads to lower inflation
Fall in corporation tax	Firms keep more profits so invest more, leading to better quality goods/ inventions so demand for those products rise. More people may be needed so the labour market expands	Investment leads to economic growth and more employment. Inventions leads to improved balance of payments

Type of tax/good	Affect on markets	Affect on the economy
Rise in VAT on TVs	• Fall in demand for TVs • Consumers switch to buying goods with lower VAT	• If produced in UK then employment in the industry will fall. If produced abroad imports may fall • Could be offset by whatever is bought instead of TVs
Rise in excise duty on a good with negative externalities	• Fall in demand for the product, the extent depending on the price elasticity of demand • Could lead to switching, e.g. from petrol cars to electric cars	• Could improve the environment • Could reduce imports, e.g. fall in demand for petrol

How does spending affect markets and the economy ?

Government spending is likely to increase economic growth, increase employment, increase inflation and possibly worsen the balance of payments if there are more imports

Market	Analysis
Labour market	The government is a major employer so any change in spending will have a major effect on: civil servants, teachers, doctors and nurses, etc.
Construction market	Governments are directly responsible for: roads, hospitals and schools. They can also encourage housebuilding by cutting interest rates
Private sector	By building new schools there is more demand for computers, tables etc. so the profits of firms rise. The same will be true if the Royal Navy orders a new ship etc.
Specific markets	Subsidies may be given to specific areas of the economy, e.g.: • renewable energy to replace use of fossil fuels and thus negative externalities • grants for small businesses to encourage new firms in many product markets • grants for firms setting up in areas with high unemployment

What are the costs and benefits of fiscal policy?

The costs of fiscal policy

This means not just the actual monetary cost of the policy, but also the unfavourable consequences:

• Consumers may save rather than spend their extra income so the economy does not grow as much as expected.

• Firms and consumers might spend the extra money on imports making the balance of payments worse.

• Inflation may rise if supply cannot keep up with demand in either the factor or product markets

Opportunity cost

• If the government spends more on one area, e.g. education, then it will spend less on another area, e.g. healthcare.

• If the government spends more it could pay for it by higher taxes. This means consumers have less income so they spend less meaning VAT receipts fall.

• If a government cuts taxes then it must either spend less or accept a higher budget deficit.

Benefit - Government can cut taxes/increase spending. There is more demand for labour. Consumers can spend more, so again more labour is demanded

Economic growth increase - Cutting taxes and increasing spending both lead to greater output as consumers purchase more and firms increase investment

Faster acting - Compared with monetary policy and supply-side policy, changes in fiscal policy act more directly and faster on the economy

What are the economic consequences of measures to redistribute income and wealth?

Redistribution involves either direct taxes as they are progressive, or spending.

Consequence	Evaluation
Reduce inequalities of income	Poorer people are better off and those with higher incomes receive less money
More services available to less well off, e.g. education/health	This increases equality of opportunity so people are in a position to earn more in the future
People may not seek work	If benefits are such that working would not bring in more money, people may opt not to find jobs
Reduces incentives	For those in work getting promoted may mean they have to pay higher taxes so that it is not worth the extra effort
People leave the country	High taxes can lead people to go abroad to where tax rates are lower
Lack of investment	High corporation tax rate can deter firms from investing or they may prefer to invest abroad
Lower savings	If the interest on savings is heavily taxed people may prefer to spend rather than save
Tax avoidance or tax evasion	People may seek ways to avoid paying tax (legal) or try to evade taxes (illegal)

3.5 Fiscal Policy

Key Terms:

Government Spending:
The total amount of money spent by the government in a given period of time

Direct Tax:
A tax on income or wealth

Government Revenue:
The source of finance for government spending

Indirect Tax:
A tax on spending, often defined as a tax on goods and services

Balanced Government Budget:
When tax revenue is equal to government spending

Budget Deficit:
When government spending is greater than tax revenue

Budget Surplus:
When tax revenue is greater than government spending

Fiscal Policy:
A policy that uses government spending and taxation to affect the economy as a whole.

Income and wealth redistribution:
Government action, using mainly taxation and benefits, to reduce inequalities of income and wealth

Progressive Tax:
A tax which takes a greater percentage of tax the higher the income

Main areas of expenditure
1. Pensions
2. Health
3. Education

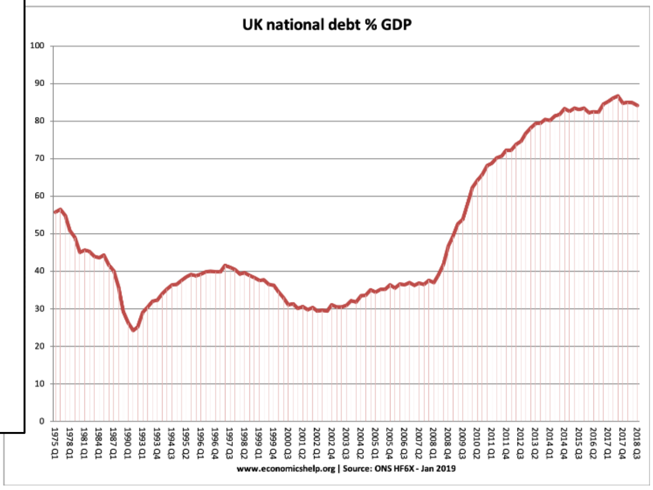
Main areas of revenue:
1. Income tax
2. National Insurance
3. VAT
4. Corporation tax

Direct Tax:

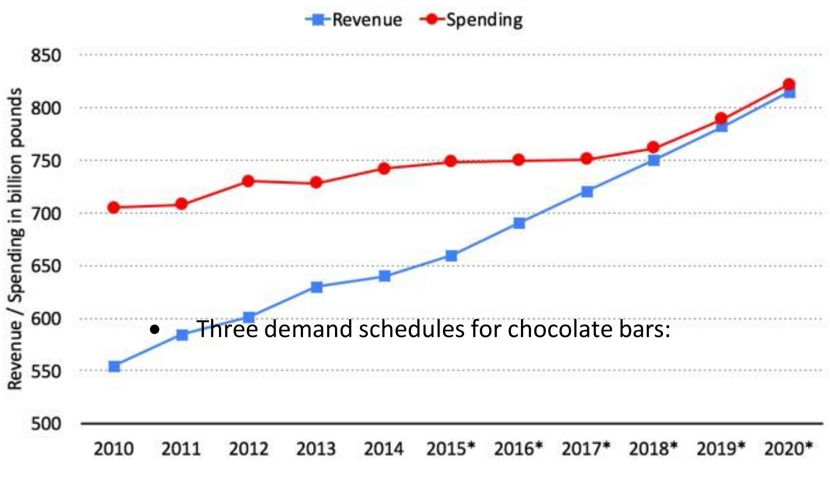
Income, National Insurance, Corporation

Indirect Tax:

VAT, air passenger duty, insurance tax



Total UK Government Spending and Tax Revenue



- Three demand schedules for chocolate bars:

Source: International Monetary Fund, data from 2015 onwards is a forecast

Objective	Budget	Government Spending	Taxation	Effect
Economic Growth	Deficit	Increased	Reduced	Rise in economic growth and employment
Low unemployment	Deficit	Increased	Reduced	Rise in economic growth and employment
Price stability	Surplus	Decreased	Increased	Fall in economic growth, unemployment, inflation falls
Balance of Payments	Surplus	Decreased	Increased	Fall in economic growth, fall in imports

Exam questions:

Calculate:
The final price of the following items. In each case, VAT of 20% is added, except for home energy which is at a rate of 5%. Show your workings.

1. A camera with pre-tax price of £100
2. An annual car service with a pre-tax price of £1.80
3. A packet of crisps with a pre-tax price of £0.30
4. A holiday with a pre-tax price of £1,580
5. An annual electricity bill of £570

- Explain what is meant by fiscal policy (2 marks)
- Explain the term budget deficit (2 marks)
- Evaluate the costs and benefits to the economy of a fiscal policy aimed at achieving economic growth (6 marks)

3.6 Monetary Policy

Definitions:

Monetary Policy:
A policy that aims to control the total supply of money in the economy to try to achieve the government's economic objectives, particularly price stability

Price Stability:
When the general level of prices stays constant over time, or grows at an acceptably low rate

Current rate:	0.75%
Highest rate:	16%
Lowest rate:	0.25%

How monetary policy helps achieve economic objectives

Objective	Interest rates	Effect
Economic Growth	Reduced	Increased spending, output and employment
Low unemployment	Reduced	Increased spending, output and employment
Price stability	Increased	Reduced spending, more price stability
A healthier balance of payments	Increased	Reduced spending, including on imports

What happens when interest rates FALL?

Borrowing by consumer's rises

Borrowing by firm's rises

Savings fall

Asset prices (houses) rise

Disposable incomes rise

Exchange rate fall

Price Stability? What happens when interest rates RISE

Borrowing by consumer's falls

Borrowing by firm's falls

Savings rise

Asset prices (houses) fall

Disposable incomes fall

Exchange rate rises

Evaluating the effects of monetary policy:

Consumer spending:

When interest rates are high consumer spending will fall as the cost of borrowing increases and savings increase.

Borrowing:

When interest rates are high firms and consumers are less likely to borrow because the cost of borrowing will be too high. This means that individuals are likely to save which means economic growth will fall.

Saving:

Interest rates affect savings. The higher the interest rates the greater returns for savings and more consumers are likely to save. When interest rates are low, individuals will not save.

Investment:

When interest rates are low, investment is high BUT depends on confidence

Exam Questions
- Evaluate the effects of a rise in interest rates on consumer spending (6 marks)
- Explain what is meant by 'monetary policy' (2 marks)
- Analyse the factors that affect the rate of interest on loans (6 marks)

3.8 Limitations of Markets

Definitions:

Externality:
An effect of an economic activity on a third party

Negative Externality:
Harmful effect of an economic activity on third parties, also known as external cost

Positive Externality:
Beneficial effect of an economic activity on third parties, also known as external benefit

Taxation:
A sum of money paid to the government by individuals or firms

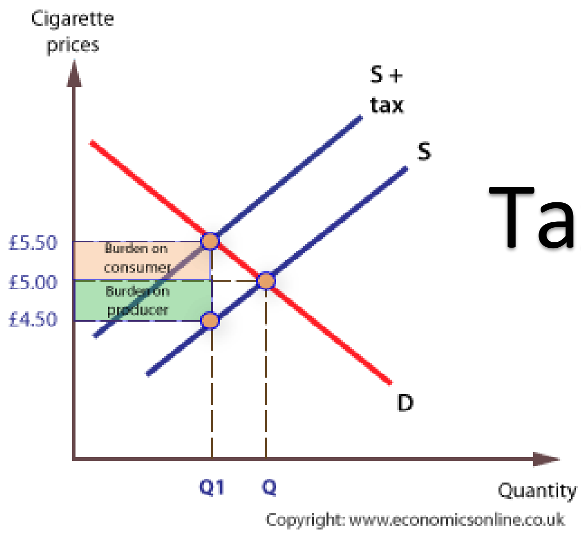
Subsidy:
A sum of money that the government gives directly to firm to encourage production or consumption of a good or service

Legislation:
Laws to control the way people and organisations behave

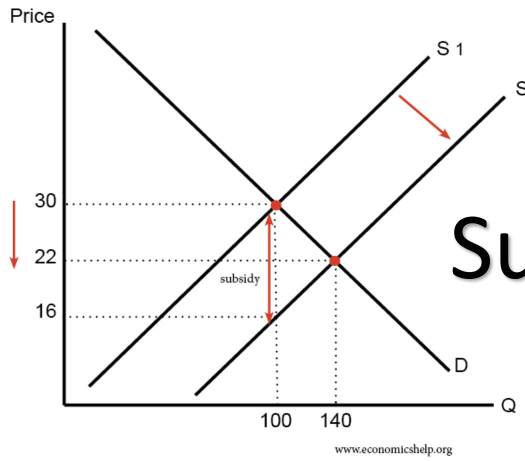
State Provision:
Goods and services provided directly by the government

Regulation:
Rules, directives or government orders to control the way people and organisations behave

Information Provision:
The government provides information to encourage people (especially consumers) and organisations to change their behaviour



Tax



Subsidy

Information provision:
Can shift demand left and right. For example, public health campaign on smoking shifts demand left. The benefits of a library will demand right.

Positive Production & Consumption Externalities

Positive production externalities	Positive consumption externalities
• Flood defence projects benefit the whole community	• Healthcare / Childcare / flu and other vaccines made available to the population
• Projects to reduce deforestation	• Education / Learning / Community Work
• Apps that promote the "sharing" of scarce resources	• Pest control / gardening
• Research and development - spillovers for other businesses	• Usage of mass transport services instead of private motoring
• Bee-keeping and pollination	• Youth clubs and apprenticeships

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Examples of Negative Consumption Externalities

Negative consumption externalities are **spillover costs** generated and received in the consumption of goods and services.


Vehicle pollution


Household waste

Noise pollution from neighbours


Air pollution from smokers


Traffic congestion


Gambling addiction


Litter from tourists


Spillover costs from obesity

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4.1 International Trade

Definitions:

Exports:
Goods and services sold abroad

Imports:
Goods and services bought from abroad

International Trade:
The exchange of goods and services between countries

Free Trade Agreement:
Free movement of goods and services between countries without any restrictions

European Union (EU):
An economic and political group of countries in Europe that have free trade with each other

Extension:
What are the advantages and disadvantages of the UK leaving the EU?

Reasons for international Trade:

1. Resources (for example oil)
2. Climate
3. Expertise

Benefits of imports and exports to CONSUMERS

- Lower prices
- Better quality
- More choice

Benefits of imports and exports to PRODUCERS

- Access to larger market to sell goods and services
- Increased competition -> great efficiency
- Specialisation and lower costs
- Larger market for buying resources at a lower cost

Free trade agreements

- EU
- NAFTA
- ASEAN

No tariffs so buying goods from the countries in the trade bloc is cheaper. Encourages trade but reduces trade with countries outside the trade bloc.

Advantages:

Employment
Cheaper goods and services
Improved quality of goods and services

Disadvantages

Increases competition
Reduces trade with more efficient producers outside bloc

4.2 Balance of Payments

Key Terms:

Balance of Payments:
The record of all financial transactions between one country and the rest of the world

Current Account:
The record of trade in good and services, income flows and transfers between one country and the rest of the world

Balance of payments on current account:
The total of net trade in goods and services, income flows and transfers between one country and the rest of the world

Balanced current account:
Where the sum of exports plus the inflow of income and transfers is equal to the sum of imports plus the outflow of income and transfers.

Current account deficit:
Where the sum of exports plus the inflow of income and transfers is less than the sum of imports plus the outflow of income and transfers.

Current account surplus:
Where the sum of exports plus the inflow of income and transfers is greater than the sum of imports plus the outflow of income and transfers.

Activity

Table 4.2.2 Trade balance and current account balance

Country	Trade in goods (£bn)	Trade in services (£bn)	Trade balance (£bn)	Income flows (£bn)	Transfers (£bn)	Current account balance (£bn)
A	−20.2	+13.2		+6.5	−4.0	
B	+40.5	−30.3		−12.6	+12.1	
C	−17.1	+9.7		+4.5	−2.0	

1 Complete Table 4.2.2, adding the trade balance and current account balance for each country.
2 Add in each case whether it is a surplus or deficit.

Historic Data

- Since 1998 the trend in services surplus has been less than the trade in goods deficit, so overall there have been a deficit in trade of approximately 2-3%
- The trade in goods balance has been getting worse
- Exports to countries in the EU have fallen
- There has been an increasing demand for importing goods in the UK partly due to an increase in UK demand for imports of oil, gas and consumer goods

Effects of a current account deficit…

Positive	Negative
Could lead to a fall in exchange rates which improves the competitiveness of our exports	Could reflect fall in demand for domestic goods and services
Could reduce inflation in an economy as demand for domestic goods is falling	Could reflect low productivity and a fall in UK competitiveness

Causes of deficits:

- Structural problems in the economy – firms overpricing goods or producing poor-quality goods
- Fall in productivity which makes the goods more expensive to produce and therefore more expensive overseas
- Falling incomes overseas
- Rise in exchange rates
- Increase in economic growth and demand for more imports

4.3 Exchange Rates

Definitions:

Currency:
The system of money used in a country or group of countries

S Stronger
P Pound
I Imports
C Cheaper
E Exports
D Dearer

Exchange Rate:
The price of one currency in terms of another currency

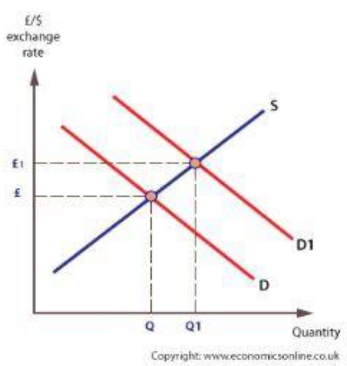
Appreciation:
When the currency gets stronger. It is worth more. For example: £1 = $1.20 and now £1 = $1.50

Depreciation:
When the currency gets weaker. It is worth less. For example: £1 = $1.50 and now £1 = $1.20

Currency Conversion	Method	Example: exchange rate of £1 = €1.20
Convert £ into €	£ amount x € exchange rate	Convert £5.70 into Euros
Convert € into £	€ amount / € exchange rate	Convert €3.45 into pounds

Change in the exchange rate	Change in demand or supply of £'s	Change on diagram	Example of cause
Rise	Decreased supply of £'s	Supply curve shifts left	Fewer imports
Rise	Increased demand for £'s	Demand curve shifts right	More exports
Fall	Increased supply of £'s	Supply curve shifts right	More imports
Fall	Decreased demand for £'s	Demand curve shifts left	Fewer exports

EXPORTS



IMPORTS