

## 3 Subject content

This syllabus gives you the flexibility to design a course that will interest, challenge and engage your learners. Where appropriate you are responsible for selecting topics, subject contexts, resources and examples to support your learners' study. These should be appropriate for the learners' age, cultural background and learning context as well as complying with your school policies and local legal requirements.

Teachers and students are encouraged to focus learning of the following subject content around real, relevant and up-to-date economic events that affect the whole world and students' own countries. Such events might include but are certainly not limited to:

- (a) how large immigration movements may impact on economic growth/living standards in countries affected
- (b) the impact that changes in oil prices and the effect that drilling/fracking may have on world trade
- (c) the impact that a significant recession in one country may have on its trading partners
- (d) how changes in corporation tax between countries may impact on where multinational companies (MNCs) locate their head office.

### 1 The basic economic problem

#### 1.1 The nature of the economic problem

Topic	Guidance
1.1.1 finite resources and unlimited wants	Definition and examples of the economic problem in the contexts of: consumers; workers; producers; and governments.
1.1.2 economic and free goods	The difference between economic goods and free goods.

#### 1.2 The factors of production

Topic	Guidance
1.2.1 definitions of the factors of production and their rewards	Definitions and examples of land, labour, capital and enterprise. Examples of the nature of each factor of production.
1.2.2 mobility of the factors of production	The influences on the mobility of the various factors.
1.2.3 quantity and quality of the factors of production	The causes of changes in the quantity and quality of the various factors.

#### 1.3 Opportunity cost

Topic	Guidance
1.3.1 definition of opportunity cost	Definition and examples of opportunity cost in different contexts.
1.3.2 the influence of opportunity cost on decision making	Decisions made by consumers, workers, producers and governments when allocating their resources.

## 1.4 Production possibility curve (PPC) diagrams

### Topic

- 1.4.1 definition of PPC
- 1.4.2 points under, on and beyond a PPC
- 1.4.3 movements along a PPC
- 1.4.4 shifts in a PPC

### Guidance

Definition, drawing and interpretation of appropriate diagrams.

The significance of the location of production points.

Movements along a PPC and opportunity cost.

The causes and consequences of shifts in a PPC in terms of an economy's growth.

## 2 The allocation of resources

### 2.1 Microeconomics and macroeconomics

#### Topic

- 2.1.1 microeconomics
- 2.1.2 macroeconomics

#### Guidance

The difference between microeconomics and macroeconomics and the decision makers involved in each.

### 2.2 The role of markets in allocating resources

#### Topic

- 2.2.1 the market system
- 2.2.2 key resources allocation decisions
- 2.2.3 introduction to the price mechanism

#### Guidance

How a market system works; including buyers, sellers, allocation of scarce resources, market equilibrium, and market disequilibrium.

Establishing that the economic problem creates three key questions about determining resource allocation – what to produce, how, and for whom.

How the price mechanism provides answers to these key allocation questions.

### 2.3 Demand

#### Topic

- 2.3.1 definition of demand
- 2.3.2 price, demand and quantity
- 2.3.3 individual and market demand
- 2.3.4 conditions of demand

#### Guidance

Definition, drawing and interpretation of appropriate diagrams.

A demand curve to be drawn and used to illustrate movements along a demand curve with appropriate terminology, for example extensions and contractions in demand.

The link between individual and market demand in terms of aggregation.

The causes of shifts in a demand curve with appropriate terminology, for example increase and decrease in demand.

## 2.4 Supply

### Topic

- 2.4.1 definition of supply
- 2.4.2 price, supply and quantity
- 2.4.3 individual and market supply
- 2.4.4 conditions of supply

### Guidance

Definition, drawing and interpretation of appropriate diagrams.

A supply curve to be drawn and used to illustrate movements along a supply curve with appropriate terminology, for example extensions and contractions in supply.

The link between individual and market supply in terms of aggregation.

The causes of shifts in a supply curve with appropriate terminology, for example increase and decrease in supply.

## 2.5 Price determination

### Topic

- 2.5.1 market equilibrium
- 2.5.2 market disequilibrium

### Guidance

Definition, drawing and interpretation of demand and supply schedules and curves used to establish equilibrium price and sales in a market.

Definition, drawing and interpretation of demand and supply schedules and curves used to identify disequilibrium prices and shortages (demand exceeding supply) and surpluses (supply exceeding demand).

## 2.6 Price changes

### Topic

- 2.6.1 causes of price changes
- 2.6.2 consequences of price changes

### Guidance

Changing market conditions as causes of price changes.

Demand and supply diagrams to be used to illustrate these changes in market conditions and their consequences for equilibrium price and sales.

**2.7 Price elasticity of demand (PED)****Topic**

- 2.7.1 definition of PED
- 2.7.2 calculation of PED
- 2.7.3 determinants of PED
- 2.7.4 PED and total spending on a product/revenue
- 2.7.5 significance of PED

**Guidance**

Calculation of PED using the formula and interpreting the significance of the result.

Drawing and interpretation of demand curve diagrams to show different PED.

The key influences on whether demand is elastic or inelastic.

The relationship between PED and total spending on a product/revenue, both in a diagram and as a calculation.

The implications for decision making by consumers, producers and government.

**2.8 Price elasticity of supply (PES)****Topic**

- 2.8.1 definition of PES
- 2.8.2 calculation of PES
- 2.8.3 determinants of PES
- 2.8.4 significance of PES

**Guidance**

Calculation of PES using the formula and interpreting the significance of the result.

Drawing and interpretation of supply curve diagrams to show different PES.

The key influences on whether supply is elastic or inelastic.

The implications for decision making by consumers, producers and government.

**2.9 Market economic system****Topic**

- 2.9.1 definition of market economic system
- 2.9.2 advantages and disadvantages of the market economic system

**Guidance**

Including examples of how it works in a variety of different countries.

**2.10 Market failure****Topic**

2.10.1 definition of market failure

2.10.2 causes of market failure

2.10.3 consequences of market failure

**Guidance**

The key terms associated with market failure: public good, merit good, demerit good, social benefits, external benefits, private benefits, social costs, external costs, private costs.

With respect to public goods, merit and demerit goods, external costs and external benefits, abuse of monopoly power and factor immobility.

Examples of market failure with respect to these areas only.

The implications of misallocation of resources in respect of the over consumption of demerit goods and goods with external costs, and the under consumption of merit goods and goods with external benefits.

Note: demand and supply diagrams relating to market failure are not required.

**2.11 Mixed economic system****Topic**

2.11.1 definition of the mixed economic system

2.11.2 government intervention to address market failure

**Guidance**

Definitions, drawing and interpretation of appropriate diagrams showing the effects of three government microeconomic policy measures: maximum and minimum prices in product, labour and foreign exchange markets; indirect taxation; and subsidies.

The implications of other government microeconomic policy measures: regulation; privatisation and nationalisation; and direct provision of goods.

The effectiveness of government intervention in overcoming the drawbacks of a market economic system.

### 3 Microeconomic decision makers

#### 3.1 Money and banking

##### Topic

- 3.1.1 money
- 3.1.2 banking

##### Guidance

The forms, functions and characteristics of money.  
The role and importance of central banks and commercial banks for government, producers and consumers.

#### 3.2 Households

##### Topic

- 3.2.1 the influences on spending, saving and borrowing

##### Guidance

Including income, the rate of interest and confidence – between different households and over time.

#### 3.3 Workers

##### Topic

- 3.3.1 factors affecting an individual's choice of occupation
- 3.3.2 wage determination
- 3.3.3 reasons for differences in earnings
- 3.3.4 division of labour/specialisation

##### Guidance

Wage and non-wage factors.

The influences of demand and supply, relative bargaining power and government policy, including minimum wage.

How changes in demand and supply, relative bargaining strengths, discrimination and government policy can all influence differences in earnings between workers whether they are: skilled/unskilled; primary/secondary/tertiary; male/female; private sector/public sector. Definition, drawing and interpretation of diagrams that illustrate the effects of changes in demand and supply in the labour market.

Advantages and disadvantages for workers, firms and the economy.

#### 3.4 Trade unions

##### Topic

- 3.4.1 definition of a trade union
- 3.4.2 the role of trade unions in the economy
- 3.4.3 the advantages and disadvantages of trade union activity

##### Guidance

Including engaging in collective bargaining on wages, working hours and working conditions; protecting employment; and influencing government policy.

Factors influencing the strength of trade unions.

From the viewpoint of workers, firms and the government.

### 3.5 Firms

#### Topic

3.5.1 classification of firms

#### Guidance

In terms of primary/secondary/tertiary sectors and private/public sector, and the relative size of firms.

Note: detailed knowledge of different types of structure of a firm is not required.

3.5.2 small firms

The advantages and disadvantages of small firms, the challenges facing small firms and reasons for their existence.

3.5.3 causes and forms of the growth of firms

Internal growth, for example increased market share. External growth, for example mergers.

3.5.4 mergers

Examples, advantages and disadvantages of different types of mergers: horizontal, vertical, and conglomerate.

3.5.5 economies and diseconomies of scale

How internal and external economies and diseconomies of scale can affect a firm/industry as the scale of production changes.

### 3.6 Firms and production

#### Topic

3.6.1 demand for factors of production

#### Guidance

Influences to include demand for the product, the price of different factors of production, their availability and their productivity.

3.6.2 labour-intensive and capital-intensive production

The reasons for adopting the different forms of production and their advantages and disadvantages.

3.6.3 production and productivity

The difference between, and influences on, production and productivity.

### 3.7 Firms' costs, revenue and objectives

#### Topic

3.7.1 definition of costs of production

#### Guidance

Total cost (TC), average total cost (ATC), fixed cost (FC), variable cost (VC), average fixed cost (AFC), average variable cost (AVC).

Note: marginal cost is not required.

3.7.2 calculation of costs of production

Calculation of TC, ATC, FC, VC, AFC and AVC.

Definition, drawing and interpretation of diagrams that show how changes in output affect costs of production.

3.7.3 definition of revenue

Total revenue (TR) and average revenue (AR).

Note: marginal revenue is not required.

3.7.4 calculation of revenue

Calculation of TR and AR.

The influence of sales on revenue.

3.7.5 objectives of firms

Survival, social welfare, profit maximisation and growth.

**3.8 Market structure****Topic**

3.8.1 competitive markets

3.8.2 monopoly markets

**Guidance**

The effect of having a high number of firms on price, quality, choice, profit.

Note: the theory of perfect and imperfect competition and diagrams are not required.

Characteristics, advantages and disadvantages of monopoly.

Note: diagrams are not required.

**4 Government and the macroeconomy****4.1 The role of government****Topic**

4.1.1 the role of government

**Guidance**

Locally, nationally and internationally.

**4.2 The macroeconomic aims of government****Topic**

4.2.1 the macroeconomic aims of government

4.2.2 possible conflicts between macroeconomic aims

**Guidance**

Economic growth, full employment/low unemployment, stable prices/low inflation, balance of payments stability, redistribution of income. Reasons behind the choice of aims and the criteria that governments set for each aim.

Possible conflicts between aims: full employment versus stable prices; economic growth versus balance of payments stability; and full employment versus balance of payments stability.

**4.3 Fiscal policy****Topic**

4.3.1 definition of the government budget

4.3.2 reasons for government spending

4.3.3 reasons for taxation

4.3.4 classification of taxes

4.3.5 principles of taxation

4.3.6 impact of taxation

**Guidance**

The main areas of government spending and the reasons for and effects of spending in these areas.

Taxation as the main source of government revenue and the reasons for levying taxation.

Examples of the different classifications of tax; progressive, regressive, proportional; and direct, indirect.

The qualities of a good tax.

The impact of taxation on consumers, producers, government and economy as a whole.

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**4.3 Fiscal policy continued****Topic**

- 4.3.7 definition of fiscal policy
- 4.3.8 fiscal policy measures
- 4.3.9 effects of fiscal policy on government macroeconomic aims

**Guidance**

The tax and spending changes, in the form of fiscal policy, that cause budget balance or imbalance. Including calculations of the size of a budget deficit or surplus.

How fiscal policy measures may enable the government to achieve its macroeconomic aims.  
Note: aggregate demand and aggregate supply are not required.

**4.4 Monetary policy****Topic**

- 4.4.1 definition of money supply and monetary policy
- 4.4.2 monetary policy measures
- 4.4.3 effects of monetary policy on government macroeconomic aims

**Guidance**

Changes in interest rates, money supply and foreign exchange rates.

How monetary policy measures may enable the government to achieve its macroeconomic aims.

**4.5 Supply-side policy****Topic**

- 4.5.1 definition of supply-side policy
- 4.5.2 supply-side policy measures
- 4.5.3 effects of supply-side policy measures on government macroeconomic aims

**Guidance**

Possible supply-side policy measures include education and training, labour market reforms, lower direct taxes, deregulation, improving incentives to work and invest, and privatisation.

How supply-side policy measures may enable the government to achieve its macroeconomic aims.

## 4.6 Economic growth

### Topic

- 4.6.1 definition of economic growth
- 4.6.2 measurement of economic growth
- 4.6.3 causes and consequences of recession
- 4.6.4 causes of economic growth
- 4.6.5 consequences of economic growth
- 4.6.6 policies to promote economic growth

### Guidance

Real Gross Domestic Product (GDP) and how it can be used to measure economic growth. GDP per head (capita).

Meaning of recession and how a recession moves the economy within its PPC.

How changes in total demand may increase the utilisation of resources and GDP – resulting in a movement from inside toward the PPC.

How economic growth shifts the economy's PPC to the right and is caused by changes in investment, technology, and the quantity and quality of the factors of production.

The costs and benefits of economic growth in the context of different economies.

The range of policies available to promote economic growth and how effective they might be.

## 4.7 Employment and unemployment

### Topic

- 4.7.1 definition of employment, unemployment and full employment
- 4.7.2 changing patterns and level of employment
- 4.7.3 measurement of unemployment
- 4.7.4 causes/types of unemployment
- 4.7.5 consequences of unemployment
- 4.7.6 policies to reduce unemployment

### Guidance

The nature and causes of changes in the pattern of employment, for example increase in proportion of workers employed in the tertiary sector and formal economy as an economy develops; a greater proportion of women in the labour force due to changes in social attitudes; decline in the proportion employed in the public sector as a country moves towards a market economy.

How unemployment is measured – claimant count and labour force survey – and the formula for the unemployment rate.

Frictional, structural and cyclical unemployment.

The consequences of unemployment for the individual, firms and the economy as a whole.

The range of policies available to reduce unemployment and how effective they might be.

## 4.8 Inflation and deflation

### Topic

- 4.8.1 definition of inflation and deflation
- 4.8.2 measurement of inflation and deflation
- 4.8.3 causes of inflation and deflation
- 4.8.4 consequences of inflation and deflation
- 4.8.5 policies to control inflation and deflation

### Guidance

Measurement of inflation and deflation using the Consumer Prices Index (CPI).

Causes of inflation: demand-pull and cost-push.  
Causes of deflation: demand-side and supply-side.

The consequences of inflation and deflation for consumers, workers, savers, lenders, firms and the economy as a whole.

The range of policies available to control inflation and deflation and how effective they might be.

## 5 Economic development

### 5.1 Living standards

#### Topic

- 5.1.1 indicators of living standards
- 5.1.2 comparing living standards and income distribution

#### Guidance

Real GDP per head and the Human Development Index (HDI).

The components of real GDP and HDI.

The advantages and disadvantages of real GDP and HDI.

Reasons for differences in living standards and income distribution within and between countries.

### 5.2 Poverty

#### Topic

- 5.2.1 definition of absolute and relative poverty
- 5.2.2 the causes of poverty
- 5.2.3 policies to alleviate poverty and redistribute income

#### Guidance

The difference between the two terms.

The causes of poverty including unemployment, low wages, illness and age.

Policies including those promoting economic growth, improved education, more generous state benefits, progressive taxation, and national minimum wage.

### 5.3 Population

#### Topic

- 5.3.1 the factors that affect population growth
- 5.3.2 reasons for different rates of population growth in different countries
- 5.3.3 the effects of changes in the size and structure of population on different countries

#### Guidance

Birth rate, death rate, net migration, immigration and emigration.

How and why birth rates, death rates and net migration vary between countries.

The concept of an optimum population. The effects of increases and decreases in population size and changes in the age and gender distribution of population.

Note: interpretation of a population pyramid is required, but drawing is not.

### 5.4 Differences in economic development between countries

#### Topic

- 5.4.1 differences in economic development between countries

#### Guidance

Causes and impacts of differences in income; productivity; population growth; size of primary, secondary and tertiary sectors; saving and investment; education; and healthcare.

## 6 International trade and globalisation

### 6.1 International specialisation

#### Topic

- 6.1.1 specialisation at a national level
- 6.1.2 advantages and disadvantages of specialisation at a national level

#### Guidance

The basis for specialisation at national level in broad terms of: superior resource allocation and/or cheaper production methods.

For consumers, firms and the economy.

### 6.2 Globalisation, free trade and protection

#### Topic

- 6.2.1 definition of globalisation
- 6.2.2 role of multinational companies (MNCs)
- 6.2.3 the benefits of free trade
- 6.2.4 methods of protection
- 6.2.5 reasons for protection
- 6.2.6 consequences of protection

#### Guidance

MNCs and the costs and benefits to their host and home countries.

The benefits for consumers, producers and the economy in a variety of countries.

Tariffs, import quotas, subsidies and embargoes.

Including infant industry, declining industry, strategic industry and avoidance of dumping.

Effectiveness of protection and its impact on the home country and its trading partners.

### 6.3 Foreign exchange rates

#### Topic

- 6.3.1 definition of foreign exchange rate
- 6.3.2 determination of foreign exchange rate in foreign exchange market
- 6.3.3 causes of foreign exchange rate fluctuations
- 6.3.4 consequences of foreign exchange rate fluctuations
- 6.3.5 floating and fixed foreign exchange rates

#### Guidance

Floating and fixed systems.

The demand for and supply of a currency in the foreign exchange market and the determination of the equilibrium foreign exchange rate.

Including changes in demand for exports and imports, changes in the rate of interest, speculation, and the entry or departure of MNCs.

The effects of foreign exchange rate fluctuations on export and import prices and spending on imports and exports via the PED.

The difference between, and the advantages and disadvantages of, a floating foreign exchange rate and a fixed foreign exchange rate system.

### 6.4 Current account of balance of payments

#### Topic

- 6.4.1 structure
- 6.4.2 causes of current account deficit and surplus
- 6.4.3 consequences of current account deficit and surplus
- 6.4.4 policies to achieve balance of payments stability

#### Guidance

The components of the current account of the balance of payments – trade in goods, trade in services, primary income and secondary income. Calculation of deficits and surpluses on the current account of the balance of payments and its component sections.

Reasons for deficits and surpluses.

Impact on GDP, employment, inflation and foreign exchange rate.

The range of policies available to achieve balance of payments stability and how effective they might be.