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Edexcel IGCSE Economics

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Contents

1 Preface

This is a revision guide made for the IGCSE Economics course. It is not made to be used on its own, but rather to promote understanding and help condense and compress key information in the course. Thiss allows for a more efficient revision process, and helps students make connections between topics efficiently. This greatly helps for the extended response questions.

I hope you enjoy reading this and make good use of the revision notes.

2 Brief Overview of the Course

The IGCSE Economics course is split into 2 sections, each of the sections having their own exam paper, Macroeconomics and Microeconomics.

Macroeconomics focuses on the economy as a whole whereas Microeconomics focuses on the individual parts of the economy like households and firms.

Both papers are 80 marks in 90 minutes and are under codes 04/EC01 and 04/Ec02 for micro and macro respectively.

2.1 Assessment Objectives

There are 4 assessment objectives that make up the papers.

2.1.1 AO1

recall, select and communicate knowledge of economic terms, concepts and issue.

Paper 1 - **7.5%** , Paper 2 - **7.5%** and **14-15%** of the total grade.

2.1.2 AO2

Demonstrate knowledge and understanding by using appropriate terms, concepts, and theories and calculations effectively in specific contexts.

Paper 1 - **24.4%** , Paper 2 - **24.4%** and **48-49%** of the total grade.

2.1.3 AO3

Select, organise and interpret information from sources to investigate and analyse economic issues.

Paper 1 - **11.8%** , Paper 2 - **11.8%** and **23-24%** of the total grade.

2.1.4 AO4

Evaluate economic information to make reasoned judgements and draw conclusions Paper 1 - **6.3%** , Paper 2 - **6.3%** and **12-13%** of the total grade.

3 Microeconomics

3.1 The Economic Problem: Scarcity

"There is a *finite* amount of reosources and an *infinite* amount of wants."

Meaning, the **demand** for economic goods is higher than the **supply**.

This is the basic **economic problem** which leads to 3 questions:
1. What to produce? (not all goods and services can be produced)
2. How to produce? (different production methods)
3. For whom to produce? (different groups of people who need it, how much they should get)

This requires **decision makers** to make a choice. This is called **opportunity cost**.

Decision makers are:
1. **Governments**
2. **Producers**
3. **Consumers**

The **opportunity cost** is the cost giving up *next best alternative* when a choice is made.

Choosing what goods to produce is an opportunity cost, This can be illustrated using a PPC (Production Possibility Curve).

The PPC shows the maximum amount of goods that can be produced with the available resources. Often it shows the relationship between two goods.

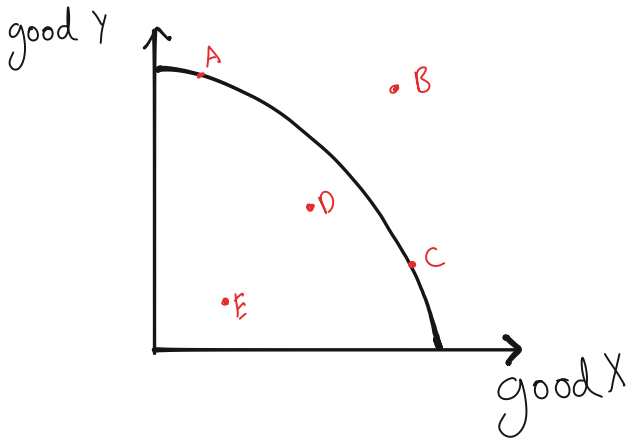


Figure 1: A production possibility curve illustrating the relationship between the production of a good X and Y.

1. Point B is unachievable (due to a lack of resources)
2. Point E & D are inefficient (waste of resources)
3. Point A & C are efficient (maximising output with the resources available)

3.1.1 Economic Growth

The increased production of goods and services in an economy over a period of time, or GDP.

Factors that affect economic growth:
1. **Population growth** - more people = more demand
2. **Labour productivity** - more output per worker
3. **Capital productivity** - more output per unit of capital
4. **Technological change** - new technology = more output

5. **Natural resources** - more resources = more output

Economic Growth influences the PPC, as it shifts it outwards (increase in production).

3.1.2 Economic Assumptions

Economists make assumptions about the economy to make it easier to analyse and understand. Economists assume that individuals will behave rationally:

1. Consumers aim to maximise benfits or util.
2. Producers aim to maximise profits.

However, there are reasons why this may not be true:

1. For consumers:
    1. **Information asymmetry** - consumers may not have all the information
    2. **Moral hazard** - consumers may not be able to control their spending, (addictions)
    3. **bandwagon effect** - consumers may copy other consumers behaviour
2. For producers:
    1. **Social enterprise** - producers may not be motivated by profit
    2. Perfomance may be influenced by other aims like selling more goods
    3. Producer has alternative business objectives.

3.2 Demand and Supply

3.2.1 Demand

"The amount of a economic good that would be bought at a certain price point."

Demand and **price** are *inversely proportional*. This means that as the price of a good **increases**, the demand for it **decreases** (typically). So a change in price results in movement along the demand curve.

The demand curve illustrates this relationship as a line. The demand curve is *downward sloping* and is denoted with a capital D.

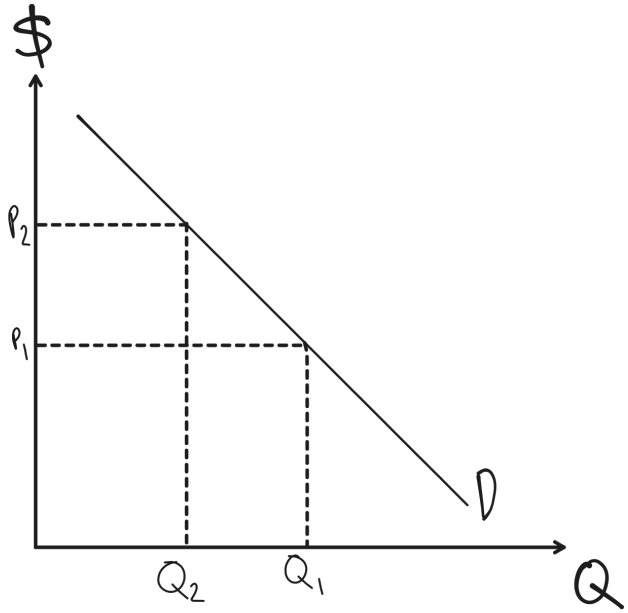


Figure 2: A demand curve showing the relationship between price and quantity demanded at different price points.

3.2.1.1 Factors affecting Demand

The demand curve is affected by 6 non-price factors:

1. **Fashion & Taste** - (proportional)
2. **Disposable Income** - if average income increases, demand increases (proportional)
3. **Price of Complementary goods** - if price of complementary goods increase, demand for the good decreases (inversely proportional)
4. **Price of Substitute goods** - if price of substitute goods increase, demand for the good increases (proportional)
5. **Advertising** - if advertising increases, demand increases (proportional)
6. **Demographics** - if there is a larger demographic that a product targets, demand increases (proportional)

These factors cause shifts in the demand curve -

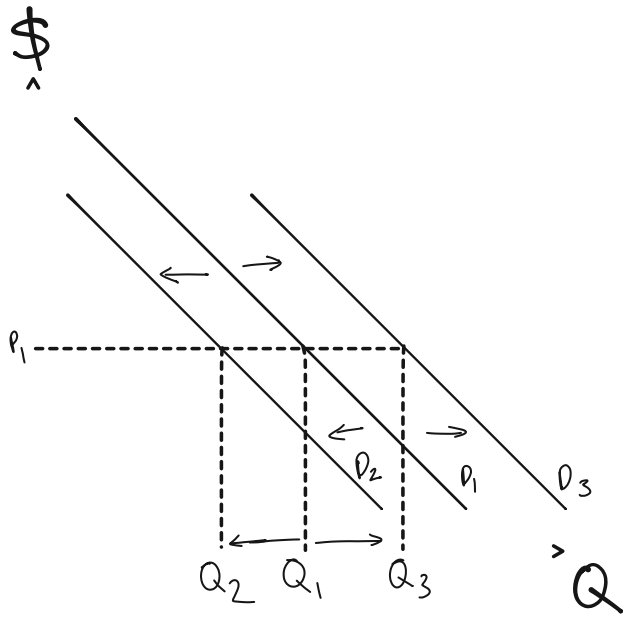


Figure 3: When demand shifts to the left, quantity falls. When demand shifts to the right quantity rises.

3.2.1.2 Price Elasticity of Demand

The **price elasticity of demand** is the responsiveness of demand to a change in price. It is measured by the percentage change in quantity demanded divided by the percentage change in price.

Note: Price elasticity of demand is *always* a *negative* number.

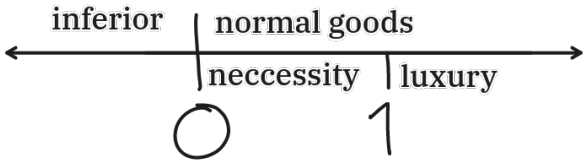
PED is equal to the change in quantity demand over the change in price. This is also the gradient of the curve for all you math nerds.

$$P = \frac{\Delta D\%}{\Delta P\%}$$

For the absolute values of PED:

value	description
x = 0	fixed demand
0 < x < 1	inelastic
x = 1	unit elastic
x > 1	elastic
x = ∞	perfectly elastic

The categories of goods depending on their PED.



In relation to revenue:

- with a lower PED (inelastic), it is lucrative to increase the price as it increases total revenue.
- with a higher PED (elastic), it is lucrative to decrease the price as it increase total revenue.

3.2.1.2.1.1 Determinants of PED:

1. **Substitutes** - if there are many substitutes, PED is higher (proportional)
2. **Necessities** - if the good is a necessity, PED is lower (inversely proportional)
3. **Time** - The longer it takes for a consumer to change products, the higher the PED (proportional)
4. **Proportion of Income** - The higher the proportion of income spent on a good, the higher the PED (proportional)
5. **Utility** - The higher the util value of a good, the higher the PED (proportional)
6. **Addictivity** - The more addictive a good is, the higher the PED (proportional)

3.2.1.2.1.2 Applications of PED

I MIGHT DO THIS LATER (DONT LEAVE IN FINAL RELEASE)

4 Macroeconomics

5 Glossary