

# A Level Economics A



## Specification

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**Pearson Edexcel Level 3 Advanced GCE in Economics A (9EC0)**

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*First teaching from September 2015*

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*First certification from 2017*

Issue 1



# **Pearson Edexcel Level 3 Advanced GCE in Economics A (9ECO) Specification**

First certification 2017

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## From Pearson's Expert Panel for World Class Qualifications

"The reform of the qualifications system in England is a profoundly important change to the education system. Teachers need to know that the new qualifications will assist them in helping their learners make progress in their lives.

When these changes were first proposed we were approached by Pearson to join an 'Expert Panel' that would advise them on the development of the new qualifications.

We were chosen, either because of our expertise in the UK education system, or because of our experience in reforming qualifications in other systems around the world as diverse as Singapore, Hong Kong, Australia and a number of countries across Europe.

We have guided Pearson through what we judge to be a rigorous qualification development process that has included:

- Extensive international comparability of subject content against the highest-performing jurisdictions in the world
- Benchmarking assessments against UK and overseas providers to ensure that they are at the right level of demand
- Establishing External Subject Advisory Groups, drawing on independent subject-specific expertise to challenge and validate our qualifications
- Subjecting the final qualifications to scrutiny against the DfE content and Ofqual accreditation criteria in advance of submission.

Importantly, we have worked to ensure that the content and learning is future oriented. The design has been guided by what is called an 'Efficacy Framework', meaning learner outcomes have been at the heart of this development throughout.

We understand that ultimately it is excellent teaching that is the key factor to a learner's success in education. As a result of our work as a panel we are confident that we have supported the development of qualifications that are outstanding for their coherence, thoroughness and attention to detail and can be regarded as representing world-class best practice."

### **Sir Michael Barber (Chair)**

Chief Education Advisor, Pearson plc

### **Professor Sing Kong Lee**

Director, National Institute of Education, Singapore

### **Bahram Bekhradnia**

President, Higher Education Policy Institute

### **Professor Jonathan Osborne**

Stanford University

### **Dame Sally Coates**

Principal, Burlington Danes Academy

### **Professor Dr Ursula Renold**

Federal Institute of Technology, Switzerland

### **Professor Robin Coningham**

Pro-Vice Chancellor, University of Durham

### **Professor Bob Schwartz**

Harvard Graduate School of Education

### **Dr Peter Hill**

Former Chief Executive ACARA



# Introduction

The Pearson Edexcel Level 3 Advanced GCE in Economics A is designed for use in schools and colleges. It is part of a suite of GCE qualifications offered by Pearson.

## Purpose of the specification

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This specification sets out:

- the objectives of the qualification
- any other qualification(s) that a student must have completed before taking the qualification
- any prior knowledge and skills that the student is required to have before taking the qualification
- any other requirements that a student must have satisfied before they will be assessed or before the qualification will be awarded
- the knowledge and understanding that will be assessed as part of the qualification
- the method of assessment and any associated requirements relating to it
- the criteria against which a student's level of attainment will be measured (such as assessment criteria).

## Rationale

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The Pearson Edexcel Level 3 Advanced GCE in Economics A meets the following purposes, which fulfil those defined by the Office of Qualifications and Examinations Regulation (Ofqual) for GCE qualifications in their *GCE Qualification Level Conditions and Requirements* document, published in April 2014.

The purposes of this qualification are to:

- define and assess achievement of the knowledge, skills and understanding that will be needed by students planning to progress to undergraduate study at a UK higher education establishment, particularly (although not only) in the same subject area, for example economics degrees with a focus on theory, or degrees in applied economics such as environmental economics, labour economics, public sector economics or monetary economics
- set out a robust and internationally comparable post-16 academic course of study to develop that knowledge, skills and understanding
- enable UK universities to accurately identify the level of attainment of students
- provide a basis for school and college accountability measures at age 18
- provide a benchmark of academic ability for employers.

### Qualification aims and objectives

The aims and objectives of the Pearson Edexcel Level 3 Advanced GCE in Economics A are to enable students to:

- develop an interest in, and enthusiasm for, the subject
- appreciate the contribution of economics to the understanding of the wider economic and social environment
- develop an understanding of a range of concepts and an ability to use those concepts in a variety of different contexts
- use an enquiring, critical and thoughtful approach to the study of economics and develop an ability to think as an economist
- understand that economic behaviour can be studied from a range of perspectives
- develop analytical and quantitative skills, together with qualities and attitudes that will equip them for the challenges, opportunities and responsibilities of adult and working life.



## The context for the development of this qualification

All our qualifications are designed to meet our World Class Qualification Principles<sup>[1]</sup> and our ambition to put the student at the heart of everything we do.

We have developed and designed this qualification by:

- reviewing other curricula and qualifications to ensure that it is comparable with those taken in high-performing jurisdictions overseas
- consulting with key stakeholders on content and assessment, including learned bodies, subject associations, higher-education academics, teachers and employers to ensure this qualification is suitable for a UK context
- reviewing the legacy qualification and building on its positive attributes.

This qualification has also been developed to meet criteria stipulated by Ofqual in their documents *GCE Qualification Level Conditions and Requirements* and *GCE Subject Level Conditions and Requirements for Economics*, published in April 2014.

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[1] Pearson's World Class Qualification principles ensure that our qualifications are:

- **demanding**, through internationally benchmarked standards, encouraging deep learning and measuring higher-order skills
- **rigorous**, through setting and maintaining standards over time, developing reliable and valid assessment tasks and processes, and generating confidence in end users of the knowledge, skills and competencies of certified students
- **inclusive**, through conceptualising learning as continuous, recognising that students develop at different rates and have different learning needs, and focusing on progression
- **empowering**, through promoting the development of transferable skills, see *Appendix 1*.



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## Qualification at a glance

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The Pearson Edexcel Level 3 Advanced GCE in Economics A is structured into four themes and consists of three externally examined papers.

Students build knowledge and understanding of core economic models and concepts in Themes 1 and 2, and then build on this and apply their knowledge to more complex concepts and models in Themes 3 and 4.

Students will need to apply their knowledge and understanding to both familiar and unfamiliar contexts in the assessments and demonstrate an awareness of current economic events and policies.

### **Theme 1: Introduction to markets and market failure**

This theme focuses on microeconomic concepts. Students will develop an understanding of:

- nature of economics
- how markets work
- market failure
- government intervention.

### **Theme 2: The UK economy – performance and policies**

This theme focuses on macroeconomic concepts. Students will develop an understanding of:

- measures of economic performance
- aggregate demand
- aggregate supply
- national income
- economic growth
- macroeconomic objectives and policy.

### **Theme 3: Business behaviour and the labour market**

This theme develops the microeconomic concepts introduced in Theme 1 and focuses on business economics. Students will develop an understanding of:

- business growth
- business objectives
- revenues, costs and profits
- market structures
- labour market
- government intervention.

### **Theme 4: A global perspective**

This theme develops the macroeconomic concepts introduced in Theme 2 and applies these concepts in a global context. Students will develop an understanding of:

- international economics
- poverty and inequality
- emerging and developing economies
- the financial sector
- role of the state in the macroeconomy.

Students must complete all assessment in May/June in any single year.

Paper 1: Markets and business behaviour		*Paper code: 9ECO/01
<ul style="list-style-type: none"> <li>Externally assessed</li> <li>Availability: May/June</li> <li>First assessment: 2017</li> </ul>		35% of the total qualification
<b>Overview of content</b> Paper 1 will assess microeconomics and questions will be drawn from Themes 1 and 3.		
<b>Overview of assessment</b> <ul style="list-style-type: none"> <li>Written examination.</li> <li>The paper comprises three sections. Students answer all questions from Section A and Section B, and one from Section C.</li> <li>Section A comprises a range of multiple-choice and short-answer questions.</li> <li>Section B comprises one data response question broken down into a number of parts.</li> <li>Section C comprises a choice of extended open-response questions; students select one from a choice of two.</li> <li>Duration: 2 hours.</li> <li>100 marks available.</li> </ul>		

Paper 2: The national and global economy		*Paper code: 9ECO/02
<ul style="list-style-type: none"> <li>Externally assessed</li> <li>Availability: May/June</li> <li>First assessment: 2017</li> </ul>		35% of the total qualification
<b>Overview of content</b> Paper 2 will assess macroeconomics and questions will be drawn from Themes 2 and 4.		
<b>Overview of assessment</b> <ul style="list-style-type: none"> <li>Written examination.</li> <li>The paper comprises three sections. Students answer all questions from Section A and Section B, and one from Section C.</li> <li>Section A comprises a range of multiple-choice and short-answer questions.</li> <li>Section B comprises one data response question broken down into a number of parts.</li> <li>Section C comprises a choice of extended open-response questions; students select one from a choice of two.</li> <li>Duration: 2 hours.</li> <li>100 marks available.</li> </ul>		

- Externally assessed
- Availability: May/June
- First assessment: 2017

**30% of the  
total  
qualification**

#### **Overview of content**

Paper 3 will assess content across all four themes.

Students are required to apply their knowledge and understanding, make connections and transfer higher-order skills across all four themes.

#### **Overview of assessment**

- Written examination.
- The paper comprises two sections.
- Each section comprises one data response question broken down into a number of parts, including a choice of extended open-response questions; students select one from a choice of two.
- Duration: 2 hours.
- 100 marks available.

\*See *Appendix 4: Codes* for a description of this code and all other codes relevant to this qualification.

## Assessment Objectives and weightings

Students must:		% in GCE
<b>AO1</b>	Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues	22-24
<b>AO2</b>	Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues	22-24
<b>AO3</b>	Analyse issues within economics, showing an understanding of their impact on economic agents	26-28
<b>AO4</b>	Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues	26-28
<b>Total</b>		<b>100%</b>



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# Knowledge, skills and understanding

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## Theme 1: Introduction to markets and market failure

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### Overview

This theme is one of two in this qualification that focuses on microeconomics. This theme introduces students to the microeconomic nature of economics, looking at economic problems and the ways economists think and work.

Students will need to build upon the knowledge, skills and understanding developed from Theme 1 in Theme 3, making connections across these two microeconomic themes for Paper 1, and across Themes 1, 2, 3 and 4 in Paper 3. Teaching approaches to content must reflect this.

Students will need to apply their knowledge and understanding to both familiar and unfamiliar contexts in the assessments and demonstrate an awareness of current economic events and policies.

### Content

In this theme students will consider how markets work, looking at how supply and demand interact to allocate resources in local, national and international markets. They will learn how to apply supply and demand analysis to real-world situations and be able to offer explanations of consumer behaviour. This will involve looking at both how consumers act in a rational way to maximise utility and how firms maximise profit, but also why consumers may not behave rationally.

Having investigated how markets work, students will then look at market failure. They will look at the nature and causes of market failure before considering the strengths and weaknesses of possible government intervention to remedy market failures.

This theme will provide a coherent coverage of microeconomic content with students drawing on local, national and global contexts.

Students are encouraged to use an enquiring, critical and thoughtful approach to the study of economics and to develop an ability to think as an economist.

To develop their knowledge, skills and understanding in economics, students need to have acquired competence in quantitative skills that are relevant to and applied in the context of this theme (see *Appendix 3: Quantitative skills*).

## 1.1 Nature of economics

Subject content	What students need to learn:
1.1.1 Economics as a social science	<ul style="list-style-type: none"> <li>a) Thinking like an economist: the process of developing models in economics, including the need to make assumptions</li> <li>b) The use of the <i>ceteris paribus</i> assumption in building models</li> <li>c) The inability in economics to make scientific experiments</li> </ul>
1.1.2 Positive and normative economic statements	<ul style="list-style-type: none"> <li>a) Distinction between positive and normative economic statements</li> <li>b) The role of value judgements in influencing economic decision making and policy</li> </ul>
1.1.3 The economic problem	<ul style="list-style-type: none"> <li>a) The problem of scarcity – where there are unlimited wants and finite resources</li> <li>b) The distinction between renewable and non-renewable resources</li> <li>c) The importance of opportunity costs to economic agents (consumers, producers and government)</li> </ul>
1.1.4 Production possibility frontiers	<ul style="list-style-type: none"> <li>a) The use of production possibility frontiers to depict: <ul style="list-style-type: none"> <li>o the maximum productive potential of an economy</li> <li>o opportunity cost (through marginal analysis)</li> <li>o economic growth or decline</li> <li>o efficient or inefficient allocation of resources</li> <li>o possible and unobtainable production</li> </ul> </li> <li>b) The distinction between movements along and shifts in production possibility curves, considering the possible causes for such changes</li> <li>c) The distinction between capital and consumer goods</li> </ul>
1.1.5 Specialisation and the division of labour	<ul style="list-style-type: none"> <li>a) Specialisation and the division of labour: reference to Adam Smith</li> <li>b) The advantages and disadvantages of specialisation and the division of labour in organising production</li> <li>c) The advantages and disadvantages of specialising in the production of goods and services to trade</li> <li>d) The functions of money (as a medium of exchange, a measure of value, a store of value, a method of deferred payment)</li> </ul>
1.1.6 Free market economies, mixed economy and command economy	<ul style="list-style-type: none"> <li>a) The distinction between free market, mixed and command economies: reference to Adam Smith, Friedrich Hayek and Karl Marx</li> <li>b) The advantages and disadvantages of a free market economy and a command economy</li> <li>c) The role of the state in a mixed economy</li> </ul>

## 1.2 How markets work

Subject content	What students need to learn:
1.2.1 Rational decision making	a) The underlying assumptions of rational economic decision making: <ul style="list-style-type: none"> <li>o consumers aim to maximise utility</li> <li>o firms aim to maximise profits</li> </ul>
1.2.2 Demand	a) The distinction between movements along a demand curve and shifts of a demand curve b) The factors that may cause a shift in the demand curve (the conditions of demand) c) The concept of diminishing marginal utility and how this influences the shape of the demand curve
1.2.3 Price, income and cross elasticities of demand	a) Understanding of price, income and cross elasticities of demand b) Use formulae to calculate price, income and cross elasticities of demand c) Interpret numerical values of <ul style="list-style-type: none"> <li>o price elasticity of demand: unitary elastic, perfectly and relatively elastic, and perfectly and relatively inelastic</li> <li>o income elasticity of demand: inferior, normal and luxury goods; relatively elastic and relatively inelastic</li> <li>o cross elasticity of demand: substitutes, complementary and unrelated goods</li> </ul> d) The factors influencing elasticities of demand e) The significance of elasticities of demand to firms and government in terms of: <ul style="list-style-type: none"> <li>o the imposition of indirect taxes and subsidies</li> <li>o changes in real income</li> <li>o changes in the prices of substitute and complementary goods</li> </ul> f) The relationship between price elasticity of demand and total revenue (including calculation)
1.2.4 Supply	a) The distinction between movements along a supply curve and shifts of a supply curve b) The factors that may cause a shift in the supply curve (the conditions of supply)

Subject content	What students need to learn:
1.2.5 Elasticity of supply	<ul style="list-style-type: none"> <li>a) Understanding of price elasticity of supply</li> <li>b) Use formula to calculate price elasticity of supply</li> <li>c) Interpret numerical values of price elasticity of supply: perfectly and relatively elastic, and perfectly and relatively inelastic</li> <li>d) Factors that influence price elasticity of supply</li> <li>e) The distinction between short run and long run in economics and its significance for elasticity of supply</li> </ul>
1.2.6 Price determination	<ul style="list-style-type: none"> <li>a) Equilibrium price and quantity and how they are determined</li> <li>b) The use of supply and demand diagrams to depict excess supply and excess demand</li> <li>c) The operation of market forces to eliminate excess demand and excess supply</li> <li>d) The use of supply and demand diagrams to show how shifts in demand and supply curves cause the equilibrium price and quantity to change in real-world situations</li> </ul>
1.2.7 Price mechanism	<ul style="list-style-type: none"> <li>a) Functions of the price mechanism to allocate resources: <ul style="list-style-type: none"> <li>o rationing</li> <li>o incentive</li> <li>o signalling</li> </ul> </li> <li>b) The price mechanism in the context of different types of markets, including local, national and global markets</li> </ul>
1.2.8 Consumer and producer surplus	<ul style="list-style-type: none"> <li>a) The distinction between consumer and producer surplus</li> <li>b) The use of supply and demand diagrams to illustrate consumer and producer surplus</li> <li>c) How changes in supply and demand might affect consumer and producer surplus</li> </ul>
1.2.9 Indirect taxes and subsidies	<ul style="list-style-type: none"> <li>a) Supply and demand analysis, elasticities, and: <ul style="list-style-type: none"> <li>o the impact of indirect taxes on consumers, producers and government</li> <li>o the incidence of indirect taxes on consumers and producers</li> <li>o the impact of subsidies on consumers, producers and government</li> <li>o the area that represents the producer subsidy and consumer subsidy</li> </ul> </li> </ul>
1.2.10 Alternative views of consumer behaviour	<ul style="list-style-type: none"> <li>a) The reasons why consumers may not behave rationally: <ul style="list-style-type: none"> <li>o consideration of the influence of other people's behaviour</li> <li>o the importance of habitual behaviour</li> <li>o consumer weakness at computation</li> </ul> </li> </ul>

### 1.3 Market failure

Subject content	What students need to learn:
1.3.1 Types of market failure	<ul style="list-style-type: none"> <li>a) Understanding of market failure</li> <li>b) Types of market failure <ul style="list-style-type: none"> <li>o externalities</li> <li>o under-provision of public goods</li> <li>o information gaps</li> </ul> </li> </ul>
1.3.2 Externalities	<ul style="list-style-type: none"> <li>a) Distinction between private costs, external costs and social costs</li> <li>b) Distinction between private benefits, external benefits and social benefits</li> <li>c) Use of a diagram to illustrate: <ul style="list-style-type: none"> <li>o the external costs of production using marginal analysis</li> <li>o the distinction between market equilibrium and social optimum position</li> <li>o identification of welfare loss area</li> </ul> </li> <li>d) Use of a diagram to illustrate: <ul style="list-style-type: none"> <li>o the external benefits of consumption using marginal analysis</li> <li>o the distinction between market equilibrium and social optimum position</li> <li>o identification of welfare gain area</li> </ul> </li> <li>e) The impact on economic agents of externalities and government intervention in various markets</li> </ul>
1.3.3 Public goods	<ul style="list-style-type: none"> <li>a) Distinction between public and private goods using the concepts of non-rivalry and non-excludability</li> <li>b) Why public goods may not be provided by the private sector: the free rider problem</li> </ul>
1.3.4 Information gaps	<ul style="list-style-type: none"> <li>a) The distinction between symmetric and asymmetric information</li> <li>b) How imperfect market information may lead to a misallocation of resources</li> </ul>

## 1.4 Government intervention

Subject content	What students need to learn:
1.4.1 Government intervention in markets	<p>a) Purpose of intervention with reference to market failure and using diagrams in various contexts:</p> <ul style="list-style-type: none"><li>o indirect taxation (<i>ad valorem</i> and specific)</li><li>o subsidies</li><li>o maximum and minimum prices</li></ul> <p>b) Other methods of government intervention:</p> <ul style="list-style-type: none"><li>o trade pollution permits</li><li>o state provision of public goods</li><li>o provision of information</li><li>o regulation</li></ul>
1.4.2 Government failure	<p>a) Understanding of government failure as intervention that results in a net welfare loss</p> <p>b) Causes of government failure:</p> <ul style="list-style-type: none"><li>o distortion of price signals</li><li>o unintended consequences</li><li>o excessive administrative costs</li><li>o information gaps</li></ul> <p>c) Government failure in various markets</p>

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## Theme 2: The UK economy – performance and policies

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### Overview

This theme is one of two in this qualification that focuses on macroeconomics. This theme introduces the key measures of economic performance and the main instruments of economic policy primarily in a UK context.

Students will need to build upon the knowledge, skills and understanding developed from Theme 2 in Theme 4, making connections across these two macroeconomic themes for Paper 2, and across Themes 1, 2, 3 and 4 in Paper 3. Teaching approaches to content must reflect this.

Students will need to apply their knowledge and understanding to both familiar and unfamiliar contexts in the assessments and demonstrate an awareness of current economic events and policies.

### Content

Students will be introduced to the aggregate demand/aggregate supply model so that they can use it to analyse changes in real output and the price level. They will: examine the use of demand-side policies, supply-side policies and direct controls as means of improving an economy's performance; recognise the underlying assumptions; predict the likely impact and effectiveness of such policies; and consider these in an historical context.

Students should consider the different approaches that may be used by policymakers to address macroeconomic issues and be able to identify the criteria for success.

Students should have knowledge of the UK economy in the last 10 years.

This theme will provide a coherent coverage of macroeconomic content with students drawing on local and national contexts, as appropriate.

Students are encouraged to use an enquiring, critical and thoughtful approach to the study of economics and to develop an ability to think as an economist.

To develop their skills, knowledge and understanding in economics, students need to have acquired competence in quantitative skills that are relevant to and applied in the context of this theme (see *Appendix 3: Quantitative skills*).

## 2.1 Measures of economic performance

Subject content	What students need to learn:
<p>2.1.1 Economic growth</p>	<ul style="list-style-type: none"> <li>a) Rates of change of real Gross Domestic Product (GDP) as a measure of economic growth</li> <li>b) Distinction between:               <ul style="list-style-type: none"> <li>o real and nominal</li> <li>o total and per capita</li> <li>o value and volume</li> </ul> </li> <li>c) Other national income measures:               <ul style="list-style-type: none"> <li>o Gross National Product (GNP)</li> <li>o Gross National Income (GNI)</li> </ul> </li> <li>d) Comparison of rates of growth between countries and over time</li> <li>e) Understanding of Purchasing Power Parities (PPPs) and the use of PPP-adjusted figures in international comparisons</li> <li>f) The limitations of using GDP to compare living standards between countries and over time</li> <li>g) National happiness:               <ul style="list-style-type: none"> <li>o UK national wellbeing</li> <li>o The relationship between real incomes and subjective happiness</li> </ul> </li> </ul>
<p>2.1.2 Inflation</p>	<ul style="list-style-type: none"> <li>a) Understanding of:               <ul style="list-style-type: none"> <li>o inflation</li> <li>o deflation</li> <li>o disinflation</li> </ul> </li> <li>b) The process of calculating the rate of inflation in the UK using the Consumer Prices Index (CPI)</li> <li>c) The limitations of CPI in measuring the rate of inflation</li> <li>d) The Retail Prices Index (RPI) as an alternative measure of the rate of inflation</li> <li>e) Causes of inflation:               <ul style="list-style-type: none"> <li>o demand pull</li> <li>o cost push</li> <li>o growth of the money supply</li> </ul> </li> <li>f) The effects of inflation on consumers, firms, the government and workers</li> </ul>



Subject content	What students need to learn:
<p>2.1.3</p> <p>Employment and unemployment</p>	<p>a) Measures of unemployment:</p> <ul style="list-style-type: none"> <li>o the claimant count</li> <li>o the International Labour Organisation (ILO) and the UK Labour Force Survey</li> </ul> <p>b) The distinction between unemployment and under-employment</p> <p>c) The significance of changes in the rates of:</p> <ul style="list-style-type: none"> <li>o employment</li> <li>o unemployment</li> <li>o inactivity</li> </ul> <p>d) The causes of unemployment:</p> <ul style="list-style-type: none"> <li>o structural unemployment</li> <li>o frictional unemployment</li> <li>o seasonal unemployment</li> <li>o demand deficiency and cyclical unemployment</li> <li>o real wage inflexibility</li> </ul> <p>e) The significance of migration and skills for employment and unemployment</p> <p>f) The effects of unemployment on consumers, firms, workers, the government and society</p>
<p>2.1.4</p> <p>Balance of payments</p>	<p>a) Components of the balance of payments, with particular reference to the current account, and the balance of trade in goods and services</p> <p>b) Current account deficits and surpluses</p> <p>c) The relationship between current account imbalances and other macroeconomic objectives</p> <p>d) The interconnectedness of economies through international trade</p>

## 2.2 Aggregate demand (AD)

Subject content	What students need to learn:
2.2.1 The characteristics of AD	<ul style="list-style-type: none"> <li>a) Components of AD: <math>C+I+G+(X-M)</math></li> <li>b) The relative importance of the components of AD</li> <li>c) The AD curve</li> <li>d) The distinction between a movement along, and a shift of, the AD curve</li> </ul>
2.2.2 Consumption (C)	<ul style="list-style-type: none"> <li>a) Disposable income and its influence on consumer spending</li> <li>b) An understanding of the relationship between savings and consumption</li> <li>c) Other influences on consumer spending: <ul style="list-style-type: none"> <li>o interest rates</li> <li>o consumer confidence</li> <li>o wealth effects</li> </ul> </li> </ul>
2.2.3 Investment (I)	<ul style="list-style-type: none"> <li>a) Distinction between gross and net investment</li> <li>b) Influences on investment: <ul style="list-style-type: none"> <li>o the rate of economic growth</li> <li>o business expectations and confidence</li> <li>o Keynes and 'animal spirits'</li> <li>o demand for exports</li> <li>o interest rates</li> <li>o access to credit</li> <li>o the influence of government and regulations</li> </ul> </li> </ul>
2.2.4 Government expenditure (G)	<ul style="list-style-type: none"> <li>a) The main influences on government expenditure: <ul style="list-style-type: none"> <li>o the trade cycle</li> <li>o fiscal policy</li> </ul> </li> </ul>
2.2.5 Net trade (X-M)	<ul style="list-style-type: none"> <li>a) The main influences on the (net) trade balance: <ul style="list-style-type: none"> <li>o real income</li> <li>o exchange rates</li> <li>o state of the world economy</li> <li>o degree of protectionism</li> <li>o non-price factors</li> </ul> </li> </ul>

## 2.3 Aggregate supply (AS)

Subject content	What students need to learn:
2.3.1 The characteristics of AS	a) The AS curve b) The distinction between movement along, and a shift of, the AS curve c) The relationship between short-run AS and long-run AS
2.3.2 Short-run AS	a) Factors influencing short-run AS: <ul style="list-style-type: none"><li>o changes in costs of raw materials and energy</li><li>o changes in exchange rates</li><li>o changes in tax rates</li></ul>
2.3.3 Long-run AS	a) Different shapes of the long-run AS curve: <ul style="list-style-type: none"><li>o Keynesian</li><li>o classical</li></ul> b) Factors influencing long-run AS: <ul style="list-style-type: none"><li>o technological advances</li><li>o changes in relative productivity</li><li>o changes in education and skills</li><li>o changes in government regulations</li><li>o demographic changes and migration</li><li>o competition policy</li></ul>

## 2.4 National income

Subject content	What students need to learn:
2.4.1 National income	<ul style="list-style-type: none"> <li>a) The circular flow of income</li> <li>b) The distinction between income and wealth</li> </ul>
2.4.2 Injections and withdrawals	<ul style="list-style-type: none"> <li>a) The impact of injections into, and withdrawals from, the circular flow of income</li> </ul>
2.4.3 Equilibrium levels of real national output	<ul style="list-style-type: none"> <li>a) The concept of equilibrium real national output</li> <li>b) The use of AD/AS diagrams to show how shifts in AD or AS cause changes in the equilibrium price level and real national output</li> </ul>
2.4.4 The multiplier	<ul style="list-style-type: none"> <li>a) The multiplier ratio</li> <li>b) The multiplier process</li> <li>c) Effects of the economy on the multiplier</li> <li>d) Understanding of marginal propensities and their effects on the multiplier: <ul style="list-style-type: none"> <li>o the marginal propensity to consume (MPC)</li> <li>o the marginal propensity to save (MPS)</li> <li>o the marginal propensity to tax (MPT)</li> <li>o the marginal propensity to import (MPM)</li> </ul> </li> <li>e) Calculations of the multiplier using the formulae <math>1/(1-MPC)</math> and <math>1/MPW</math>, where <math>MPW=MPS+MPT+MPM</math></li> <li>f) The significance of the multiplier to shifts in AD</li> </ul>

## 2.5 Economic growth

Subject content	What students need to learn:
2.5.1 Causes of growth	a) Factors which could cause economic growth b) The distinction between actual and potential growth c) The importance of international trade for (export-led) economic growth
2.5.2 Output gaps	a) Distinction between actual growth rates and long-term trends in growth rates b) Understanding of positive and negative output gaps and the difficulties of measurement c) Use of an AD/AS diagram to illustrate an output gap (level of spare capacity) in an economy
2.5.3 Trade (business) cycle	a) Understanding of the trade (business) cycle b) Characteristics of a boom c) Characteristics of a recession
2.5.4 The impact of economic growth	a) The benefits and costs of economic growth and the impact on: <ul style="list-style-type: none"><li>o consumers</li><li>o firms</li><li>o the government</li><li>o current and future living standards</li></ul>

## 2.6 Macroeconomic objectives and policies

Subject content	What students need to learn:
<p>2.6.1</p> <p>Possible macroeconomic objectives</p>	<ul style="list-style-type: none"> <li>a) Economic growth</li> <li>b) Low unemployment</li> <li>c) Low and stable rate of inflation</li> <li>d) Balance of payments equilibrium on current account</li> <li>e) Balanced government budget</li> <li>f) Protection of the environment</li> <li>g) Greater income equality</li> </ul>
<p>2.6.2</p> <p>Demand-side policies</p>	<ul style="list-style-type: none"> <li>a) Distinction between monetary and fiscal policy</li> <li>b) Monetary policy instruments: <ul style="list-style-type: none"> <li>o interest rates</li> <li>o asset purchases to increase the money supply (quantitative easing)</li> </ul> </li> <li>c) Fiscal policy instruments: <ul style="list-style-type: none"> <li>o government spending and taxation</li> </ul> </li> <li>d) Distinction between government budget (fiscal) deficit and surplus</li> <li>e) Distinction between, and examples of, direct and indirect taxation</li> <li>f) Use of AD/AS diagrams to illustrate demand-side policies</li> <li>g) The role of the Bank of England: <ul style="list-style-type: none"> <li>o the role and operation of the Bank of England's Monetary Policy Committee</li> </ul> </li> <li>h) Awareness of demand-side policies in the Great Depression and the Global Financial Crisis of 2008 <ul style="list-style-type: none"> <li>o different interpretations</li> <li>o policy responses in the US and UK</li> </ul> </li> <li>i) Strengths and weaknesses of demand-side policies</li> </ul>

Subject content	What students need to learn:
<p>2.6.3 Supply-side policies</p>	<p>a) Distinction between market-based and interventionist methods</p> <p>b) Market-based and interventionist policies:</p> <ul style="list-style-type: none"> <li>o to increase incentives</li> <li>o to promote competition</li> <li>o to reform the labour market</li> <li>o to improve skills and quality of the labour force</li> <li>o to improve infrastructure</li> </ul> <p>c) Use of AD/AS diagrams to illustrate supply-side policies</p> <p>d) Strengths and weaknesses of supply-side policies</p>
<p>2.6.4 Conflicts and trade-offs between objectives and policies</p>	<p>a) Potential conflicts and trade-offs between the macroeconomic objectives</p> <p>b) Short-run Phillips curve</p> <p>c) Potential policy conflicts and trade-offs</p>





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## Theme 3: Business behaviour and the labour market

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### Overview

This theme builds on the content of *Theme 1: Introduction to markets and market failure* and focuses on business economics.

Students will need to build upon the knowledge, skills and understanding developed from Theme 1 in Theme 3, making connections across these two microeconomic themes in Paper 1, and across Themes 1, 2, 3 and 4 in Paper 3. Teaching approaches to content must reflect this.

Students will need to apply their knowledge and understanding to both familiar and unfamiliar contexts in the assessments and demonstrate an awareness of current economic events and policies.

### Content

This theme examines how the number and size of market participants, and the level of contestability, affect the pricing and nature of competition among firms. Students will consider the size and growth of firms through exploring organic growth, mergers and takeovers. They will look at the reasons for demergers and why some firms tend to remain small.

Students will look at the rational assumption that firms are profit maximisers and then challenge this by looking at alternative business objectives. Revenues, costs and profits are explored before linking these ideas to different market structures. Students will then be able to analyse and evaluate the pricing and output decisions of firms in different contexts and understand the role of competition in business decision making. Supply and demand analysis is specifically applied to the labour market to see how wages are determined in competitive and non-competitive markets.

At the end of this theme students should be capable of making an appraisal of government intervention aimed at promoting competitive markets.

This theme will provide a coherent coverage of microeconomic content, drawing on local, national and global contexts.

Students are encouraged to use an enquiring, critical and thoughtful approach to the study of economics and to develop an ability to think as an economist.

To develop their skills, knowledge and understanding in economics, students need to have acquired competence in quantitative skills that are relevant to and applied in the context of this theme (see *Appendix 3: Quantitative skills*).

### 3.1 Business growth

Subject content	What students need to learn:
3.1.1 Sizes and types of firms	<ul style="list-style-type: none"> <li>a) Reasons why some firms tend to remain small and why others grow</li> <li>b) Significance of the divorce of ownership from control: the principal-agent problem</li> <li>c) Distinction between public and private sector organisations</li> <li>d) Distinction between profit and not-for-profit organisations</li> </ul>
3.1.2 Business growth	<ul style="list-style-type: none"> <li>a) How businesses grow: <ul style="list-style-type: none"> <li>o organic growth</li> <li>o forward and backward vertical integration</li> <li>o horizontal integration</li> <li>o conglomerate integration</li> </ul> </li> <li>b) Advantages and disadvantages of: <ul style="list-style-type: none"> <li>o organic growth</li> <li>o vertical integration</li> <li>o horizontal integration</li> <li>o conglomerate integration</li> </ul> </li> <li>c) Constraints on business growth: <ul style="list-style-type: none"> <li>o size of the market</li> <li>o access to finance</li> <li>o owner objectives</li> <li>o regulation</li> </ul> </li> </ul>
3.1.3 Demergers	<ul style="list-style-type: none"> <li>a) Reasons for demergers</li> <li>b) Impact of demergers on businesses, workers and consumers</li> </ul>

### 3.2 Business objectives

Subject content	What students need to learn:
3.2.1 Business objectives	<p>a) Different business objectives and reasons for them:</p> <ul style="list-style-type: none"><li>o profit maximisation</li><li>o revenue maximisation</li><li>o sales maximisation</li><li>o satisficing</li></ul> <p>b) Diagrams and formulae to illustrate the different business objectives:</p> <ul style="list-style-type: none"><li>o profit maximisation</li><li>o revenue maximisation</li><li>o sales maximisation</li></ul>

### 3.3 Revenues, costs and profits

Subject content	What students need to learn:
3.3.1 Revenue	a) Formulae to calculate and understand the relationship between: <ul style="list-style-type: none"> <li>o total revenue</li> <li>o average revenue</li> <li>o marginal revenue</li> </ul> b) Price elasticity of demand and its relationship to revenue concepts (calculation required)
3.3.2 Costs	a) Formulae to calculate and understand the relationship between: <ul style="list-style-type: none"> <li>o total cost</li> <li>o total fixed cost</li> <li>o total variable cost</li> <li>o average (total) cost</li> <li>o average fixed cost</li> <li>o average variable cost</li> <li>o marginal cost</li> </ul> b) Derivation of short-run cost curves from the assumption of diminishing marginal productivity c) Relationship between short-run and long-run average cost curves
3.3.3 Economies and diseconomies of scale	a) Types of economies and diseconomies of scale b) Minimum efficient scale c) Distinction between internal and external economies of scale
3.3.4 Normal profits, supernormal profits and losses	a) Condition for profit maximisation b) Normal profit, supernormal profit and losses c) Short-run and long-run shut-down points: diagrammatic analysis

### 3.4 Market structures

Subject content	What students need to learn:
3.4.1 Efficiency	<ul style="list-style-type: none"> <li>a) Allocative efficiency</li> <li>b) Productive efficiency</li> <li>c) Dynamic efficiency</li> <li>d) X-inefficiency</li> <li>e) Efficiency/inefficiency in different market structures</li> </ul>
3.4.2 Perfect competition	<ul style="list-style-type: none"> <li>a) Characteristics of perfect competition</li> <li>b) Profit maximising equilibrium in the short run and long run</li> <li>c) Diagrammatic analysis</li> </ul>
3.4.3 Monopolistic competition	<ul style="list-style-type: none"> <li>a) Characteristics of monopolistically competitive markets</li> <li>b) Profit maximising equilibrium in the short run and long run</li> <li>c) Diagrammatic analysis</li> </ul>
3.4.4 Oligopoly	<ul style="list-style-type: none"> <li>a) Characteristics of oligopoly <ul style="list-style-type: none"> <li>o high barriers to entry and exit</li> <li>o high concentration ratio</li> <li>o interdependence of firms</li> <li>o product differentiation</li> </ul> </li> <li>b) Calculation of n-firm concentration ratios and their significance</li> <li>c) Reasons for collusive and non-collusive behaviour</li> <li>d) Overt and tacit collusion; cartels and price leadership</li> <li>e) Simple game theory: the prisoner's dilemma in a simple two firm/two outcome model</li> <li>f) Types of price competition: <ul style="list-style-type: none"> <li>o price wars</li> <li>o predatory pricing</li> <li>o limit pricing</li> </ul> </li> <li>g) Types of non-price competition</li> </ul>
3.4.5 Monopoly	<ul style="list-style-type: none"> <li>a) Characteristics of monopoly</li> <li>b) Profit maximising equilibrium</li> <li>c) Diagrammatic analysis</li> <li>d) Third degree price discrimination: <ul style="list-style-type: none"> <li>o necessary conditions</li> <li>o diagrammatic analysis</li> <li>o costs and benefits to consumers and producers</li> </ul> </li> <li>e) Costs and benefits of monopoly to firms, consumers, employees and suppliers</li> <li>f) Natural monopoly</li> </ul>

Subject content	What students need to learn:
3.4.6 Monopsony	<ul style="list-style-type: none"> <li>a) Characteristics and conditions for a monopsony to operate</li> <li>b) Costs and benefits of a monopsony to firms, consumers, employees and suppliers</li> </ul>
3.4.7 Contestability	<ul style="list-style-type: none"> <li>a) Characteristics of contestable markets</li> <li>b) Implications of contestable markets for the behaviour of firms</li> <li>c) Types of barrier to entry and exit</li> <li>d) Sunk costs and the degree of contestability</li> </ul>

### 3.5 Labour market

Subject content	What students need to learn:
3.5.1 Demand for labour	a) Factors that influence the demand for labour b) Demand for labour as a derived demand
3.5.2 Supply of labour	a) Factors that influence the supply of labour to a particular occupation b) Market failure in labour markets: the geographical and occupational mobility and immobility of labour
3.5.3 Wage determination in competitive and non-competitive markets	a) Diagrammatic analysis of labour market equilibrium b) Understanding of current labour market issues c) Government intervention in the labour market: <ul style="list-style-type: none"><li>o maximum and minimum wages</li><li>o public sector wage setting</li><li>o policies to tackle labour market immobility</li></ul> d) The significance of the elasticity of demand for labour and the elasticity of supply of labour

### 3.6 Government intervention

Subject content	What students need to learn:
<p>3.6.1</p> <p>Government intervention</p>	<p>a) Government intervention to control mergers</p> <p>b) Government intervention to control monopolies:</p> <ul style="list-style-type: none"> <li>o price regulation</li> <li>o profit regulation</li> <li>o quality standards</li> <li>o performance targets</li> </ul> <p>c) Government intervention to promote competition and contestability:</p> <ul style="list-style-type: none"> <li>o enhancing competition between firms through promotion of small business</li> <li>o deregulation</li> <li>o competitive tendering for government contracts</li> <li>o privatisation</li> </ul> <p>d) Government intervention to protect suppliers and employees:</p> <ul style="list-style-type: none"> <li>o restrictions on monopsony power of firms</li> <li>o nationalisation</li> </ul>
<p>3.6.2</p> <p>The impact of government intervention</p>	<p>a) The impact of government intervention on:</p> <ul style="list-style-type: none"> <li>o prices</li> <li>o profit</li> <li>o efficiency</li> <li>o quality</li> <li>o choice</li> </ul> <p>b) Limits to government intervention:</p> <ul style="list-style-type: none"> <li>o regulatory capture</li> <li>o asymmetric information</li> </ul>



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## Theme 4: A global perspective

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### Overview

This theme builds on the knowledge and skills gained in *Theme 2: The UK economy – performance and policies*, and applies them in a global context.

Students will need to build upon the knowledge, skills and understanding developed from Theme 2 in Theme 4, making connections across these two macroeconomic themes in Paper 2, and across Themes 1, 2, 3 and 4 in Paper 3. Teaching approaches to content must reflect this.

Students will need to apply their knowledge and understanding to both familiar and unfamiliar contexts in the assessments and demonstrate an awareness of current economic events and policies.

### Content

Students will be expected to understand the significance of globalisation, international trade, the balance of payments and exchange rates. They will examine public finance, macroeconomic policies and the role of the financial sector in a global context. Students will consider the factors influencing the growth and development of emerging and developing countries.

In examining these areas, application, analysis and evaluation of economic models is required as well as an ability to assess policies that might be used to address national and global economic challenges. Students should develop an awareness of trends in the global economy over the last 25 years through wider reading and research so that they can include relevant examples in their analysis and evaluation.

Students are encouraged to use an enquiring, critical and thoughtful approach to the study of economics and to develop an ability to think as an economist.

To develop their skills, knowledge and understanding in economics, students need to have acquired competence in quantitative skills that are relevant to and applied in the context of this theme (see *Appendix 3: Quantitative skills*).

## 4.1 International economics

Subject content	What students need to learn:
4.1.1 Globalisation	a) Characteristics of globalisation b) Factors contributing to globalisation in the last 50 years c) Impacts of globalisation and global companies on individual countries, governments, producers and consumers, workers and the environment
4.1.2 Specialisation and trade	a) Absolute and comparative advantage (numerical and diagrammatic): assumptions and limitations relating to the theory of comparative advantage b) Advantages and disadvantages of specialisation and trade in an international context
4.1.3 Pattern of trade	a) Factors influencing the pattern of trade between countries and changes in trade flows between countries: <ul style="list-style-type: none"> <li>o comparative advantage</li> <li>o impact of emerging economies</li> <li>o growth of trading blocs and bilateral trading agreements</li> <li>o changes in relative exchange rates</li> </ul>
4.1.4 Terms of trade	a) Calculation of terms of trade b) Factors influencing a country's terms of trade c) Impact of changes in a country's terms of trade
4.1.5 Trading blocs and the World Trade Organisation (WTO)	a) Types of trading blocs (regional trade agreements and bilateral trade agreements): <ul style="list-style-type: none"> <li>o free trade areas</li> <li>o customs unions</li> <li>o common markets</li> <li>o monetary unions: conditions necessary for their success with particular reference to the Eurozone</li> </ul> b) Costs and benefits of regional trade agreements c) Role of the WTO in trade liberalisation d) Possible conflicts between regional trade agreements and the WTO
4.1.6 Restrictions on free trade	a) Reasons for restrictions on free trade b) Types of restrictions on trade: <ul style="list-style-type: none"> <li>o tariffs</li> <li>o quotas</li> <li>o subsidies to domestic producers</li> <li>o non-tariff barriers</li> </ul> c) Impact of protectionist policies on consumers, producers, governments, living standards, equality

Subject content	What students need to learn:
<p>4.1.7</p> <p>Balance of payments</p>	<p>a) Components of the balance of payments:</p> <ul style="list-style-type: none"> <li>o the current account</li> <li>o the capital and financial accounts</li> </ul> <p>b) Causes of deficits and surpluses on the current account</p> <p>c) Measures to reduce a country's imbalance on the current account</p> <p>d) Significance of global trade imbalances</p>
<p>4.1.8</p> <p>Exchange rates</p>	<p>a) Exchange rate systems:</p> <ul style="list-style-type: none"> <li>o floating</li> <li>o fixed</li> <li>o managed</li> </ul> <p>b) Distinction between revaluation and appreciation of a currency</p> <p>c) Distinction between devaluation and depreciation of a currency</p> <p>d) Factors influencing floating exchange rates</p> <p>e) Government intervention in currency markets through foreign currency transactions and the use of interest rates</p> <p>f) Competitive devaluation/depreciation and its consequences</p> <p>g) Impact of changes in exchange rates:</p> <ul style="list-style-type: none"> <li>o the current account of the balance of payments (reference to Marshall-Lerner condition and J curve effect)</li> <li>o economic growth and employment/unemployment</li> <li>o rate of inflation</li> <li>o foreign direct investment (FDI) flows</li> </ul>
<p>4.1.9</p> <p>International competitiveness</p>	<p>a) Measures of international competitiveness:</p> <ul style="list-style-type: none"> <li>o relative unit labour costs</li> <li>o relative export prices</li> </ul> <p>b) Factors influencing international competitiveness</p> <p>c) Significance of international competitiveness:</p> <ul style="list-style-type: none"> <li>o benefits of being internationally competitive</li> <li>o problems of being internationally competitive</li> </ul>

## 4.2 Poverty and inequality

Subject content	What students need to learn:
4.2.1 Absolute and relative poverty	<ul style="list-style-type: none"><li>a) Distinction between absolute poverty and relative poverty</li><li>b) Measures of absolute poverty and relative poverty</li><li>c) Causes of changes in absolute poverty and relative poverty</li></ul>
4.2.2 Inequality	<ul style="list-style-type: none"><li>a) Distinction between wealth and income inequality</li><li>b) Measurements of income inequality:<ul style="list-style-type: none"><li>o the Lorenz curve (diagrammatic analysis)</li><li>o the Gini coefficient</li></ul></li><li>c) Causes of income and wealth inequality within countries and between countries</li><li>d) Impact of economic change and development on inequality</li><li>e) Significance of capitalism for inequality</li></ul>

### 4.3 Emerging and developing economies

Subject content	What students need to learn:
4.3.1 Measures of development	<ul style="list-style-type: none"><li>a) The three dimensions of the Human Development Index (HDI) (education, health and living standards) and how they are measured and combined</li><li>b) The advantages and limitations of using the HDI to compare levels of development between countries and over time</li><li>c) Other indicators of development</li></ul>
4.3.2 Factors influencing growth and development	<ul style="list-style-type: none"><li>a) Impact of economic factors in different countries:<ul style="list-style-type: none"><li>o primary product dependency</li><li>o volatility of commodity prices</li><li>o savings gap: Harrod-Domar model</li><li>o foreign currency gap</li><li>o capital flight</li><li>o demographic factors</li><li>o debt</li><li>o access to credit and banking</li><li>o infrastructure</li><li>o education/skills</li><li>o absence of property rights</li></ul></li><li>b) Impact of non-economic factors in different countries</li></ul>

Subject content	What students need to learn:
<p>4.3.3 Strategies influencing growth and development</p>	<p>a) Market-orientated strategies:</p> <ul style="list-style-type: none"> <li>o trade liberalisation</li> <li>o promotion of FDI</li> <li>o removal of government subsidies</li> <li>o floating exchange rate systems</li> <li>o microfinance schemes</li> <li>o privatisation</li> </ul> <p>b) Interventionist strategies:</p> <ul style="list-style-type: none"> <li>o development of human capital</li> <li>o protectionism</li> <li>o managed exchange rates</li> <li>o infrastructure development</li> <li>o promoting joint ventures with global companies</li> <li>o buffer stock schemes</li> </ul> <p>c) Other strategies:</p> <ul style="list-style-type: none"> <li>o industrialisation: the Lewis model</li> <li>o development of tourism</li> <li>o development of primary industries</li> <li>o Fairtrade schemes</li> <li>o aid</li> <li>o debt relief</li> </ul> <p>d) Awareness of the role of international institutions and non-government organisations (NGOs):</p> <ul style="list-style-type: none"> <li>o World Bank</li> <li>o International Monetary Fund (IMF)</li> <li>o NGOs</li> </ul>

#### 4.4 The financial sector

Subject content	What students need to learn:
4.4.1 Role of financial markets	a) To facilitate saving b) To lend to businesses and individuals c) To facilitate the exchange of goods and services d) To provide forward markets in currencies and commodities e) To provide a market for equities
4.4.2 Market failure in the financial sector	a) Consideration of: <ul style="list-style-type: none"><li>o asymmetric information</li><li>o externalities</li><li>o moral hazard</li><li>o speculation and market bubbles</li><li>o market rigging</li></ul>
4.4.3 Role of central banks	a) Key functions of central banks: <ul style="list-style-type: none"><li>o implementation of monetary policy</li><li>o banker to the government</li><li>o banker to the banks – lender of last resort</li><li>o role in regulation of the banking industry</li></ul>

## 4.5 Role of the state in the macroeconomy

Subject content	What students need to learn:
4.5.1 Public expenditure	<ul style="list-style-type: none"> <li>a) Distinction between capital expenditure, current expenditure and transfer payments</li> <li>b) Reasons for the changing size and composition of public expenditure in a global context</li> <li>c) The significance of differing levels of public expenditure as a proportion of GDP on: <ul style="list-style-type: none"> <li>o productivity and growth</li> <li>o living standards</li> <li>o crowding out</li> <li>o level of taxation</li> <li>o equality</li> </ul> </li> </ul>
4.5.2 Taxation	<ul style="list-style-type: none"> <li>a) Distinction between progressive, proportional and regressive taxes</li> <li>b) The economic effects of changes in direct and indirect tax rates on other variables: <ul style="list-style-type: none"> <li>o incentives to work</li> <li>o tax revenues: the Laffer curve</li> <li>o income distribution</li> <li>o real output and employment</li> <li>o the price level</li> <li>o the trade balance</li> <li>o FDI flows</li> </ul> </li> </ul>
4.5.3 Public sector finances	<ul style="list-style-type: none"> <li>a) Distinction between automatic stabilisers and discretionary fiscal policy</li> <li>b) Distinction between a fiscal deficit and the national debt</li> <li>c) Distinction between structural and cyclical deficits</li> <li>d) Factors influencing the size of fiscal deficits</li> <li>e) Factors influencing the size of national debts</li> <li>f) The significance of the size of fiscal deficits and national debts</li> </ul>



Subject content	What students need to learn:
<p>4.5.4 Macroeconomic policies in a global context</p>	<p>a) Use of fiscal policy, monetary policy, exchange rate policy, supply-side policies and direct controls in different countries, with specific reference to the impact of:</p> <ul style="list-style-type: none"> <li>o measures to reduce fiscal deficits and national debts</li> <li>o measures to reduce poverty and inequality</li> <li>o changes in interest rates and the supply of money</li> <li>o measures to increase international competitiveness</li> </ul> <p>b) Use and impact of macroeconomic policies to respond to external shocks to the global economy</p> <p>c) Measures to control global companies' (transnationals') operations:</p> <ul style="list-style-type: none"> <li>o the regulation of transfer pricing</li> <li>o limits to government ability to control global companies</li> </ul> <p>d) Problems facing policymakers when applying policies:</p> <ul style="list-style-type: none"> <li>o inaccurate information</li> <li>o risks and uncertainties</li> <li>o inability to control external shocks</li> </ul>



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# Assessment

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## Assessment summary

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### Summary of table of assessment

Students must complete all assessment in May/June in any single year.

#### Paper 1: Markets and business behaviour

\*Paper code: 9ECO/01

- Each question is set in a context, drawing on topics from across Themes 1 and 3.
- The paper comprises three sections. Students answer all questions from Section A and Section B, and one from Section C.
- Section A comprises a range of multiple-choice and short-answer questions.
- Section B comprises one data response question broken down into a number of parts.
- Section C comprises a choice of extended open-response questions; students select one from a choice of two.
- First assessment: May/June 2017.
- The assessment is 2 hours.
- The assessment comprises 7 questions.
- The assessment comprises 100 marks.

**35% of the  
total  
qualification**

#### Paper 2: The national and global economy

\*Paper code: 9ECO/02

- Each question is set in a context, drawing on topics from across Themes 2 and 4.
- The paper comprises three sections. Students answer all questions from Section A and Section B, and one from Section C.
- Section A comprises a range of multiple-choice and short-answer questions.
- Section B comprises one data response question broken down into a number of parts.
- Section C comprises a choice of extended open-response questions; students select one from a choice of two.
- First assessment: May/June 2017.
- The assessment is 2 hours.
- The assessment comprises 7 questions.
- The assessment comprises 100 marks.

**35% of the  
total  
qualification**

**Paper 3: Microeconomics and Macroeconomics****\*Paper code: 9ECO/03**

- Each question is set in a context, drawing on topics from across Themes 1, 2, 3 and 4.
- The paper comprises two sections.
- Each section comprises one data response question broken down into a number of parts, including a choice of extended open-response questions; students select one from a choice of two.
- First assessment: May/June 2017.
- The assessment is 2 hours.
- The assessment comprises 2 questions.
- The assessment comprises 100 marks.

**30% of the  
total  
qualification**

The sample assessment materials can be found in the *Pearson Edexcel Level 3 Advanced GCE in Economics A Sample Assessment Materials* document.

\*See *Appendix 4: Codes* for a description of this code and all other codes relevant to this qualification.

## Assessment Objectives and weightings

Students must:		% in GCE
<b>AO1</b>	Demonstrate knowledge of terms/concepts and theories/models to show an understanding of the behaviour of economic agents and how they are affected by and respond to economic issues	22-24
<b>AO2</b>	Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues	22-24
<b>AO3</b>	Analyse issues within economics, showing an understanding of their impact on economic agents	26-28
<b>AO4</b>	Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues	26-28
<b>Total</b>		<b>100%</b>

## Breakdown of Assessment Objectives

Paper	Assessment Objectives				Total for all assessment objectives
	AO1	AO2	AO3	AO4	
Paper 1: Markets and business behaviour	7 - 9%	7 - 9%	7 - 9%	7 - 9%	35%
Paper 2: The national and global economy	7 - 9%	7 - 9%	7 - 9%	7 - 9%	35%
Paper 3: Microeconomics and macroeconomics	6 - 8%	6 - 8%	8 - 10%	8 - 10%	30%
<b>Total for this qualification</b>	<b>22 - 24%</b>	<b>22 - 24%</b>	<b>26 - 28%</b>	<b>26 - 28%</b>	<b>100%</b>

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## Entry and assessment information

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### Student entry

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Details of how to enter students for the examinations for this qualification can be found in our *UK Information Manual*. A copy is made available to all examinations officers and is available on our website at: [www.edexcel.com/iwantto/Pages/uk-information-manual.aspx](http://www.edexcel.com/iwantto/Pages/uk-information-manual.aspx)

### Forbidden combinations and discount code

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Centres should be aware that students who enter for more than one GCE qualification with the same discount code will have only one of the grades they achieve counted for the purpose of the School and College Performance Tables – normally the better grade (please see *Appendix 4: Codes*).

Students should be advised that, if they take two qualifications with the same discount code, colleges, universities and employers are very likely to take the view that they have achieved only one of the two GCEs. The same view may be taken if students take two GCE qualifications that have different discount codes but have significant overlap of content, for example Advanced or Advanced Subsidiary GCEs in Business. Students or their advisers who have any doubts about their subject combinations should check with the institution to which they wish to progress before embarking on their programmes.

This qualification is a forbidden combination with the Advanced Subsidiary GCE in Economics B or Advanced GCE in Economics B qualifications.

## **Access arrangements, reasonable adjustments and special consideration**

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### **Access arrangements**

Access arrangements are agreed before an assessment. They allow students with special educational needs, disabilities or temporary injuries to:

- access the assessment
- show what they know and can do without changing the demands of the assessment.

The intention behind an access arrangement is to meet the particular needs of an individual disabled student without affecting the integrity of the assessment. Access arrangements are the principal way in which awarding bodies comply with the duty under the Equality Act 2010 to make 'reasonable adjustments'.

Access arrangements should always be processed at the start of the course. Students will then know what is available and have the access arrangement(s) in place for assessment.

### **Reasonable adjustments**

The Equality Act 2010 requires an awarding organisation to make reasonable adjustments where a person with a disability would be at a substantial disadvantage in undertaking an assessment. The awarding organisation is required to take reasonable steps to overcome that disadvantage.

A reasonable adjustment for a particular person may be unique to that individual and therefore might not be in the list of available access arrangements.

Whether an adjustment will be considered reasonable will depend on a number of factors, which will include:

- the needs of the student with the disability
- the effectiveness of the adjustment
- the cost of the adjustment; and
- the likely impact of the adjustment on the student with the disability and other students.

An adjustment will not be approved if it involves unreasonable costs to the awarding organisation, timeframes or affects the security or integrity of the assessment. This is because the adjustment is not 'reasonable'.



### Special consideration

Special consideration is a post-examination adjustment to a student's mark or grade to reflect temporary injury, illness or other indisposition at the time of the examination/assessment, which has had, or is reasonably likely to have had, a material effect on a candidate's ability to take an assessment or demonstrate his or her level of attainment in an assessment.

### Further information

Please see our website for further information about how to apply for access arrangements and special consideration.

For further information about access arrangements, reasonable adjustments and special consideration, please refer to the JCQ website: [www.jcq.org.uk](http://www.jcq.org.uk).

## Equality Act 2010 and Pearson equality policy

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Equality and fairness are central to our work. Our equality policy requires all students to have equal opportunity to access our qualifications and assessments, and our qualifications to be awarded in a way that is fair to every student.

We are committed to making sure that:

- students with a protected characteristic (as defined by the Equality Act 2010) are not, when they are undertaking one of our qualifications, disadvantaged in comparison to students who do not share that characteristic
- all students achieve the recognition they deserve for undertaking a qualification and that this achievement can be compared fairly to the achievement of their peers.

You can find details on how to make adjustments for students with protected characteristics in the policy document *Access Arrangements, Reasonable Adjustments and Special Considerations*, which is on our website, [www.edexcel.com/Policies](http://www.edexcel.com/Policies).

## Synoptic assessment

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Synoptic assessment requires students to work across different parts of a qualification and to show their accumulated knowledge and understanding of a topic or subject area.

Synoptic assessment enables students to show their ability to combine their skills, knowledge and understanding with breadth and depth of the subject.

In this qualification, synoptic assessment can be found in *Paper 3: Microeconomics and macroeconomics*.

## **Awarding and reporting**

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This qualification will be graded, awarded and certificated to comply with the requirements of the current Code of Practice, published by the Office of Qualifications and Examinations Regulation (Ofqual).

The Advanced GCE qualification will be graded and certificated on a six-grade scale from A\* to E using the total subject mark. Individual papers are not graded.

The first certification opportunity for the Pearson Edexcel Level 3 Advanced GCE in Economics A will be 2017.

Students whose level of achievement is below the minimum judged by Pearson to be of sufficient standard to be recorded on a certificate will receive an unclassified U result.

## **Language of assessment**

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Assessment of this qualification will be available in English. All student work must be in English.

## **Grade descriptions**

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The grade descriptions for this qualification are published by Ofqual and will be available on their website.

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## Other information

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### Student recruitment

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Pearson follows the JCQ policy concerning recruitment to our qualifications in that:

- they must be available to anyone who is capable of reaching the required standard
- they must be free from barriers that restrict access and progression
- equal opportunities exist for all students.

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### Prior learning and other requirements

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There are no prior learning or other requirements for this qualification.

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### Progression

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Students will develop transferable skills that support study in a wide range of subjects at university and the transition to employment, including quantitative and analytical analysis, forming and testing hypotheses, and commercial awareness. The development and application of quantitative skills prepare students for study of economics and related courses at university.

Students can progress from this qualification to:

- higher education courses such as economics degrees with a focus on theory, or degrees in applied economics such as environmental economics, labour economics, public sector economics or monetary economics. Alternatively, students may choose to study a business economics, mathematical economics or business degree
- a wide range of careers ranging from finance, banking, insurance, accountancy, management and consultancy, to becoming professional economists.



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# Appendix 1: Transferable skills

## The need for transferable skills

In recent years, higher education institutions and employers have consistently flagged the need for students to develop a range of transferable skills to enable them to respond with confidence to the demands of undergraduate study and the world of work.

The Organisation for Economic Co-operation and Development (OECD) defines skills, or competencies, as 'the bundle of knowledge, attributes and capacities that can be learned and that enable individuals to successfully and consistently perform an activity or task and can be built upon and extended through learning.'<sup>1</sup>

To support the design of our qualifications, the Pearson Research Team selected and evaluated seven global 21st-century skills frameworks. Following on from this process, we identified the National Research Council's (NRC) framework as the most evidence-based and robust skills framework. We adapted the framework slightly to include the Program for International Student Assessment (PISA) ICT Literacy and Collaborative Problem Solving (CPS) Skills.

The adapted National Research Council's framework of skills involves:<sup>2</sup>

### Cognitive skills

- **Non-routine problem solving** – expert thinking, metacognition, creativity.
- **Systems thinking** – decision making and reasoning.
- **Critical thinking** – definitions of critical thinking are broad and usually involve general cognitive skills such as analysing, synthesising and reasoning skills.
- **ICT literacy** - access, manage, integrate, evaluate, construct and communicate<sup>3</sup>.

### Interpersonal skills

- **Communication** – active listening, oral communication, written communication, assertive communication and non-verbal communication.
- **Relationship-building skills** – teamwork, trust, intercultural sensitivity, service orientation, self-presentation, social influence, conflict resolution and negotiation.
- **Collaborative problem solving** – establishing and maintaining shared understanding, taking appropriate action, establishing and maintaining team organisation.

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<sup>1</sup> OECD (2012), Better Skills, Better Jobs, Better Lives (2012): <http://skills.oecd.org/documents/OECDSkillsStrategyFINALENG.pdf>

<sup>2</sup> Koenig, J. A. (2011) Assessing 21st Century Skills: Summary of a Workshop, National Research Council

<sup>3</sup> PISA (2011) The PISA Framework for Assessment of ICT Literacy, PISA

### **Intrapersonal skills**

- **Adaptability** – ability and willingness to cope with the uncertain, handling work stress, adapting to different personalities, communication styles and cultures, and physical adaptability to various indoor and outdoor work environments.
- **Self-management and self-development** – ability to work remotely in virtual teams, work autonomously, be self-motivating and self-monitoring, willing and able to acquire new information and skills related to work.

Transferable skills enable young people to face the demands of further and higher education, as well as the demands of the workplace, and are important in the teaching and learning of this qualification. We will provide teaching and learning materials, developed with stakeholders, to support our qualifications.



## Appendix 2: Level 3 Extended Project qualification

### What is the Extended Project?

The Extended Project is a standalone qualification that can be taken alongside GCEs. It supports the development of independent learning skills and helps to prepare students for their next step – whether that be university study or employment. The qualification:

- is recognised by universities for the skills it develops
- is worth half of an Advanced GCE qualification at grades A\*–E
- carries UCAS points for university entry.

The Extended Project encourages students to develop skills in the following areas: research, critical thinking, extended writing and project management. Students identify and agree a topic area of their choice (which may or may not be related to a GCE subject they are already studying), guided by their teacher.

Students can choose from one of four approaches to produce:

- a dissertation (for example, an investigation based on predominately secondary research)
- an investigation/field study (for example, a practical experiment)
- a performance (for example, in music, drama or sport)
- an artefact (for example, a creating a sculpture in response to a client brief or solving an engineering problem).

The qualification is coursework based and students are assessed on the skills of managing, planning and evaluating their project. Students will research their topic, develop skills to review and evaluate the information, and then present the final outcome of their project.

### Students: what they need to do

The Extended Project qualification requires students to:

- select a topic of interest for an in-depth study and negotiate the scope of the project with their teacher
- identify and draft an objective for their project (for example, in the form of a question, hypothesis, challenge, outline of proposed performance, issue to be investigated or commission for a client) and provide a rationale for their choice
- produce a plan for how they will deliver their intended objective
- conduct research as required by the project brief, using appropriate techniques
- carry out the project using tools and techniques safely
- share the outcome of the project using appropriate communication methods, including a presentation.

### **Teachers: key information**

- The Extended Project has 120 guided learning hours (GLH) consisting of:
  - a 40-GLH taught element that includes teaching the technical skills (for example, research skills)
  - an 80-GLH guided element that includes mentoring students through the project work.
- Group work is acceptable, however it is important that each student provides evidence of their own contribution and produces their own report.
- 100% externally moderated.
- Four Assessment Objectives: manage, use resources, develop and realise, review.
- Can be run over 1, 1½ or 2 years.
- Can be submitted in January or June.

### **What is the Extended Project for Economics?**

The Extended Project creates the opportunity to develop transferable skills for progression to higher education and to the workplace, through the exploration of either an area of personal interest or a topic of interest within the Economics qualification content. Through the study of this Economics qualification, students will develop knowledge and understanding of economic concepts and issues; apply these concepts and issues to real world contexts; then analyse and evaluate these concepts and issues.

### **Skills developed**

Through the Extended Project, students will develop skills in:

- conducting, organising and using research
- independent reading in the subject area
- planning, project management and time management
- defining a hypothesis to be tested in investigations or developing a design brief
- collecting, handling and interpreting data and evidence
- evaluating arguments and processes, including arguments in favour of alternative interpretations of data and evaluation of experimental methodology
- critical thinking.

In the context of the Extended Project, critical thinking refers to the ability to identify and develop arguments for a point of view or hypothesis and to consider and respond to alternative arguments. This supports the development of evaluative skills, through evaluating economic arguments, and using qualitative and quantitative evidence to support informed judgements relating to economic issues.

The Extended Project is an ideal vehicle to develop the skills identified in

*Appendix 1.*

## Types of Extended Project

Students may choose a university-style dissertation on any topic that can be researched and argued, for example:

- a controversial economic issue such as UK membership of the EU
- High Speed rail (HS2)
- the government's role in reducing pollution.

A dissertation might involve an investigation such as:

- Is fair trade actually fair?
- Does income inequality help or harm economic growth?
- Taxing wealth is less harmful than taxing income or spending.

The dissertation uses secondary research sources to provide a reasoned defence or a point of view, with consideration of counter arguments.

An alternative might be an investigative project or field study involving the collection of data from primary research, for example:

- a study of the impact of unemployment on the local community
- a statistical survey of attitudes concerning a social issue such as alcohol or drug use.

A field study might consider an issue which lends itself to primary research, for example:

- the impact of peer pressure on teenage mobile phone purchasing
- an investigation into whether teenage binge drinking is a supply-side not a demand-side problem.

## Using the Extended Project to support breadth and depth

There is no specified material that students are expected to study and, in the Extended Project, students are assessed on the quality of the work they produce and the skills they develop and demonstrate through completing this work. Students can use the Extended Project to demonstrate *extension* in one or more dimensions:

- **deepening understanding:** where a student explores a topic in greater depth than in the specification content
- **broadening skills:** where a student learns a new skill. This might be learning how to design a website or learning a new statistical technique which can be used in the analysis of either primary or secondary data collected by the student
- **widening perspectives:** where the student's project spans different subjects. A student studying Economics with History may wish to research the influence of an economic thinker such as Keynes or Hayek. A student studying Economics with Geography may wish to research the economic development of a particular country or the impact of an industry on the landscape. A student studying Economics with Mathematics may wish to use statistical techniques to analyse macroeconomic data and research one aspect of the economy in more detail. A student studying Economics with Psychology may wish to conduct an experiment into economic behaviour.

A wide range of information to support the delivery and assessment of the Extended Project, including the specification, teacher guidance for all aspects, editable scheme of work and exemplars for all four approaches, can be found on our website [www.edexcel.com/project](http://www.edexcel.com/project)



## Appendix 3: Quantitative skills

This appendix is taken from the DfE Subject Content for Economics.

Throughout the course of study, students will develop competence in the quantitative skills listed below. There are opportunities for students to develop these skills throughout the content and they are required to apply the skills to relevant economic contexts.

The assessment of quantitative skills will include at least Level 2 mathematical skills and quantitative skills 1 to 9 will constitute a minimum of 20% of the overall marks for this qualification.

Quantitative skill number	Quantitative skill
QS 1	calculate, use and understand ratios and fractions
QS 2	calculate, use and understand percentages, percentage changes and percentage point changes
QS 3	understand and use the terms mean, median and relevant quantiles
QS 4	construct and interpret a range of standard graphical forms
QS 5	calculate and interpret index numbers
QS 6	calculate cost, revenue and profit (marginal, average, totals)
QS 7	make calculations to convert from money to real terms
QS 8	make calculations of elasticity and interpret the result
QS 9	interpret, apply and analyse information in written, graphical tabular and numerical forms
QS 10	distinguish between changes in the level of a variable, and the rate of change
QS 11	understand composite indicators
QS 12	understand the meaning of seasonally adjusted figures



## Appendix 4: Codes

Type of code	Use of code	Code number
Discount codes	Every qualification is assigned to a discount code indicating the subject area to which it belongs. This code may change. Please go to our website ( <a href="http://www.edexcel.com">www.edexcel.com</a> ) for details of any changes.	4410
National Qualifications Framework (NQF) codes	Each qualification title is allocated an Ofqual National Qualifications Framework (NQF) code. The NQF code is known as a Qualification Number (QN). This is the code that features in the DfE Section 96 and on the LARA as being eligible for 16–18 and 19+ funding, and is to be used for all qualification funding purposes. The QN is the number that will appear on the student's final certification documentation.	The QN for the qualification in this publication is: Advanced GCE – 601/4105/0
Subject codes	The subject code is used by centres to enter students for a qualification. Centres will need to use the entry codes only when claiming students' qualifications.	GCE – 9EC0
Paper code	These codes are provided for reference purposes. Students do not need to be entered for individual papers.	Paper 1: 9EC0/01 Paper 2: 9EC0/02 Paper 3: 9EC0/03

For more information about Edexcel or BTEC qualifications from Pearson, visit [www.edexcel.com](http://www.edexcel.com) or [www.btec.co.uk](http://www.btec.co.uk)

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