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Marginal, average and total costs
Difference between short-run and long-run costs
Reasons for the shape of the marginal, average and total cost curves
How factor prices and productivity affect firms’ costs of production and their choice of factor inputs
Difference between internal and external economies of scale
Reasons for diseconomies of scale
Relationship between returns to scale and economies or diseconomies of scale
Relationship between economies of scale, diseconomies of scale and the shape of the long-run average cost curve
L-shaped long-run average cost curve
Concept of the minimum efficient scale of production
Marginal, average and total revenue
Difference between marginal, average and total revenue
Relationship between average and marginal revenue
Relationship between marginal revenue and total revenue
Profit
Difference between normal and abnormal (supernormal) profit
Role of profit in a market economy

Technological change
Difference between invention and innovation
Impact of technological change on methods of production, productivity, efficiency and firms’ costs of production
Impact of technological change on development of new products and markets
Impact of technological change on the structure of markets

Perfect competition, imperfectly competitive markets and monopoly

Market structures and business objectives
Market structures
Spectrum of competition
Profit-maximising rule (MC=MR)
Reasons for and the consequences of a divorce of ownership from control
The satisficing principle
Diagrammatic analysis of the perfectly competitive model in the short and long run
Perfect competition and economic efficiency
Diagrammatic analysis of the monopolistically competitive model in the short and long run
Main characteristics of monopolistically competitive markets
Monopolistic competition and economic efficiency
Importance of non-price competition
Main characteristics of oligopolistic markets
Concentration ratios and how to calculate a concentration ratio
Difference between collusive and non-collusive oligopoly
Difference between cooperation and collusion
Kinked demand curve model
Significance of interdependence and uncertainty in oligopoly
Advantages and disadvantages of oligopoly
Diagrammatic analysis of the monopoly model
Barriers to entry in markets

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Advantages and disadvantages of monopoly

Conditions necessary for price discrimination

Advantages and disadvantages of price discrimination

Dynamics of competition and competitive market processes

Difference between static efficiency and dynamic efficiency

Conditions required for productive efficiency (minimising average total costs) and allocative efficiency (price = marginal cost)

Dynamic efficiency (research and development, investment in human and non-human capital and technological change)

Short-run and long-run benefits which are likely to result from competition

Process of creative destruction

Consumer and producer surplus

Significance of market contestability for the performance of an industry

Concepts such as sunk costs and hit-and-run competition

The Labour Market

Marginal productivity theory of the demand for labour

Causes of shifts in the demand curve for labour

Determinants of the elasticity of demand for labour

Influences upon the supply of labour to different markets

Causes of shifts in the market supply curve for labour

Determination of relative wage rates and levels of employment in perfectly competitive labour markets

Determination of relative wage rates and levels of employment in imperfectly competitive labour markets

Monopsony power in the labour market

Influence of trade unions in determining wages and levels of employment

Effects of a national minimum wage upon labour markets

Advantages and disadvantages of a national minimum wage

Discrimination in the labour market

Distribution of income and wealth: poverty and inequality

Difference between income and wealth

Factors which influence the distribution of income and wealth

Difference between equality and equity in relation to the distribution of income and wealth

Lorenz curve and Gini coefficient

Likely benefits and costs of more equal and more unequal distributions

Difference between relative and absolute poverty

Causes and effects of poverty

Policies to influence the distribution of income and wealth and to alleviate poverty

Economic consequences of such policies

Market mechanism, market failure and government intervention in markets

Rationing, incentive and signalling functions of prices

Advantages and disadvantages of the price mechanism

Meaning of market failure

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Difference between complete market failure and partial market failure
Public goods, private goods and quasi-public goods
Difference between a public good and a private good
Quasi-public goods
Significance of technological change on the nature of public goods
Free-rider problem
Tragedy of the commons
Positive and negative externalities in consumption and production
Externalities and divergence between private and social costs & benefits
Positive externalities from consumption
Positive externalities from production
Negative externalities from consumption
Negative externalities from production
Externalities and net welfare loss
Merit and demerit goods
Importance of value judgements
Merit goods and positive externalities from consumption
Imperfect information and merit goods
De-merit goods and negative externalities from consumption
Imperfect information and de-merit goods
Why imperfect and asymmetric information can lead to market failure
Why the existence of monopoly and monopoly power can lead to market failure
Why the immobility of factors of production can lead to market failure
Principles of UK competition policy and EU competition policy
Costs and benefits of such policies
Arguments for and against public ownership of firms and industries
Arguments for and against the privatisation of state-owned enterprises
Arguments for and against the regulation of markets
Arguments for and against the deregulation of markets
Problem of regulatory capture
Interventions to address market failure(s)
Indirect taxation
Subsidies
Price controls
State provision and regulation
Extension of property rights and pollution permits to correct market failure
Causes of government failure
The national and international economy
Measurement of macroeconomic performance & macroeconomic objectives
Objectives of government macroeconomic policy
Possibility of conflict arising, at least in the short run, when attempting to achieve these objectives
How index numbers are calculated and interpreted, including the base year and the use of weights
How index numbers are used to measure changes in the price level and changes in other economic variables
Use and limitations of national income data to assess changes in living standards over time
Use and limitations of national income data to compare differences in living standards between countries
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Importance of using purchasing power parity (PPP) exchange rates when making international comparisons of living standards

How the macroeconomy works: the circular flow of income, aggregate demand / aggregate supply analysis and related concepts

What national income measures
Difference between nominal and real income
Real national income as an indicator of economic performance
Circular flow of income concept, the equation income = output = expenditure
Injections and withdrawals into the circular flow of income
Effect of changes in injections and withdrawals on national income
What is meant by AD
Determinants of AD (consumption, investment, government spending, exports and imports)
Basic accelerator process
Determinants of savings
Difference between saving and investment
Role of AD in influencing the level of economic activity
Multiplier process
Concept of the marginal propensity to consume and use to calculate the size of the multiplier
Determinants of short-run aggregate supply
Determinants of long-run aggregate supply
Keynesian AS curve
Using AD/AS diagrams to illustrate macroeconomic equilibrium

Economic performance

The difference between short-run and long-run growth
Demand-side and supply-side determinants of short-run growth of real national income
Determinants of long-run trend rate of economic growth
Costs and benefits of economic growth
Impact of growth on individuals, the economy and the environment
Concept of the economic cycle and cyclical indicators
Positive and negative output gaps
Causes of changes in the phases of the economic cycle, including internal and external shocks
Main UK measures of unemployment, ie the claimant count and Labour Force Survey measure
Voluntary and involuntary unemployment
Seasonal, frictional, structural and cyclical unemployment
Demand and supply-side causes of unemployment
Factors which determine, real wage unemployment
Factors which determine, the natural rate of unemployment
Consequences of unemployment for individuals and for the performance of the economy
Concepts of inflation, deflation and disinflation
Demand-pull and cost-push influences on the price level
Fisher’s equation of exchange $MV = PQ$ and Quantity Theory of Money in relation to the monetarist model

- Effects of expectations on changes in the price level
- Consequences of inflation for both individuals and the performance of the economy
- Consequences of deflation for both individuals and the performance of the economy
- How changes in world commodity prices affect domestic inflation
- How changes in other economies can affect inflation in the UK
- Possible conflicts between macroeconomic policy objectives
- How negative and positive output gaps relate to unemployment and inflationary pressures
- Short-run Phillips curve and the long-run, L-shaped Phillips curve
- Implications of the short-run Phillips curve and the long-run, L-shaped Phillips curve for economic policy
- Policies to reconcile possible policy conflicts both in the short run and the long run

Financial markets and monetary policy

- Structure of financial markets and financial assets
- Characteristics and functions of money
- Definitions of the money supply
- Difference between money market, capital market and foreign exchange market
- Roles of financial markets in the wider economy
- Difference between debt and equity
- Inverse relationship between market interest rates and bond prices
- Commercial banks and investment banks
- Difference between a commercial bank and an investment bank
- Main functions of a commercial bank
- Structure of a commercial bank’s balance sheet
- Objectives of a commercial bank, ie liquidity, profitability, security
- Potential conflicts between objectives of commercial banks
- How banks create credit
- Main functions of a central bank
- Objectives of monetary policy set by the government
- Role of the Monetary Policy Committee of the Bank of England (MPC)
- Factors considered by the MPC when setting the bank (interest) rate
- How changes in the exchange rate affect AD and macroeconomic policy objectives
- Monetary policy transmission mechanism
- How the Bank of England can influence the growth of the money supply
- Roles of Prudential Regulation Authority (PRA), Financial Policy Committee (FPC) and Financial Conduct Authority (FCA)
- Why banks fail
- Liquidity ratios and capital ratios
- Moral hazard
- Systemic risk and the impact of financial instability on the real economy

Fiscal policy and supply-side policies

- How fiscal policy can be used to influence aggregate demand
How fiscal policy can be used to influence aggregate supply
How government spending and taxation can affect the pattern of economic activity
Types of and reasons for public expenditure
Why governments levy taxes
Difference between direct and indirect taxes
Difference between progressive, proportional and regressive taxes
Principles of taxation
Role and relative merits of different UK taxes
Relationship between the budget balance and the national debt
Cyclical and structural budget deficits and surpluses
Consequences of budget deficits and surpluses for macroeconomic performance
Significance of the size of the national debt
Role of the Office for Budget Responsibility
Difference between supply-side policies and supply-side improvements in the economy
How supply-side policies can help to achieve supply-side improvements in the economy
Role of supply-side policies in addressing conflicts between macro objectives
Role of supply-side policies in improving the current account of the balance of payments
Role of supply-side policies in reducing the natural rate of unemployment
Free market supply-side policies
Interventionist supply-side policies
Microeconomic effects of supply-side economic policies

The international economy

Causes of globalisation
Characteristics of globalisation
Consequences of globalisation for less-developed and for more-developed countries
Role of multinational corporations in globalisation
Model of comparative advantage
Distinction between comparative and absolute advantage
Wider benefits from international trade
Costs of international trade
Reasons for changes in the pattern of trade between UK and rest of the world
Protectionist policies, such as: tariffs, quotas and export subsidies
Causes and consequences of countries adopting protectionist policies
Features of a customs union
Characteristics of the Single European Market (SEM)
Consequences for the UK of membership of European Union (EU)
Role of the World Trade Organisation (WTO)
Difference between the current, capital and financial accounts on the balance of payments
Meaning of a deficit and a surplus on the current account
Factors that influence a country’s current account balance
Consequences of investment flows between countries
Policies to correct a balance of payments deficit or surplus
Expenditure-switching and expenditure-reducing policies

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Effect policies to correct a deficit or surplus may have on other policy objectives

Significance of deficits and surpluses for an individual economy

Implications of trade imbalances in the world economy

How exchange rates are determined in freely floating exchange rate systems

How governments can intervene to influence the exchange rate

Advantages and disadvantages of fixed and floating exchange rate systems

Advantages and disadvantages for a country of joining a currency union, e.g. the euro zone

Difference between growth and development

Characteristics of less-developed economies

Indicators of development, including Human Development Index (HDI)

Factors that affect growth and development

Barriers to growth and development

Policies to promote economic growth and development

Role of aid and trade in promoting growth and development

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