

EDEXCEL A LEVEL ECONOMICS (A)

SPECIFICATION CHECKLIST

Theme 1: Introduction to Markets and Market Failure

The Economic Problem

- ☐ Assumptions in economics
- ☐ Positive and normative economic statements
- ☐ The problem of scarcity
- ☐ Renewable and non-renewable resources
- ☐ Opportunity cost
- ☐ Production possibility frontiers
- ☐ Specialisation and the division of labour
- ☐ Functions of money
- ☐ Free market economies, mixed economy and command economy

How Markets Work

- ☐ Rational decision making
- ☐ Utility maximisation
- ☐ Theory of demand
- ☐ Price elasticity of demand
- ☐ Income elasticity of demand
- ☐ Cross price elasticity of demand
- ☐ Theory of supply
- ☐ Elasticity of supply
- ☐ Price determination
- ☐ Functions of the price mechanism
- ☐ Consumer and producer surplus
- ☐ Alternative views of consumer behaviour

Market Failure

- ☐ Negative Externalities
- ☐ Positive Externalities
- ☐ Public goods
- ☐ Information gaps

Government intervention and government failure

- ☐ Indirect taxation (ad valorem and specific)
- ☐ Subsidies
- ☐ Minimum prices
- ☐ Maximum prices
- ☐ Tradeable pollution permits
- ☐ State provision of public goods
- ☐ Provision of information
- ☐ Regulation
- ☐ Government failure

Theme 2: The UK Economy – Performance and Policies

Economic Growth

- Real and nominal GDP
- GDP and GNI
- Understanding of Purchasing Power Parities
- Limitations of GDP when measuring living standards
- Economic well-being and happiness

Inflation

- Process of calculating the rate of inflation using CPI
- Limitations of CPI as a measure of inflation
- Causes of inflation (demand-pull, cost-push, money supply)
- Effects of inflation on consumers, firms, the government and workers
- Disinflation and deflation (causes, effects, policies)

Unemployment

- Measures of unemployment
- Under-employment
- Economic inactivity
- Causes of unemployment
- Significance of migration and skills for employment & unemployment
- Effects of unemployment on consumers, firms, workers, the government and society

Balance of payments

- Trade in goods and services
- Components of the balance of payments on current account
- Current account deficits and surpluses

- Relationships between current account and other macro objectives

Aggregate demand

- Components of AD: $C+I+G+(X-M)$
- AD curve - movements along and shifts of AD curve
- Consumption - factors affecting
- Investment - factors affecting
- Government expenditure (G)
- Net trade (X-M)

Aggregate supply

- The characteristics of AS
- The characteristics of AS
- The AS curve - distinction between movement along, and a shift of, the AS curve
- Short-run AS - factors influencing SRAS
- Long-run AS- factors influencing LRAS
- Keynesian and classical LRAS curves

National Income

- Circular flow of income
- Injections and withdrawals
- Equilibrium levels of real national output
- Use of AD/AS diagrams to show how shifts in AD or AS cause changes in real GDP and prices
- The multiplier - ratio, process
- Calculations of the multiplier using the formulae $1/(1-MPC)$ and $1/MPW$, where $MPW=MPS+MPT+MPM$

Economic Growth and Cycles

- Causes of economic growth
- Output gaps
- Trade (business) cycle

- The impact of economic growth - benefits and costs

Demand-side Policies

- Monetary policy instruments
- Quantitative Easing
- Fiscal policy instruments
- Distinction between government budget (fiscal) deficit and surplus
- Use of AD/AS diagrams to illustrate demand-side policies
- Awareness of demand-side policies in the Great Depression and the Global Financial Crisis of 2008

Supply-side Policies

- Distinction between market-based and interventionist methods
- Use of AD/AS diagrams to illustrate supply-side policies
- Strengths and weaknesses of supply-side policies

Conflicts and trade-offs between objectives and policies

- Potential conflicts and trade-offs between the macroeconomic objectives
- Short-run Phillips curve

Theme 3: Business Behaviour and the Labour Market

Businesses and Growth

- Sizes and types of firms
- Divorce between ownership and control
- Survival of small firms
- Principal-Agent Problem
- Public and Private Sector businesses
- Business growth (organic and external)
- Constraints on business growth
- Demergers
- Business objectives

Revenues, Costs and Profit

- Revenue
- Costs in the short run
- Economies and diseconomies of scale
- Minimum efficient scale
- External economies of scale
- Normal profits, supernormal profits and losses
- Profit maximisation
- Shut Down point

Market Structures

- Efficiency - a) Allocative efficiency b) Productive efficiency c) Dynamic efficiency d) X-inefficiency
- Perfect competition
- Monopolistic competition
- Oligopoly
- Overt and tacit collusion; cartels and price leadership
- Simple game theory: the prisoner's dilemma in a simple two firm/two outcome model

- Types of price competition including limit and predatory pricing

Non-price competition in markets

- Monopoly
- Price discrimination
- Natural monopoly
- Monopsony
- Contestability including barriers to entry & exit, contestability and the conduct of firms

Labour Market

- Demand for labour
- Supply of labour
- Market failure in labour markets: the geographical and occupational mobility and immobility of labour
- Wage determination in competitive and non-competitive markets
- Maximum and minimum wages
- Public sector wage setting
- Policies to tackle labour market immobility
- Significance of the elasticity of demand for labour and the elasticity of supply of labour

Government intervention

- Government intervention to control mergers
- Government intervention to control monopolies:
- Government intervention to promote competition and contestability
- Nationalisation versus privatisation
- Limits to government intervention in different markets

Theme 4: A Global Perspective

Globalisation

- Characteristics of globalisation
- Factors contributing to globalisation in the last 50 years
- Impacts of globalisation and global companies on individual countries, governments, producers and consumers, workers and the environment
- Specialisation and trade including absolute and comparative advantage
- Patterns of trade (geographical and commodity)
- Trading blocs and the World Trade Organisation (WTO)
- Terms of trade
- Free Trade Areas
- Customs Unions
- Single Markets
- Monetary Unions
- Restrictions on free trade including tariffs and quotas
- Impact of protectionist policies on consumers, producers, governments, living standards, equality

Balance of payments

- Components of the balance of payments: current account, capital account, financial account
- Causes of deficits and surpluses on the current account
- Measures to reduce a country's imbalance on the current account
- Significance of global trade imbalances

Exchange rates

- Floating exchange rates
- Fixed exchange rates
- Managed exchange rates

- Factors influencing floating exchange rates
- Competitive devaluation/depreciation and its consequences

International competitiveness

- Measures of international competitiveness: Including relative unit labour costs
- Factors influencing international competitiveness

Poverty and Inequality

- Distinction between absolute poverty and relative poverty
- Measures of absolute poverty and relative poverty
- Causes of changes in absolute poverty and relative poverty
- Distinction between wealth and income inequality
- Measurements of income inequality:
- Causes of income and wealth inequality within countries and between countries
- Impact of economic change and development on inequality
- Significance of capitalism for inequality

Emerging and Developing Countries

- Measures of development
- Factors influencing growth and development
- Strategies influencing growth and development
- Trade liberalisation
- Foreign direct investment
- Privatisation
- Human Capital
- Microfinance
- Buffer stock schemes

- Infrastructure
- Overseas aid
- Debt relief
- World Bank
- International Monetary Fund (IMF)

The Financial Sector

- Role of financial markets
- Market failure in the financial sector
- Role of central banks

Role of the state in the macroeconomy

- Public expenditure
- Crowding out
- Taxation - Direct and Indirect
- Distinction between progressive, proportional and regressive taxes

- The economic effects of changes in direct and indirect tax rates on other variables:
 - Distinction between automatic stabilisers and discretionary fiscal policy
 - Distinction between a fiscal deficit and the national debt
 - Distinction between structural and cyclical deficits
 - Factors influencing the size of fiscal deficits
 - Factors influencing the size of national debts
 - The significance of the size of fiscal deficits and national debts

Macroeconomic policies in a global context

- Use and impact of macroeconomic policies to respond to external shocks to the global economy
- Measures to control global companies' (transnationals') operations

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