

GCE AS/A LEVEL



WJEC GCE AS/A LEVEL in ECONOMICS

ACCREDITED BY WELSH GOVERNMENT

TEACHERS' GUIDE

Teaching from 2015

This Welsh Government regulated qualification is not available to centres in England.



INTRODUCTION

The **WJEC AS and A level Economics** qualifications, accredited by Welsh Government for first teaching from September 2015, are available to:

- All schools and colleges in Wales
- Schools and colleges in independent regions such as Northern Ireland, Isle of Man and the Channel Islands

The AS will be awarded for the first time in Summer 2016, using grades A - E; the A level will be awarded for the first time in summer 2017, using grades A* - E.

The specification offers a contemporary, principles-based approach to the subject, encouraging learners to develop tools to apply to a wide range of real-world situations, rather than rely heavily on fact-based approaches.

The structure of the content is broadly similar to the previous WJEC specification, in that it is linear, it is set out in three main areas of content, namely **Microeconomics, Macroeconomics** and **Global economics**.

Content will be assessed across four units – AS Unit 1 **Introduction to Economic Principles**, AS Unit 2 **Economics in Action**, A2 Unit 3 **Exploring Economic Behaviour** and A2 Unit 4 **Evaluating Economic Models and Policies**.

The focus for each unit is the nature of assessment and not the content. This approach supports a holistic and synoptic understanding of economic concepts and theories, and allows learners to acquire a critical and thoughtful approach to the study of economics, understanding economic behaviour from a range of perspectives and contexts.

The structure allows learners to provide extended responses and demonstrate their ability to draw together different areas of knowledge and understanding from across the full course of study.

Additional ways that WJEC can offer support:

- Specimen assessment materials
- Face-to-face CPD events
- Examiners' reports on each question paper
- Free access to past question papers and mark schemes via the secure website
- Direct access to the subject officer
- Free online resources
- Exam Results Analysis
- Online Examination Review

AIMS OF THE TEACHERS' GUIDE

The principal aim of the Teachers' Guide is to offer support to teachers in delivery of the new **WJEC AS and A Level Economics** specifications and guidance as to the requirements of the qualifications and the assessment process.

The guide is **not intended as a comprehensive reference**, but as support for professional teachers to develop stimulating and exciting courses tailored to the needs and skills of their own students in their particular institutions.

The guide offers assistance to teachers with regards to possible classroom activities and links to digital resources (both our own, freely available, digital materials and external sources) that will be of use and provide ideas for immersive and engaging lessons.

The guide will concentrate on those areas new to WJEC subject specifications and those subject areas where guidance has been requested most.

DELIVERING THE SPECIFICATION: OVERVIEW

Background

The specification has been designed to provide a compact discussion of the key themes in economics. Throughout, the desire has been to provide tools which will allow the analysis of real-world economic issues and events. When deciding what to include and what to leave out, the tiebreaker was always whether a concept would enhance the understanding of the way the world works and the way policy decisions are taken, because it is this desire to explain economic phenomena that lies at the heart of this specification.

As part of the design, there are two clear target audiences that are catered for – one intending to take economics further at university (the ‘specialists’) and one which is picking economics up out of a general interest in the way the world works (the ‘generalists’). The interests of both these groups are at the heart of the design of this specification.

The generalists will find that obscure topics which have little bearing on the real world have for the most part been omitted, except where their presence has been required by the common core. There is a rigorous examination of economic theory, because only through understanding such theories can they be effectively applied to enhance understanding of economic events. Likewise, only if there is a strong understanding of theory can these theories be effectively criticised. This interplay between economic theory, economic policy and economic events is the central theme behind the specification.

Specialists will find that the compact nature of the specification allows greater depth of discussion and analysis, which will allow the key principles and ground rules of the subject to be embedded before they go on to higher level study.

Approach

The specification treats economics as a living subject, therefore it will be important that learners have as many opportunities to interact with economic data and scenarios as possible.

An approach which treats economics as a theoretical ivory tower will not prepare learners well for the type of questions that the specification is designed to ask, which are focused on how well that theory can be used to explain actual economic events and policy decisions.

The greater emphasis that all A level specifications now place on mathematical skills will also mean that learners should routinely be processing, analysing, explaining and discussing the significance of the economic data that emerges on a daily basis on economies around the world.

Whilst the specification is a UK one, the questions asked will not be purely UK-centric. Issues cannot always be explored fully using a UK context, meaning that an approach which looks at problems in economies from across the globe, whether developed or developing, is likely to best prepare learners for the requirements of the specification.

USEFUL INTERACTIVE RESOURCES

[WJEC](#) > [GCE Economics](#) > [Specification from 2015](#)

[WJEC](#) > [GCE Economics](#) > [Specimen Assessment Materials](#)

Structure of the AS

The AS qualification has two papers, neither of which are content specific. The reason for this is to allow the subject to be treated as a whole and to allow the linkages between macroeconomics and microeconomics to be explored; again this is linked to the idea of economics as a subject which aims to explore real-world issues, many of which have micro and macro dimensions in reality.

The two papers also aim to test the full range of academic skills and are designed to allow the maximum possible exposure to practical economic situations.

Paper 1 (75 minutes, 55 marks)

Paper 1 combines multiple-choice questions (15 questions, 15 marks) with short answers (40 marks). The former allows for rigorous testing of underlying economic theory and quantitative skills. The latter allows the testing of these skills in a series of applied contexts. Between the two, this paper assesses whether learners have a strong understanding of economic theory and an ability to use it to analyse economic problems.

Paper 2 (120 minutes, 80 marks)

Paper 2 involves two compulsory data response cases. These will be drawn from anywhere within the specification and are looking to test learners' ability to apply what they have learned to more complex economic situations than is possible through the short answer section. Learners will also have to write at greater length and evaluative skills will be at a premium – the ability to debate a case in context and come to a well-judged conclusion is a key skill within this paper.

Structure of the A level

The full A level comprises the AS and A2 units. In assessing the full A level it will be assumed that learners can draw upon their knowledge and understanding of the AS content.

Paper 3 (120 minutes, 80 marks)

Paper 3 combines structured questions, based on the A2 content and one compulsory data response which covers all A level content. The combination allows for rigorous testing of underlying economic theory and quantitative skills and the application of economic theory in context.

Paper 4 (150 minutes, 90 marks) involves three essays drawn from three subsections of the specification. There will be a choice of two essays from each subsection and each essay will be split into two parts. This paper is designed to test learners' understanding of economic theory in depth and is drawn from the whole specification in a structured manner.

Part (a) of each essay aims to test knowledge, understanding and analysis, whereas part (b) is more focused on analysis and evaluation; the use of appropriate examples throughout this paper is likely to illustrate learners' understanding of the key issues underpinning economic theory.

The sections are as follows:

Section A: Microeconomics. This covers the whole of the microeconomics section in the A level specification.

Section B: Macroeconomics. This covers the whole of 'domestic' macroeconomics: macro theory, policy objectives and their conflicts, in-depth understanding of growth, unemployment, inflation/deflation and national debt together with fiscal, monetary and supply-side policy.

Section C: Trade and development. This covers the whole of the Global Economics section plus exchange rates and the balance of payments.

ASSESSMENT STRATEGY: KEY EXAMINATION COMMAND WORDS (1 OF 2)

ASSESSMENT OBJECTIVES AND THEIR RELATED COMMAND WORDS			
Assessment Objective	Description	Command words	Example questions
AO1	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.	State Define Identify Name Label Suggest Describe Outline Summarise Comment What is meant Which one (MC)	Which of the following is seen as an example of an injection into the circular flow of income? [1] A good example of an indirect tax is: [1] Comment on the income elasticity of demand for air travel. [2] Outline two factors that might have caused consumption to rise in late 2013. [4]
AO2	Apply knowledge and understanding to various economic contexts to show how economic agents are affected by and respond to economic issues.	Apply/Use Demonstrate Calculate Illustrate Select Show Adapt With reference to	Use the data to calculate annual economic growth in 2013 and 2014. [2] Using examples from the data explain the meaning of government failure and external costs. [4] With reference to the data, explain why fast-food items could be classed as 'demerit goods'. [4] Calculate Japan's percentage increase in GDP for the twenty year period 1990-2010. [1]

ASSESSMENT STRATEGY: KEY EXAMINATION COMMAND WORDS (2 OF 2)

ASSESSMENT OBJECTIVES AND THEIR RELATED COMMAND WORDS			
Assessment Objective	Description	Command words	Example questions
AO3	Analyse issues within economics, showing an understanding of their impact on economic agents.	Analyse Compare/Contrast Explain Develop Distinguish	<p>Explain measures a country could introduce to reduce its current account deficit. [10]</p> <p>Using examples, distinguish between public goods, merit goods and demerit goods. [8]</p> <p>Why might the government want to reduce CO₂ emissions from aviation? [4]</p>
AO4	Evaluate economic arguments and use qualitative and quantitative evidence to support informed judgements relating to economic issues.	Discuss Assess Decide Recommend Conclude Evaluate Argue Justify Consider To what extent Do you agree	<p>Assess whether transport links are the most important economic factor in ensuring the economic prosperity of regional areas like Cornwall. [10]</p> <p>Discuss whether an increase in tariffs by the EU is likely to be good for EU economies. [10]</p> <p>Evaluate strategies which may be used by the government to improve the competitiveness of UK businesses. [20]</p> <p>To what extent should Chinese investment in Nigeria be encouraged by the Nigerian Government? [10]</p> <p>How important is it for the UK to cut its inflation rate if it is to remain in the EU? [6]</p>

KEY ASPECTS OF THE SPECIFICATION FROM 2015

MICROECONOMICS (1 OF 4)

AREA OF STUDY	DESCRIPTION
<p>Scarcity and Choice:</p>	<p>Learners should understand the concepts of scarcity, choice and opportunity cost and how economies have to decide what, how and for whom to produce. These concepts should be fully analysed using production possibility frontiers.</p> <p>The distinction between economic goods and free goods should also be understood.</p>
<p>Demand and Supply:</p> <p><u>Determining Price</u></p> <p><u>Price Determination in Product Markets</u></p>	<p>Knowledge of the importance of marginal utility in the derivation of demand curves is now required (although not equi-marginal returns). This builds upon the existing requirement of learners having an intuitive understanding of the substitution and the income effects of a price change (although not via indifference analysis).</p> <p>Learners should also understand the importance of marginal cost in the derivation of the supply curve.</p> <p>Learners need to be able to apply the concepts of supply and demand to a wide variety of real-world contexts to explain price and output changes.</p> <p>Learners need to apply the concept of elasticity to economic contexts – for example, in the incidence of taxation and the incidence of subsidies.</p>
<p>Resource Allocation:</p>	<p>Learners should be aware of the main assumptions upon which free markets operate, such as a large number of buyers and sellers and perfect information.</p> <p>The emphasis is on understanding how supply and demand in a free market allocate resources and how in theory they can do so optimally. This will include an understanding of how perfectly competitive markets operate within the context of the free market economy and an understanding that free markets can only operate efficiently if perfectly competitive markets prevail.</p> <p>Learners should also understand that economic agents do not always behave rationally.</p>

KEY ASPECTS OF THE SPECIFICATION FROM 2015

MICROECONOMICS (2 OF 4)

AREA OF STUDY

DESCRIPTION

Labour Markets:

It is important that learners understand that wages are simply another price and can be determined through the operation of market forces – hence the application of supply and demand to labour. However, the free market determination of wages is not the only factor at work in wage determination and consideration must be given to the national minimum wage.

Learners are expected to know the determinants of the elasticity of demand and supply in labour markets and the factors which affect the flexibility of labour markets such as trade union power, regulation, welfare payments and income tax rates.

Learners should understand the links between issues in the labour market and the supply side of the economy. Imperfections in micro labour markets, such as the national minimum wage can be used later in the course when looking at the macroeconomic self-stabilisation debate, hence helping to build bridges between micro and macro.

Learners should understand the causes and implications of wage differentials and explain the impact of migration on labour markets.

An understanding of the issues surrounding the national minimum wage is important here.

Knowledge of marginal revenue product theory is not required but a diagrammatic approach to labour market issues is required.

Costs, Revenues and Profits:

This area forms the underpinning of microeconomics – a good understanding of this area casts light on a whole range of issues beyond theory of the firm, such as derivation of the supply curve and market failure. This area is also one of the most mathematical within the A level so it is important that learners have a very strong understanding of both the diagrams and calculations that are inherent within this section.

Learners should understand how short and long-run cost curves are derived. In the short run the law of increasing and diminishing returns to a factor should be understood numerically and diagrammatically.

It is important that learners understand clearly the difference between the short and long run for the firm and how this can impact on business decisions (such as shutdown), the significance for businesses of either high fixed or variable costs and the importance for a business of any given cost function (marginal, average fixed etc.) as well as the significance of the distinction between normal and abnormal profit.

KEY ASPECTS OF THE SPECIFICATION FROM 2015

MICROECONOMICS (3 OF 4)

AREA OF STUDY	DESCRIPTION
Growth of Firms: <u>Growth of Firms</u>	<p>This area is an early opportunity for learners to engage with real-world business cases to exemplify the distinctions between different forms of expansion. Learners should be able to link this section to business objectives in terms of motivations for growth in general and internal and external growth in particular.</p> <p>Learners should understand that firms can grow internally (organically) through successful expansion, e.g. easyJet and Google, or externally (inorganically) through mergers, e.g. Dixons Carphone and International Airlines Group (IAG) which is a result of mergers between British Airways, Iberia and BMI. Learners are required to understand the various types of integration including backward and forward vertical and the potential costs and benefits of such mergers.</p>
Efficiency:	<p>Learners need to understand the meaning of different forms of efficiency – not just to be able to identify them on a graph; it is important that learners can explain why a particular type of efficiency might be desirable and from what point of view this might be true.</p> <p>Learners are expected to have an awareness of dynamic efficiency and Pareto efficiency although the main focus should be on allocative and productive efficiency.</p>
Business Objectives:	<p>It is important that learners should understand why organisations might seek to maximise profits, but what the limitations of such an objective might be. Consequently they should understand that different types of organisations under different sets of circumstances might pursue alternative objectives.</p> <p>Learners should understand what these alternative objectives might be and under what circumstances an organisation might be likely to pursue them.</p>
Market Structure and Conduct: <u>Oligopoly</u> <u>Monopoly</u>	<p>Learners are expected to distinguish between structural and behavioural barriers to entry, for example, high start-up costs and limit pricing.</p> <p>When evaluating interdependent behaviour by firms using game theory in oligopolistic markets learners should be able to determine the Nash equilibrium in a matrix.</p> <p>Knowledge of the kinked demand curve is no longer required.</p>
Competition Policy:	<p>The emphasis here is on the role of competition policy – the need for it and an assessment of the impact and the difficulties inherent within regulation rather than an in-depth knowledge of institutional and legal arrangements.</p>

KEY ASPECTS OF THE SPECIFICATION FROM 2015

MICROECONOMICS (4 OF 4)

AREA OF STUDY	DESCRIPTION
<p>Privatisation:</p>	<p>Although the sale of state-run organisations to private shareholders has been an important part of privatisation since the 1980s, it is important that learners understand that privatisation is a broader concept than this, and that market forces can be introduced into the public sector in a wide range of ways (prisons, hospitals, search and rescue and so on) which do not involve the sale of assets.</p> <p>Learners should also be able to evaluate the impacts of these different forms of privatisation.</p> <p>Learners should understand the arguments for renationalisation.</p>
<p>Quantitative Skills:</p>	<p>In addition to elasticities, quantitative skills could be tested by calculating the value of both the consumer and producer surplus.</p> <p>Costs and revenue calculations will also be an opportunity to test quantitative skills.</p>
<p>Market Failure:</p> <p><u>Asymmetries</u></p>	<p>Learners should be able to explain a wide range of market failures, with an emphasis on why and in what way the market has failed, the consequences of this failure and a discussion of the relative merits of policies governments might implement to attempt to correct these failures.</p> <p>Diagrammatically learners should be able to show the external benefits of consumption and the external costs of production and consumption and also be able to identify and explain welfare loss.</p>

KEY ASPECTS OF THE SPECIFICATION FROM 2015

MACROECONOMICS (1 OF 4)

AREA OF STUDY	DESCRIPTION
<p>General:</p> <p><u>Links Between Income and Consumption</u></p>	<p>Learners should have an awareness of major economic issues that have taken place since 1990 to the present day.</p> <p>Learners will not be required to calculate the multiplier nor have knowledge of the Keynesian consumption function, the marginal efficiency of capital nor the accelerator.</p> <p>Learners are expected to be able to explain at least one factor which causes the aggregate demand (AD) curve to slope down to the right.</p> <p>Learners are expected to understand the differences between Keynesian and Neoclassical views on what the aggregate supply (AS) curve will look like in the long run.</p> <p>Learners are expected to have an understanding of both the short and long run Phillips Curve and aggregate supply curve with the emphasis on inflationary expectations. Diagrammatic analysis of these theories is required.</p> <p>Learners should understand and be able to use the concept of the NAIRU when analysing the trade-off between unemployment and inflation.</p> <p>Knowledge of rational expectations theory is not required.</p> <p>Learners should understand the difference between nominal and real national income and wages.</p>
<p>Circular Flow of Income:</p>	<p>Learners should understand the importance of the circular flow model when explaining the multiplier (although calculations of the multiplier itself are not required).</p>
<p>Aggregate Demand Supply Functions:</p>	<p>Learners need to have a good understanding of the key drivers of AD. A solid understanding of the importance of and the factors influencing consumption and investment is important.</p> <p>Learners are expected to be able to explain at least one factor which causes the aggregate demand curve to slope down to the right.</p> <p>Learners should understand both the shape of the Keynesian long-run aggregate supply curve and the neoclassical approach to short and long-run AS and should fully understand the debate over which the economy might or might not self-stabilise following an exogenous shock.</p>
<p>Government Policy Objectives:</p>	<p>Learners should understand the reasons why governments have attempted to achieve the key macro objectives (hence understanding what they are) and why there may be conflicts between them.</p> <p>Some learners may find it useful to incorporate the reduction of the fiscal deficit as a contemporary policy objective.</p>

KEY ASPECTS OF THE SPECIFICATION FROM 2015

MACROECONOMICS (2 OF 4)

AREA OF STUDY	DESCRIPTION
<p>Economic Growth:</p>	<p>Learners should understand clearly the difference between actual and potential growth. Beyond this the emphasis should be on the relative effectiveness of policies to create growth (hence encompassing an understanding of the factors influencing growth) and the desirability of doing so in different circumstances.</p>
<p>Unemployment: <u>Unemployment</u></p>	<p>Learners should understand that the measurement of unemployment is difficult and that a range of methodologies can be adopted. Learners need to be able to discuss the extent to which unemployment is likely to be a problem in different situations and to evaluate the different costs of unemployment.</p> <p>There needs to be an understanding that unemployment has a complex web of underlying causes, making solutions difficult – an understanding of the reasons for unemployment and the extent to which policies to reduce unemployment are effective is therefore important.</p>
<p>Inflation/Deflation: <u>Inflation and Deflation</u></p>	<p>Learners need to be aware of the different ways in which inflation can be measured and key differences between them, with the intention of understanding the purpose of measuring inflation. From a quantitative skills perspective, the construction of simple price indices, understanding the role of weights in terms of calculating weighted averages is important.</p> <p>Learners need to be able to evaluate effectively the costs and benefits associated with high and low inflation and deflation and the circumstances under which either inflation or deflation might be worrying.</p> <p>Learners need to be able to evaluate the effectiveness of approaches to combating inflation and deflation (and the reasons that tackling each can be problematic, particularly with respect to inflationary expectations) and as part of this will need to have an understanding of the reasons that each might become established (hence looking at issues such as wage-price spirals).</p> <p>When looking at the quantity theory of money, an understanding and evaluation of $MV=PQ$ is sufficient.</p>
<p>Balance of Payments:</p>	<p>Whilst an in-depth understanding of the entire balance of payments is not necessary, learners should understand in broad terms the composition of the current and financial/capital accounts in terms of the sorts of items that would be found in each and the distinction between the two.</p> <p>Learners should be able to discuss the extent to which a current account surplus or deficit is likely to be problematic and should be able to link a surplus or deficit on the current account to the nature of the corresponding deficit or surplus on the financial/capital account.</p> <p>Should a current account deficit or surplus be deemed undesirable, learners should be able to evaluate the relative effectiveness of policies designed to deal with such a situation.</p>

KEY ASPECTS OF THE SPECIFICATION FROM 2015

MACROECONOMICS (3 OF 4)

AREA OF STUDY	DESCRIPTION
<p>Public Sector Debt:</p>	<p>Learners should understand that in the light of recent developments across the world, there is a greater emphasis on the problems with government sector deficits and debt and the extent to which these need to be kept under control.</p> <p>An ability to evaluate the extent to which a large and/or growing national debt (and the budget deficits which contribute to this) is likely to be a problem (and the circumstances in which problems are more or less likely to be serious) is important, together with an understanding that national debt is not always inherently undesirable.</p> <p>Learners should be able to evaluate the different approaches to reducing budget deficits, their relative effectiveness and the extent to which economists from different schools of thought might be likely to recommend different approaches.</p> <p>Learners should understand the difference between structural and cyclical fiscal (budget) deficits and also the reasons that budget deficits may arise.</p>
<p>Fiscal Policy:</p>	<p>Learners should be able to explain how Keynesian economists believe that fiscal policy can be used to control aggregate demand in the economy, but that fiscal policy can be used to affect both AD and AS.</p> <p>An understanding of the difference between current/capital spending and direct/indirect taxes and the impacts of changes in these on issues such as incentives, AD/AS and the key policy objectives is important.</p>
<p>Monetary Policy:</p> <p><u>Interest rates</u></p>	<p>Learners should understand the role of the Bank of England in creating monetary and financial stability.</p> <p>Learners need to have a good understanding of how interest rates are used by central banks to control inflation and other key macro policy objectives. In particular, an understanding both of the reasons central banks might change interest rates and the impact of such changes (and the timescale over which they are likely to occur) is important.</p> <p>Learners are required to explain how quantitative easing is meant to work and to evaluate the impact and risks associated with it. In addition learners should understand that central banks may intervene directly in the banking system via schemes such as Funding For Lending.</p> <p>Detailed knowledge of different measures of the money supply is not required.</p> <p>Learners should understand the changes in the structure of the UK economy in recent years, in particular the growing size and influence of the financial sector.</p>

KEY ASPECTS OF THE SPECIFICATION FROM 2015

MACROECONOMICS (4 OF 4)

AREA OF STUDY	DESCRIPTION
<p>Financial Stability:</p>	<p>Learners should understand the importance of the financial sector to the UK economy and how regulation is needed to deal with financial crises arising from problems such as asset bubbles. Within this, an understanding of how asset bubbles may arise and the extent to which they are likely to be a problem is required.</p> <p>Learners are not expected to have detailed knowledge of the role of regulators such as the Financial Policy Committee, the Prudential Authority and the Financial Conduct Authority. As with microeconomics, the aim here is for learners to understand the need for regulation and its intended impact rather than in-depth knowledge of institutional arrangements.</p>
<p>Supply-side Policies:</p>	<p>Learners should understand the importance of the long-term structural changes that supply-side policies can bring about, and be able to illustrate the impact on the key policy objectives using AD/AS analysis.</p> <p>Learners should be able to explain and evaluate examples of specific supply-side policies.</p>
<p>Exchange Rates and Policy:</p>	<p>Learners should understand the advantages and disadvantages of policies which hold exchange rates artificially above or below their free market values.</p> <p>Learners should understand how quantitative easing can affect the exchange rate and what is meant by an exchange rate index.</p> <p>Learners should be able to explain the impact of changes in exchange rates on the terms of trade.</p>
<p>Quantitative Skills:</p>	<p>Learners should be able to calculate index numbers in the context of inflation and in other areas such as the terms of trade.</p>

KEY ASPECTS OF THE SPECIFICATION FROM 2015

GLOBAL ECONOMICS (1 OF 1)

AREA OF STUDY	DESCRIPTION
<p>Global Economy: <u>Life Expectancy</u></p>	<p>Learners should understand macroeconomic performance in a global context and the reasons for increased economic integration between countries as well as the importance of globalisation to trade and development. Barriers to and solutions for sustainable economic development should also be understood.</p>
<p>Theory of Trade:</p>	<p>Learners should be able to evaluate the arguments for and against free trade and protectionism and as part of this should be able to show understanding of comparative advantage diagrammatically and numerically.</p> <p>Learners should understand a range of possible protectionist measures and should be able to illustrate and discuss the effects of tariffs diagrammatically.</p> <p>Learners should understand the UK pattern of trade and be able to evaluate the extent to which increased global integration is beneficial to the UK economy but also to other economies at different stages of development. An understanding of the role and purposes of the WTO is required, but not in-depth institutional arrangements.</p>
<p>European Union:</p>	<p>Learners should be able to distinguish between the EU and the Eurozone and should be able to evaluate the relative costs and benefits of EU membership from the perspective of more and less developed economies within the existing EU as well as prospective entrants.</p> <p>Learners should be able to assess the extent to which Economic and Monetary Union in the European Union constitutes an optimal currency area. As part of this, an understanding of the role of the ECB and the framework within which Eurozone members have to operate is required.</p>
<p>Economic Development: <u>Characteristics of LEDCs</u></p>	<p>Learners should be able to apply the tools and concepts developed throughout the A level in the context of less economically developed countries (LEDCs) – an awareness that LEDCs are still economies and have (for example) monetary and fiscal policy is important. Specifically, learners need to understand what economic development means and the difficulties faced when attempting to measure the level of development in an economy.</p> <p>Learners should be able to evaluate the strengths of national income statistics and the Human Development Index (HDI) as measures of economic development and as part of this should understand how the HDI is calculated. Learners should have an awareness of the United Nations Millennium Development Goals.</p> <p>Learners should be able to assess the extent to which obstacles facing LEDCs are likely to be significant and able to evaluate the effectiveness of different approaches to overcoming these obstacles. Learners should be able to use appropriate examples to illustrate their points throughout the entire study of development economics.</p>

AREA OF STUDY

Determining Price in Product Markets

Key Points:

- Need to introduce learners to the concepts of demand and supply, and their effect on price in the market

Provides an opportunity to develop the following skills:

Speaking, listening and understanding; Reading; Writing; Understanding numerical data; Carrying out calculations; Interpreting results; Presenting findings; Using ICT systems; Finding, selecting and exchanging information; Improving own learning and performance; Developing and presenting information using ICT; Working with others – plan do and review

INSPIRATION FOR TEACHING

Example

Activity Name : Pricing Cars



- Provide learners with photos of two cars, one very expensive (£50,000+) and one relatively inexpensive (around £9,000).
- Ask learners to determine the factors which may contribute to high-priced and low-priced vehicles.
- Check the learners' answers and help them to identify whether the determined factors are supply-side or demand-side concerns e.g. the cost of manufacture and level of technology used in the vehicle are supply-side, but the income of the buyers is a demand factor.

USEFUL INTERACTIVE RESOURCES

[WJEC Resources > Economics](#)

[WJEC > A level Economics > Specification from 2015](#)

[WJEC > A level Economics > Specimen Assessment Materials](#)

AREA OF STUDY

Price Equilibrium in Product Markets

Key Points:

- Learners are required to manipulate a demand/supply diagram for a product when *ceteris paribus* doesn't hold

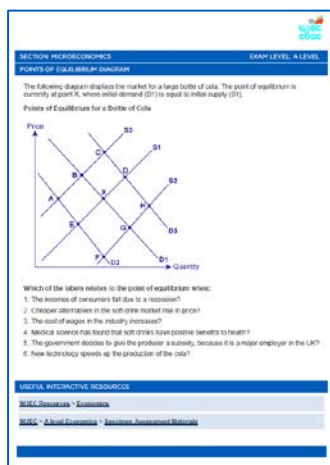
Provides an opportunity to develop the following skills:

Speaking, listening and understanding; Reading; Writing; Understanding numerical data; Carrying out calculations; Interpreting results; Presenting findings; Using ICT systems; Finding, selecting and exchanging information; Improving own learning and performance; Developing and presenting information using ICT; Working with others – plan do and review

INSPIRATION FOR TEACHING

Example

Activity Name : Determining Points of Equilibria following Changes in Demand/Supply



- Select the image (left) for an example diagram displaying the points of equilibria for a large bottle of a cola drink.
- Provide the learners with copies of this table or a similar table of your own choosing, this could be in the form of handouts or displaying the diagram on the whiteboard.
- In the example diagram provided, the market for the cola is shown to be at equilibrium at point X, where initial demand (D1) is equal to initial supply (S1).
- The additional points, labelled A–H, relate to changes in the market for the cola. Ask the learners to determine which of the new equilibria would represent certain changes in demand/supply (there are a number of example changes provided below the diagram).

USEFUL INTERACTIVE RESOURCES

[WJEC Resources > Economics](#)

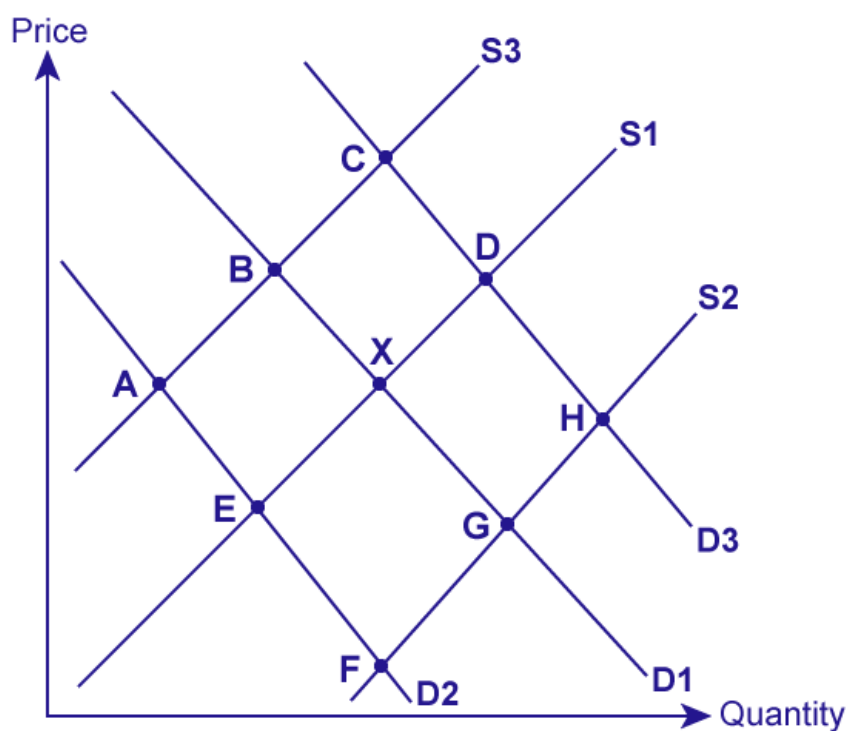
[WJEC > A level Economics > Specification from 2015](#)

[WJEC > A level Economics > Specimen Assessment Materials](#)

POINTS OF EQUILIBRIUM DIAGRAM

The following diagram displays the market for a large bottle of cola. The point of equilibrium is currently at point X, where initial demand (D1) is equal to initial supply (S1).

Points of Equilibrium for a Bottle of Cola



Which of the labels relates to the point of equilibrium when:

1. The incomes of consumers fall due to a recession?
2. Cheaper alternatives in the soft drink market rise in price?
3. The cost of wages in the industry increases?
4. Medical science has found that soft drinks have positive benefits to health?
5. The government decides to give the producer a subsidy, because it is a major employer in the UK?
6. New technology speeds up the production of the cola?

USEFUL INTERACTIVE RESOURCES

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AREA OF STUDY

Growth of Firms

Key Points:

- Learners should understand the advantages and disadvantages of mergers for a firm
- Learners should research real world data on business

Provides an opportunity to develop the following skills:

Speaking, listening and understanding: Reading; Writing; Understanding numerical data;

Carrying out calculations: Interpreting results; Presenting findings; *Using ICT systems;*

Finding, selecting and exchanging information; *Improving own learning and performance;*

Developing and presenting information using ICT; Working with others - plan do and review.

INSPIRATION FOR TEACHING

Example

Activity Name : The Purpose of Mergers



- Ask the learners to look at a number of company logos and then to match up the companies which have merged with one another.
- Learners should identify the type of merger (vertical, horizontal etc.).
- Ask the class to begin to list the reasons why these firms are likely to have merged, i.e. what were the benefits (e.g. economies of scale, efficiency gains, dealing with competition, diversification). Also, see if they think of any potential pitfalls in the mergers (job losses, less choice, diseconomies).
- **Stretch activity:** ask the learners to match up some of the companies with an unusual partner (e.g. a large pharmaceutical and a comic book franchise) and try to see if there would be any benefits in completing them.

USEFUL INTERACTIVE RESOURCES

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AREA OF STUDY

Oligopoly

Key Points:

- Learners need to understand the pricing decisions of oligopolies
- Introduce learners to game theory as a way of analysing oligopoly

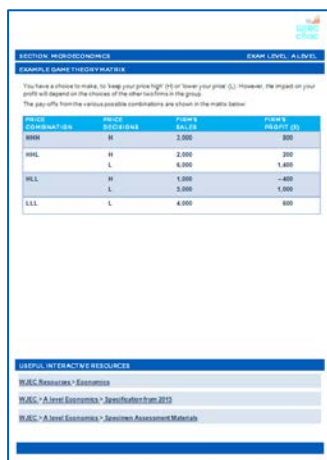
Provides an opportunity to develop the following skills:

Speaking, listening and understanding; Reading; Writing; Understanding numerical data; Carrying out calculations; Interpreting results; Presenting findings; Using ICT systems; Finding, selecting and exchanging information; Improving own learning and performance; Developing and presenting information using ICT; Working with others – plan do and review

INSPIRATION FOR TEACHING

Example

Activity Name : The Pricing Decisions of Oligopolies



PRICE COMBINATIONS	PRICE DECISIONS	Firm 1 Profit (£)	Firm 2 Profit (£)
HHH	H	3,000	800
HHL	H	2,000	200
HLL	L	6,000	1,400
LHL	H	1,800	-400
LHL	L	2,000	1,400
LLL	L	4,000	600

- **Select the image (left)** for an example of a game theory matrix.
- Split the class into groups of three, each learner in the group represents one firm in a three-firm oligopoly.
- Talk the learners through the game theory matrix provided (the associated figures are fictional). They have a choice to make, to 'keep their price high' (H) or 'lower their price' (L). However, the impact on their profit will depend on the choices of the other two firms in the group. The pay-offs from the various possible combinations are shown in the matrix.
- Learners should be asked to play the game a number of times, with the aim of maximising their total profit at the end of the last game.
- **Stretch activity:** learners should be encouraged to work out the rational pricing decisions in this market and then consider how it may work in real-life situations.

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EXAMPLE GAME THEORY MATRIX

You have a choice to make, to 'keep your price high' (H) or 'lower your price' (L). However, the impact on your profit will depend on the choices of the other two firms in the group.

The pay-offs from the various possible combinations are shown in the matrix below:

PRICE COMBINATION	PRICE DECISIONS	FIRM'S SALES	FIRM'S PROFIT (£)
HHH	H	3,000	800
HHL	H	2,000	200
	L	6,000	1,400
HLL	H	1,000	- 400
	L	5,000	1,000
LLL	L	4,000	600

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AREA OF STUDY

Monopoly

Key Points:

- Learners should be aware that a monopoly is a large powerful firm
- Learners should begin to appreciate both the benefits and problems related to monopolies

Provides an opportunity to develop the following skills:

Speaking, listening and understanding; Reading; Writing; Understanding numerical data; Carrying out calculations; Interpreting results; Presenting findings; Using ICT systems; Finding, selecting and exchanging information; Improving own learning and performance; Developing and presenting information using ICT; Working with others – plan do and review.

INSPIRATION FOR TEACHING

Example

Activity Name : Monopolies



- Select a clear example of a monopoly in preparation for the lesson.
- Inform learners that the business you have chosen is described as a 'monopoly', which means that it is a large dominant firm, there is no need to elaborate further at this stage.
- Ask the learners to work in pairs and to list the potential benefits and threats, to both consumers and the economy, of such powerful businesses.
- Learners should consider negative factors such as the lack of competition; poor quality product/service; high prices; huge profits; ability to influence government etc. and positive factors such as the fact that they are large employers; big exporters; able to develop new ideas/technologies; the chance prices could be cheaper due to economies of scale and considering the company's social contribution.

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AREA OF STUDY

Asymmetries

Key Points:

- Learners should understand the definition of asymmetric information and why it can lead to market failure

Provides an opportunity to develop the following skills:

Speaking, Listening and understanding; Reading; Writing; Understanding numerical data;

Carrying out calculations; Interpreting results; Presenting findings; Using ICT systems;

Finding, selecting and exchanging information; Improving own learning and performance;

Developing and presenting information using ICT; Working with others – plan do and review

INSPIRATION FOR TEACHING

Example

Activity Name : How Much for My Car?



- Before you have said anything about asymmetric information, have a picture of a car on the board as learners walk into the room. For example a picture of a guy with a 'For Sale' sign leaning next to his car. This should pique the learners' interest and they should start asking questions about the car.
- As the class begins to pose questions, the teacher can either respond with all-out lies or adopt an evasive approach to try and avoid the questions. Either way, write the information on the board for all to see.
- Based on the information given, ask learners to individually value the car (i.e. what they would be willing and able to pay for it, if they were in the market for a second hand car). Identify who 'bid' the most and proclaim him/her as the buyer.
- Reveal that the car has almost no value. It is a 'lemon'. Use this as the launch point for the discussion on asymmetric information.

USEFUL INTERACTIVE RESOURCES

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AREA OF STUDY

Links between Income and Consumption

Key Points:

- Looks at how income and consumption are related
- Provides opportunities to look at extension concepts such as autonomous and induced consumption and marginal and average propensities to consume

Provides an opportunity to develop the following skills:

Speaking, listening and understanding; Reading; **Writing**; Understanding numerical data; Carrying out calculations; Interpreting results; Presenting findings; **Using ICT systems**; Finding, selecting and exchanging information; Improving own learning and performance; **Developing and presenting information using ICT**; Working with others – plan do and review.

INSPIRATION FOR TEACHING

Example

Activity Name : What Will You Buy at the Fair?

Item	Price	Games	Price	Food	Price	Drinks	Price
Roller Coaster	£2	Cosplay Day	£1	Hot Dog	£2	Soft Drink	£1.50
Clock Tower	£2	Bandstand	£2	Burger	£2	Ice Cream	£2
Log Flume	£2	Rock a Duck	£1	Kebab	£3	Water	Free
Spinning Top	£2	Tombola	£1	Chips	£1.50	Beer	£3.50
Swing Set	£2	At-Ride	£2	Pizza	£3	Tea/Coffee	£1.50
Carousel	£2	Air Hockey	£1	Ice Cream	£1		
Funfair	£2	Quiz	£1	Candy Floss	£2		

- Provide learners with a picture of a fairground and a list of things 'they can buy at the fair', **select the image (left) for example materials**, tell them that they have £2 and should decide what they spend their money on at the fair. Tell learners that they visit a second time and now they have £5 to spend (they do not carry forward any money from the previous visit), on a third visit they receive £10, fourth £20, fifth £50 and on a final visit £100. At some stage learners should ask if they can save any of their money and they should be allowed to do so.
- Discuss the results with the class, you should find that once the allowance rises past £10 learners begin to save a percentage of their allowance. The greatest amount saved should be when they have a £100 allowance. Ask learners to sketch a relationship between income and consumption on a graph.
- **Stretch activity:** ask learners whether they believe the line they draw should go through the origin. This should lead to a discussion on autonomous consumption.

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WHAT WILL YOU BUY AT THE FAIR?

See below for a detailed price list for each item.



Rides	Price	Games	Price	Food	Price	Drinks	Price
Roller coaster	£2	Coconut shy	£1	Hot dog	£2	Soft drink	50p
Ghost train	£2	Basketball	£2	Burger	£2	Milkshake	£2
Log flume	£2	Hook a duck	£1	Kebab	£5	Water	free
Spinning tea cups	£2	Tombola	£1	Chips	50p	Beer	£3.50
Bungee jump	£5	Arcade	£2	Pizza	£5	Tea/coffee	50p
Dodgems	£1.50	Air hockey	£1	Ice cream	£1		
Carousel	50p	Roulette wheel	£5	Candy floss	£2		

USEFUL INTERACTIVE RESOURCES

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AREA OF STUDY

Unemployment

Key Points:

- Learners should understand the difference between the terms ‘labour force’ and ‘economically inactive’
- Learners should understand the different definitions of unemployment (as defined by the Labour Force Survey (LFS) and Claimant Count)

Provides an opportunity to develop the following skills:

Speaking, listening and understanding; Reading; Writing; Understanding numerical data; Carrying out calculations; Interpreting results; Presenting findings; Using ICT systems; Finding, selecting and exchanging information; Improving own learning and performance; Developing and presenting information using ICT; Working with others – plan do and review.

INSPIRATION FOR TEACHING

Example

Activity Name : Unemployment Terminology and Definition



- **Select the image (left)** for example small case studies. Without defining terms ask learners to split into pairs and go through each case study and try to assess whether the person in question is (1) part of the labour force or economically inactive and (2) employed or unemployed.
- Once complete, learners should use their results to try and generate definitions for the terms ‘labour force’, ‘economically inactive’, ‘employed’ and ‘unemployed’.
- Learners should present their ideas to the rest of the class and you can direct a plenary discussion.
- **Stretch activity:** learners could be encouraged to seek out the definitions of unemployment from such sources as ILO (International Labour Office), ONS (which conducts the Labour Force Survey) and HMRC. They can compare their definitions with the ‘real’ ones.

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UNEMPLOYMENT MINI CASE STUDIES

Darya

Darya lost her job as an architect three months ago. Every week she visits an employment agency to try to find a new job, which she would be able to start immediately.

Charles

Charles looks after his one-year-old son. He neither holds a job, nor wants a job.

Sergey

Sergey has no job from which he receives any pay or profit. However, he helps in his parents' shop for around 20 hours per week.

Matt

Matt is currently receiving training at a local hairdresser, which is partly paid for by the government. He works 28 hours a week and goes to college for 1 day per week.

Rosa

Rosa is out of work, but stopped looking for new jobs a year ago as she does not believe any jobs are available.

George

George lost his job as a teacher and looks for work each week. His wife is still working in her job as an investor banker and earns over £100k a year.

Iris

Iris has no job because she is aged 3 and busy playing with lego at home.

Charlotte

Charlotte has no job because she is at Oxford University studying Economics and Management.

Nasser

Nasser retired from his job last year and is claiming his state pension. He is still looking for part-time work.

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AREA OF STUDY

Inflation and Deflation

Key Points:

- Learners should understand the variables within the $MV=PY$ quantity theory of money equation

Provides an opportunity to develop the following skills:

- Speaking, listening and understanding; [Reading](#); [Writing](#); Understanding numerical data;
- Carrying out calculations; Interpreting results; [Presenting findings](#); [Using ICT systems](#);
- [Finding, selecting and exchanging information](#); Improving own learning and performance;
- [Developing and presenting information using ICT](#); [Working with others – plan do and review](#).

INSPIRATION FOR TEACHING

Example

Activity Name : Quantity Theory of Money Simulation



- Provide learners with a clarification of the meaning of each of the terms in the $MV=PY$ equation.
- **Select the image (left)**, for detailed instructions on how to run the producer and consumer simulation.
- **Stretch activity:** you can change the number of banknotes in the game and the number of commodities in order to derive different values for M, V, P and Y.

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QUANTITY THEORY OF MONEY SIMULATION

Round 1

- Divide the class into two equal teams. If the class has 10 learners, 5 of them will play the role of 'producers' and the other 5 will be 'consumers'. Each member of the producer team is given 1 commodity (e.g. a pencil) and each member of the consumer team is given £1. Learners are instructed to observe some rules (e.g. the consumer side must spend all of its money).
- Allow the 2 teams to exchange commodities for money. Provided the teams obey the rules the market price for the commodity should be £1. Ask the learners to calculate the values for M, V, P and Y (it should be $M=5$, $V=1$, $P=1$ and $Y=5$).

Round 2

- Provide the 5 'consumers' with £2 each, but each producer still only has 1 pencil, the market price should jump to £2. Again ask the learners to calculate M, V, P and Y (it should be $M=10$, $V=1$, $P=2$, and $Y=5$).

Round 3

- The arrangement is slightly different, but the intention is to get learners to really understand what 'V' is.
- Split the class into 3 groups: i) consumers, ii) pencil producers and iii) mug producers. Consumers have £1 each and are instructed to buy pencils from the producers.
- Pencil producers will, in turn, spend their money on mugs. All producers still only have 1 item to sell.
- Provided learners stick to the rules, the market price for pencils will be £1 and the market price for each mug will also be £1.
- Ask the learners to calculate the values for M, V, P and Y (it should be $M=3$, $V=2$, $P=1$ and $Y=6$).

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AREA OF STUDY

Monetary Policy – Interest Rates

Key Points:

- Learners should understand the basic business model of a bank
- Learners should be able to determine the current levels of interest rates

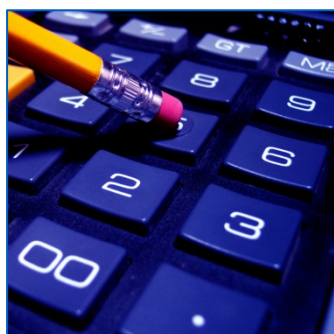
Provides an opportunity to develop the following skills:

Speaking, Listening and understanding; Reading; Writing; Understanding numerical data; Carrying out calculations; Interpreting results; Presenting findings; Using ICT systems; Finding, selecting and exchanging information; Improving own learning and performance; Developing and presenting information using ICT; Working with others – plan do and review.

INSPIRATION FOR TEACHING

Example

Activity Name : Finding and Comparing Interest Rates



- Ask learners to visit the websites of a number of different national high-street banks and lenders in order to determine the current interest rates being offered on current accounts, credit cards and loans.
- Ask learners to also consider the interest rates for short-term loans from national internet-based companies for comparison.
- Learners should be selected at random to present the basic business models behind these banks and short-term loan lenders (i.e. how they make a profit). A simple example may be that "the interest paid on deposits is less than the interest received from loans".
- **Stretch activity:** learners should be challenged to consider why high street banks are likely to follow the Bank of England base rate of interest, this should lead nicely to a discussion on the transmission mechanism.

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AREA OF STUDY

Life Expectancy

Key Points:

- Learners need to understand the pricing decisions of oligopolies
- Introduce learners to game theory as a way of analysing oligopoly

Provides an opportunity to develop the following skills:

Speaking, Listening and understanding; Reading; Writing; Understanding numerical data;

Carrying out calculations; Interpreting results; Presenting findings; Using ICT systems;

Finding, selecting and exchanging information; Improving own learning and performance;

Developing and presenting information using ICT; Working with others – plan do and review.

INSPIRATION FOR TEACHING

Example

Activity Name : Ranking Countries



COUNTRY	LIFE EXPECTANCY RANKING	COUNTRY	LIFE EXPECTANCY RANKING
 Japan	?	 Russia	?
 Democratic Republic of Congo	?	 North Korea	?
 Poland	?	 Chile	?
 United States of America	?	 Tunisia	?

- **Select the image (left)** for an example of a table of countries, show the class the list with the empty rankings space.
- Split the learners into 4 or 5 groups and ask them to list the countries presented in the table from best to worst, in terms of life expectancy. The groups must give reasons for their answers.
- Ask the learners to shout out their rankings and make a note of them on the whiteboard.
- Randomly select a group and ask them to justify their ranking decisions, ask another group who came to a different conclusion to give their rationale.
- Show the correct ranking and actual life expectancies table to the class and determine which group is the winner (you could deduct 1 point for each difference in ranking for each country and the lowest score wins).

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LIFE EXPECTANCY TABLE WITHOUT RANKINGS

Rank the following countries in terms of life expectancy:

COUNTRY	LIFE EXPECTANCY RANKING	COUNTRY	LIFE EXPECTANCY RANKING
 Japan	?	 Russia	?
 Democratic Republic of Congo	?	 North Korea	?
 Poland	?	 Chile	?
 United States Of America	?	 Tunisia	?









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LIFE EXPECTANCY TABLE WITH RANKINGS AND AVERAGE AGES

Rank the following countries in terms of life expectancy:

COUNTRY	LIFE EXPECTANCY RANKING	COUNTRY	LIFE EXPECTANCY RANKING
 Japan	1 (83.7)	 Russia	7 (69.2)
 Democratic Republic of Congo	8 (48.9)	 North Korea	6 (69.3)
 Poland	4 (76.9)	 Chile	2 (79.3)
 United States Of America	3 (78.8)	 Tunisia	5 (74.8)

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AREA OF STUDY

Characteristics of LEDCs

Key Points:

- Learners should examine the features of LEDCs
- Learners should investigate the basics of how the HDI is constructed

Provides an opportunity to develop the following skills:

Speaking, listening and understanding; Reading; Writing; Understanding numerical data; Carrying out calculations; Interpreting results; Presenting findings; Using ICT systems; Finding, selecting and exchanging information; Improving own learning and performance; Developing and presenting information using ICT; Working with others – plan do and review.

INSPIRATION FOR TEACHING

Example

Activity Name : Characteristics of LEDCs



- Ask learners to examine a photograph of poverty in a LEDC (**select the image, left**, for an example that can be used).
- Ask learners to make a list of the features that they consider to be characteristic of LEDCs e.g. poor health, low income per head, poor food supply, dependence on primary production, poor education etc.
- Ask learners to investigate the three basic aspects that the HDI uses in the construction of its index, namely standard of living/income, life expectancy and access to education.

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KEY TERMS AND THEIR DEFINITIONS

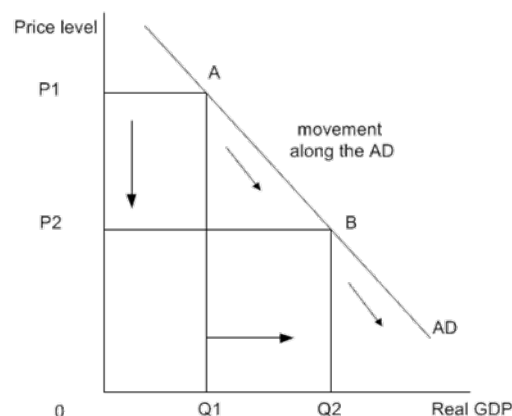
DEFINITIONS OF USEFUL TERMS (1 OF 5)

TERM	DESCRIPTION
Utility	<p>Utility measures satisfaction enjoyed by a consumer when a product or service is purchased.</p> <p>Marginal utility measures the extra satisfaction gained by the consumer when one extra unit is purchased. The marginal utility tends to decrease as consumption of a product increases.</p>
Diminishing marginal utility	<p>For most products the demand curve slopes down from left to right, an inverse relationship between price and quantity demanded. As the quantity consumed increases the marginal utility falls.</p> <p>If marginal utility is expressed in a monetary form the rational consumer would be prepared to pay less for each extra unit because their need has already been partly met. Thus, as the marginal utility falls then the price the consumer is prepared to pay for the product also falls which explains the slope of the demand curve.</p>
Income effect	<p>If it is assumed that money income is fixed, the income effect of a price fall of a product suggests that real income rises when prices fall – money income will now be able to buy more in total and consumers increase their quantity demanded. This is because consumers can buy more of the product with the same money income, assuming that the product is a normal good. The reverse would occur if the product rose in price.</p>
Substitution effect	<p>If the price of a product falls then it becomes cheaper relative to substitutes and thus the quantity demanded increases. The reverse would occur if there were a rise in price.</p>
Behavioural economics	<p>Traditionally, economics has assumed that people make decisions on the basis of rationality, i.e. consumers seek to maximise utility and firms seek to maximise profits.</p> <p>However, recently behavioural economics has used psychology to shed light on the economic choices people make. Consumers can, instead of being perfectly rational, act impulsively, be short-sighted, confused and emotional. Behavioural economics thus explores the reasons why people sometimes make irrational decisions, and why and how their behaviour does not follow the predictions of economic models.</p> <p>Behavioural theories of the firm include Herbert Simon's view that firms may 'satisfice' instead of profit maximising.</p>

KEY TERMS AND THEIR DEFINITIONS

DEFINITIONS OF USEFUL TERMS (2 OF 5)

TERM	DESCRIPTION
The aggregate demand curve	<p>The aggregate demand curve slopes down from left to right. In the diagram below as the price level falls from P1 to P2 real GDP increases. This is a movement along the aggregate demand curve as opposed to a shift in its position which may be caused by a rise in government spending or a cut in income tax rates.</p> <p>To understand why the aggregate demand curve slopes downwards it is important to examine the effects of a fall in the price level on key components of aggregate demand – consumption, investment and net exports.</p> <p>Firstly there is the real balance (or wealth) effect which relates to how a fall in the price level increases the real value of money balances giving consumers a higher purchasing power. This will encourage consumers to spend more increasing aggregate demand and real GDP.</p> <p>Secondly there is the interest rate effect which relates to consumers and firms. If there is a fall in the price level consumers need to hold less money to buy the goods and services they want. As consumers increasingly become savers this increases the supply of loanable funds reducing interest rates. Lower interest rates encourage firms to borrow more to invest in new buildings and machinery. Investment is a component of aggregate demand and real GDP increases. The trade (or exchange rate) effect links the price level, the interest rate and the exchange rate. A fall in the price level results in a fall in the interest rate which will lead to a fall (depreciation) in the exchange rate. A fall in the exchange rate will make exports cheaper and imports more expensive. As a result exports rise and imports fall leading to an increase in net exports. Net exports are a component of aggregate demand and thus real GDP increases. It is important to remember that the aggregate demand curve is drawn assuming all other things remain equal, and significantly for the three explanations above it is assumed that the money supply is fixed.</p>
Dynamic efficiency	<p>Dynamic efficiency is concerned with the increase in productive efficiency of a firm over a period of time through process and product innovation.</p> <p>Joseph Schumpeter argued that large firms (possibly monopolies) which are highly protected by high entry barriers are more likely to undertake risky innovation, and generate dynamic efficiency.</p>



KEY TERMS AND THEIR DEFINITIONS

DEFINITIONS OF USEFUL TERMS (3 OF 5)	
TERM	DESCRIPTION
Pareto efficiency	<p>Pareto efficiency occurs when resources are allocated in such a way that it is impossible to make any one individual better off, without making at least one individual worse off.</p> <p>If a situation exists where resources can be reallocated and one person becomes better off, and no one else becomes worse off, this is said to be a Pareto improvement.</p>
Game theory	<p>Game theory in economics is the scientific study of strategically interdependent decision-making by firms. At its simplest a game of chess or a game of poker illustrate game theory at work among the players.</p>
Zero sum game	<p>This occurs when one firm's gain is equal to another firm's loss. Thus the net benefit is zero.</p>
Dominant strategy	<p>Game theory involves firms devising a strategy and acting in their own self-interest. The dominant strategy is the best strategy that a firm can follow irrespective of the strategies followed by other firms.</p>
Adaptive expectations	<p>In economics, adaptive expectations is a process by which economic agents, such as workers, base their expectations of what will happen in the future on what has happened in the past.</p> <p>If, for example, inflation has been 3% in the past then workers will make their decisions about how many hours to work based on this data. If inflation actually turns out to be 6% they will adapt to this new higher rate by possibly not continuing to work.</p> <p>When economic agents correctly anticipate future changes to inflation this is called rational expectations.</p>
Structural deficit	<p>The fiscal (budget) deficit is divided into two parts, cyclical and structural. The cyclical part is related to the trade/business cycle and will develop during a recession when tax revenues fall and government spending on benefits increases. In a sustained recovery this part of the deficit will disappear as the reverse occurs.</p> <p>The structural part of the deficit will remain wherever an economy is on the economic cycle and can only be reduced by cuts in public expenditure and discretionary increases in tax rates.</p>
Asset bubbles	<p>This occurs when the price of assets such as bonds, shares and property rise at such a sustained rate they exceed the valuations justified by the fundamentals of the market in which they operate.</p> <p>Low borrowing costs, easy credit and quantitative easing can easily fuel an asset bubble which has at its heart exaggerated expectations which are at odds with the realities of the wider economy. The major concern with asset bubbles is that they burst with devastating effects and demonstrate the need for effective regulation of the financial markets.</p>

KEY TERMS AND THEIR DEFINITIONS

DEFINITIONS OF USEFUL TERMS (4 OF 5)	
TERM	DESCRIPTION
Quantitative easing	<p>A central bank such as the Bank of England does this by buying paper assets such as government or corporate bonds, the money to do this is created electronically. The institutions selling those bonds (commercial banks or other financial businesses such as pension funds and insurance companies) will then have 'new' money in their accounts. This can then potentially increase the money supply as this 'new' money circulates in the economy.</p> <p>The increase in demand for these bonds by the central bank will increase their price and depress the yield – lowering long term interest rates. This 'new' money is often invested in shares and property, raising prices in these assets too. Thus quantitative easing leads to a rise in asset prices generally (bonds, property and shares) as well as exercising a downward pressure on the exchange rate.</p>
Prudential Regulation Authority (PRA)	<p>The PRA supervises the safety and soundness of firms in the financial sector looking at levels of debt, credit growth, liquidity etc. and could be directed by the FPC to adjust the capital requirements of banks, the minimum level of capital they can hold in relation to loans.</p>
Financial Policy Committee (FPC)	<p>Since its creation by the Financial Services Act 2012 this is the main body responsible for macroprudential policy – addressing the problems of systemic risks in the financial system.</p> <p>Twice a year the FPC produces the <i>Financial Stability Report</i> which covers the FPC's assessment of the outlook for the stability and resilience of the financial sector at the time of the preparation of the report, and the policy actions it advises to reduce and mitigate risks to stability.</p> <p>Specifically, the FPC can recommend a given course of action to any bank, for example, to reduce risk in the financial system. Alternatively, it can give formal directions to the Prudential Regulation Authority and the Financial Conduct Authority.</p> <p>The FPC has a secondary role of being charged with supporting the government's objectives of growth and employment.</p>
Financial Conduct Authority (FCA)	<p>The FCA's role is to protect consumers of financial services from sharp practices such as the mis-selling of financial products as was seen in the long-running problem of Payment Protection Insurance (PPI).</p> <p>The FCA tries to ensure that financial products are not over-complex thus exploiting the information gaps of consumers. The FCA recently produced the Mortgage Market Review which changed the way in which applications for mortgages are assessed.</p> <p>The Mortgage Market Review reforms are aimed at ensuring the continued access to mortgages for the great majority of customers who can afford it, while preventing a return to the poor practices where mortgages were granted without proper assessment of whether the borrowers would find the financial burden of a mortgage affordable over the long term.</p>

KEY TERMS AND THEIR DEFINITIONS

DEFINITIONS OF USEFUL TERMS (5 OF 5)

TERM	DESCRIPTION
Optimum currency areas	<p>This is an economic theory credited to Robert Mundell, in which economic efficiency would be maximised in a geographical region if the countries all shared a single currency.</p> <p>For the group of countries to become an optimal currency area they need a high level of trade integration; high labour mobility and real wage flexibility; a high level of capital market integration; and not suffer asymmetric macroeconomic shocks across different members of the single currency area.</p>