OXFORD
INTERNATIONAL
AQA EXAMINATIONS

INTERNATIONAL AS AND A-LEVEL ECONOMICS

(9640)

Teaching Guidance

For teaching from September 2020 onwards
For International AS exams May/June 2021 onwards
For International A-level exams May/June 2022 onwards

Our specification is published on our website oxfordaqaexams.org.uk. We will let centres know in writing about any changes to the specification and we will also publish changes on our website. The definitive version of our specification will always be the one on our website; this may differ from printed versions.

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INTRODUCTION

The OxfordAQA AS and A-level Economics specification has been developed to inspire, challenge and motivate students, regardless of their academic ability and to help them appreciate the contribution of the subject in studying global economic environments and issues. The qualifications enable schools and colleges to follow a curriculum which has been developed by building on many years' experience of successful assessment in the UK. The specification has been created so that students are encouraged to develop a strong understanding of economic principles and theory, as well as the ability to apply their knowledge to real world events and be able to analyse, interpret and comment on those events. Linked to this, the specification encourages the development of quantitative skills and an element of assessment focuses on the ability to make calculations such as index numbers or elasticities.

The qualifications employ a variety of assessment styles from multiple choice and short answer questions to more in depth essay style questions. This mixed approach helps develop students' ability to analyse, quantify and evaluate and encourages the development of competent, logical thinkers.

In recognition of the wide−ranging geographical interest in this specification, there is a sizeable section devoted to development economics and global issues.

We have listened closely to feedback from teachers in order to design an engaging and relevant specification and an assessment structure which is accessible to all. The variety of assessment styles allows students to demonstrate their breadth of knowledge and understanding of the subject and their skills of analysis and evaluation.

The qualifications provide a good foundation for further study in economics and are well suited to those who may wish to pursue careers in business, finance, banking and many other related areas.

This guide will provide the following for teachers and prospective teachers of this course:

- an overview of this specification's philosophy and approach to the study and assessment of International AS and A-level Economics
- a more detailed, unit−by−unit, look at what is required in learning and assessment
- a section on the challenges facing teachers delivering the specification.

A TRULY INTERNATIONAL QUALIFICATION

These are truly international qualifications which include many aspects of the global economic challenges facing today's world. Schools and colleges adopting this specification will find it easy to relate the economics to their own particular contexts. For example, the specification addresses:

- cause and effect of differing international standards of living
- global influences upon employment and unemployment
- the impact of external events on economies
- the importance of international trade
- the impact of economic growth on the environment
- characteristics, causes and effects of globalisation
- changing patterns of world trade
- protectionism
- trading blocs and roles of WTO and IMF
- economic development and MEDC/LEDC categorisation
- policies to promote development.

ASSESSMENT OBJECTIVES (AOS)

There are four assessment objectives for the International AS and A-level Economics and they underpin all assessments. Whilst each component of assessment may not examine all four AOs, across all assessments the four AOs will be rigorously assessed. The assessment objectives are defined in the table below.

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.
AO2	**Apply knowledge and understanding** to various economic contexts to show how economic agents are affected by and respond to economic issues.
AO3	**Analyse issues** within economics, showing an understanding of their impact on economic agents.
AO4	**Evaluate economic arguments** and use qualitative and quantitative evidence to support informed judgements relating to economic issues.

Shorter questions, and particularly multiple choice questions, may only examine one of AO1, AO2 or AO3 but clearly longer answers will require students to **evaluate** economic arguments (AO4). The AOs represent a hierarchy of skills and AO3 and AO4 require students to demonstrate more sophistication than is the case with AO1. Despite these differences, the four AOs are given very similar weightings which are indicated in the next section, although it should be noted that in the case of the A-level, AO3 and AO4 are given increased weightings.

WEIGHTING OF ASSESSMENT OBJECTIVES

AS and A-level Economics

Assessment Objectives (AOs)	AS Overall weighting of AOs (approx %)	A-level Overall weighting of AOs (approx %)
AO1	28 − 32	24 − 28
AO2	28 − 32	25 − 29
AO3	22 − 28	26 − 30
AO4	12 – 18	18 − 22
Overall weighting	100	100

In addition to the four assessment objectives, examiners will be asked to pay attention to the quality of students' written communication, which should be legible and demonstrate accurate spelling, punctuation and grammar. Whilst no marks will be awarded for the quality of written communication, it is possible that marks could be missed, by students, because of unclear or ambiguous explanations.

The qualifications are modular. Units 1 and 2 comprise the AS level which can be delivered as a stand−alone qualification in one year. The A-level comprises four units of which the first two are the AS units and the second two, known as the A2 units, complete the full A-level. A-level students have the choice of sitting all four units at the end of two years of study or they may alternatively sit the AS units after one year and then take the A2 units (3 and 4) after year two. It is possible to resit any of the four units and the best outcome will count towards a student's final grade.

The approximate guided learning hours for each of the units is 90.

SPECIFICATION AT A GLANCE

AS

Unit 1: The operation of markets, market failure and the role of government

What's assessed

Any content from section 3.1 The operation of markets, market failure and the role of government and section 3.5 Quantitative skills.

How it's assessed

Written exam: 1 hour and 45 minutes

80 marks which comprises 50% of the International AS

(20% of the International A-level)

Questions

Two compulsory sections:

Section A has multiple choice questions worth 15 marks.

Section B has one data response context with short answer, calculations/diagrammatical and extended response questions worth 65 marks.

Unit 2: The national economy in a global environment

What's assessed

Any content from section 3.2 The national economy in a global environment and section 3.5 Quantitative skills.

How it's assessed

Written exam: 1 hour and 30 minutes

80 marks which comprises 50% of the International AS

(20% of the International A-level)

Questions

Two compulsory sections:

Section A − multiple choice questions − worth 15 marks.

Section B − one data response context with short answer, calculations/diagrammatical and extended response questions − worth 65 marks.

A-LEVEL

Unit 3: The economics of business behaviour and the distribution of income

What's assessed

Any content from section 3.3 The economics of business behaviour and the distribution of income and section 3.5 Quantitative skills.

How it's assessed

Written exam: 2 hours

90 marks

30% of the International A-level

Questions

Four compulsory sections:

Section A − multiple choice questions − worth 10 marks.

Section B − short answer questions − worth 10 marks.

Section C − one data response context with short answer and extended response questions − worth 45 marks.

Section D − one essay style question, from a choice of two − worth 25 marks.

Unit 4: Economic development and the global economy

What's assessed

Any content from section 3.4 Economic development and the global economy and section 3.5 Quantitative skills.

How it's assessed

Written exam: 2 hours

90 marks

30% of the International A-level

Questions

Four compulsory sections:

Section A − multiple choice questions − worth 10 marks.

Section B − short answer questions − worth 10 marks.

Section C − one data response context with short answer and extended response questions − worth 45 marks.

Section D − one essay style question, from a choice of two − worth 25 marks.

The A2 units are both worth 90 marks whereas the AS units are worth 80 marks. The A2 exams have 30 more minutes allocated, allowing students more reading time and more time to reflect and plan their answers.

A2 differs from AS in that the content material is more complex and greater weight is given to the quality of analysis and evaluation (assessment objectives 3 and 4). The two A2 units comprise 60% of the final A-level grade with the two AS units making up the other 40%.

APPROACHES TO MARKING AND MARK SCHEMES

The marking approach adopted for higher tariff questions is one based on **levels of response**. Each level is worded in a manner that incorporates references to the four assessment objectives and, by following this approach, marking is both accurate and fair. Levels of response marking is holistic and avoids the marker being constrained by prescriptive mark schemes. As a consequence, students can be given credit for unanticipated but credible responses.

Central to assessment are the assessment objectives (AOs). Effective teaching will emphasise the importance of understanding the AOs and students should be familiar with the key differences between command words such as **apply**, **analyse** and **evaluate**.

Mark schemes will be made available to schools and colleges, after each exam series, and these should constitute a useful planning tool for teachers. They will provide an insight into what examiners are looking for and details of the level descriptors in the **levels of response** mark schemes.

COMMENTS ON THE FOUR UNITS FOR TEACHERS OF ECONOMICS

The specification has been developed by building on the very successful AQA A-level Economics qualifications. We have taken central micro and macroeconomic themes such as:

- the relative effectiveness of markets
- the behaviour of firms and the corresponding impact upon consumers
- the role of government
- living standards
- international trade.

We then incorporated a much stronger international dimension in units 2 and 4 which address the national economy and economic development in the global economy. These units encourage students to make good use of their local contexts, allowing them to maximise their ability to **apply** their economic knowledge; one of the four AOs. This is particularly relevant in unit 4 where the issues of globalisation and economic development are central themes.

UNIT 1

This is a typical introduction to microeconomics which avoids becoming too detailed or asking students to absorb excessive theoretical complexity. An example of this is seen in the area of 'theory of the firm' where students are not expected to construct or interpret analytical diagrammatic representations of cost and revenue curves for differing market situations. Moreover, the concept of 'the margin' and, in particular, marginal cost is not explored until A2. Similarly, in the area of welfare economics and market failure, there is no requirement for students to be able to draw diagrams to represent the impact of negative and positive externalities.

By removing or postponing excessive theoretical complexity until A2, unit 1 becomes quite accessible to the student who may not wish to study economics beyond AS level.

UNIT 2

This is a typical introduction to macroeconomics which, as with unit 1, avoids becoming too detailed or asking students to absorb excessive theoretical complexity. For example, students are not required to demonstrate a detailed knowledge of the construction of national income accounts. Whilst students are expected to be able to calculate the value of the multiplier they are not expected to produce mathematical explanations of the accelerator process. Moreover, it is not until unit 4, at A2, that students are expected to consider a detailed analysis of financial markets and how they can impact on the wider macroeconomy.

Together, units 1 and 2 give beginning economists a good grasp of the basics of economic theory and encourage students to apply their knowledge to a range of current issues facing modern economies.

UNIT 3

This unit builds on and further develops the work of unit 1 by exploring, in greater detail, the key themes. For example, utility theory is used to explain consumer behaviour and the concept of marginal costs and revenue are developed to explain the likely behaviour of firms in attempting to maximise profit. In this unit, students are expected to be able to represent market structures with appropriate diagrams depicting cost and revenue curves.

The role of government in the microeconomy in regulating firms and addressing issues of market failure is considered.

A detailed analysis of labour markets along with a derivation of the demand curve for labour and the impact of imperfections such as monopsony, minimum wage regulation and trade unions is considered.

Finally the study of poverty and inequality are also key features of this unit. Key measures of inequality are considered along with policies that governments can pursue to address inequality.

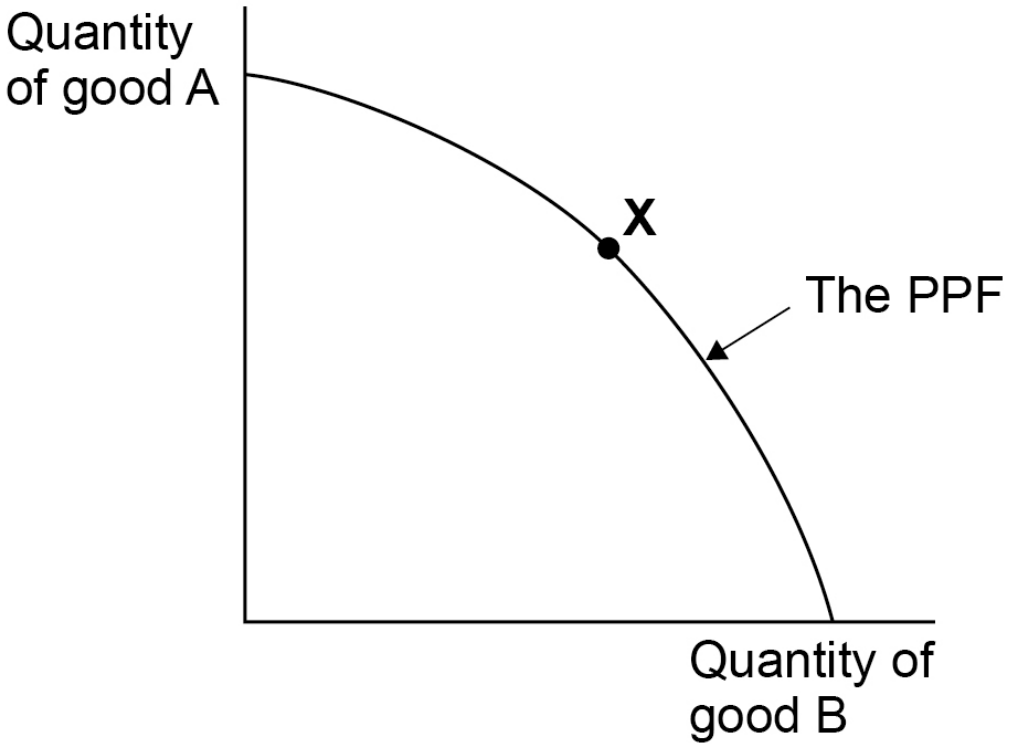
UNIT 4

This unit builds on and further develops the work of unit 2 by exploring, in greater detail, the key themes that were developed in unit 2. There is also a real focus on themes which will undoubtedly interest International schools and colleges, such as globalisation, development economics and living standards. The study of these key areas will give centres great latitude in making the study relevant to local contexts and therefore student engagement is likely to be greater as a consequence of this.

NOTES ON THE KEY THEORIES AND MODELS DEVELOPED IN THE SPECIFICATION

PRODUCTION POSSIBILITY FRONTIERS (3.1.1.4)

A diagrammatic model used to illustrate the basic economic problem of relative scarcity. It assumes an economy producing only two goods with a fixed quantity of inputs (goods A and B in the diagram below). The production possibility frontier (PPF) shows the various combinations of the two goods that an economy could produce. To actually be producing at a point on the frontier such as point **X,** illustrated in diagram 1 below, indicates that resources are being used efficiently as output is maximised from the available inputs.

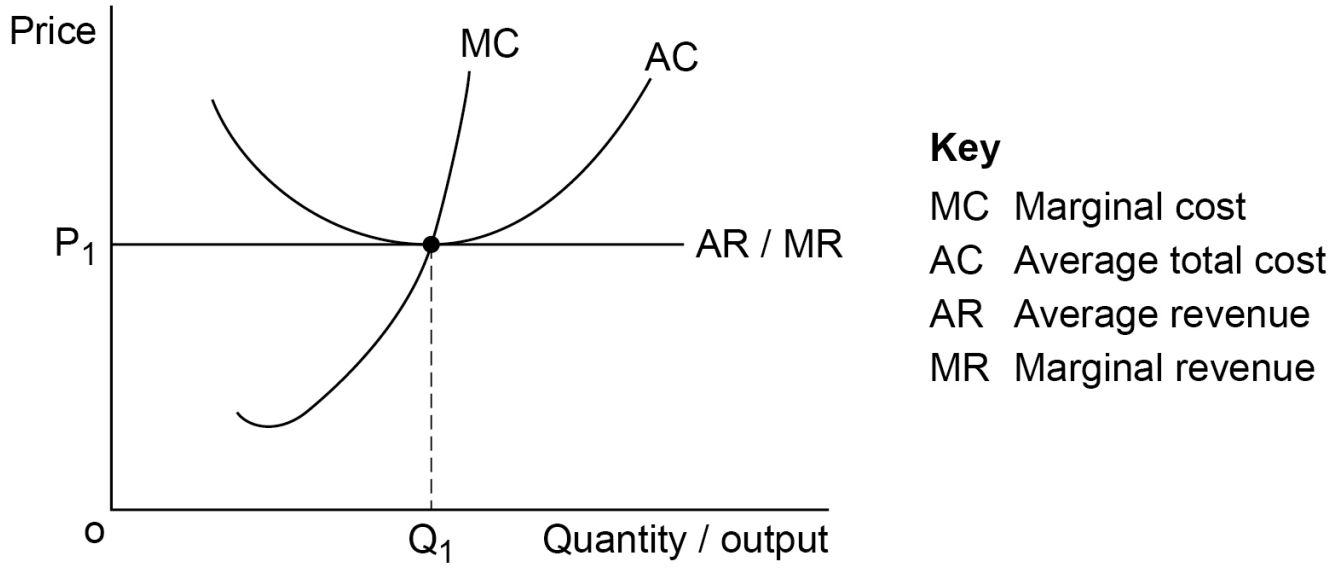


THE MODEL OF PERFECT COMPETITION 3.1.4.3 AND 3.3.3.1

This is the key starting point for analysing the effectiveness of the supply side of the economy. The model builds a theoretical perfect world based on assumptions such as:

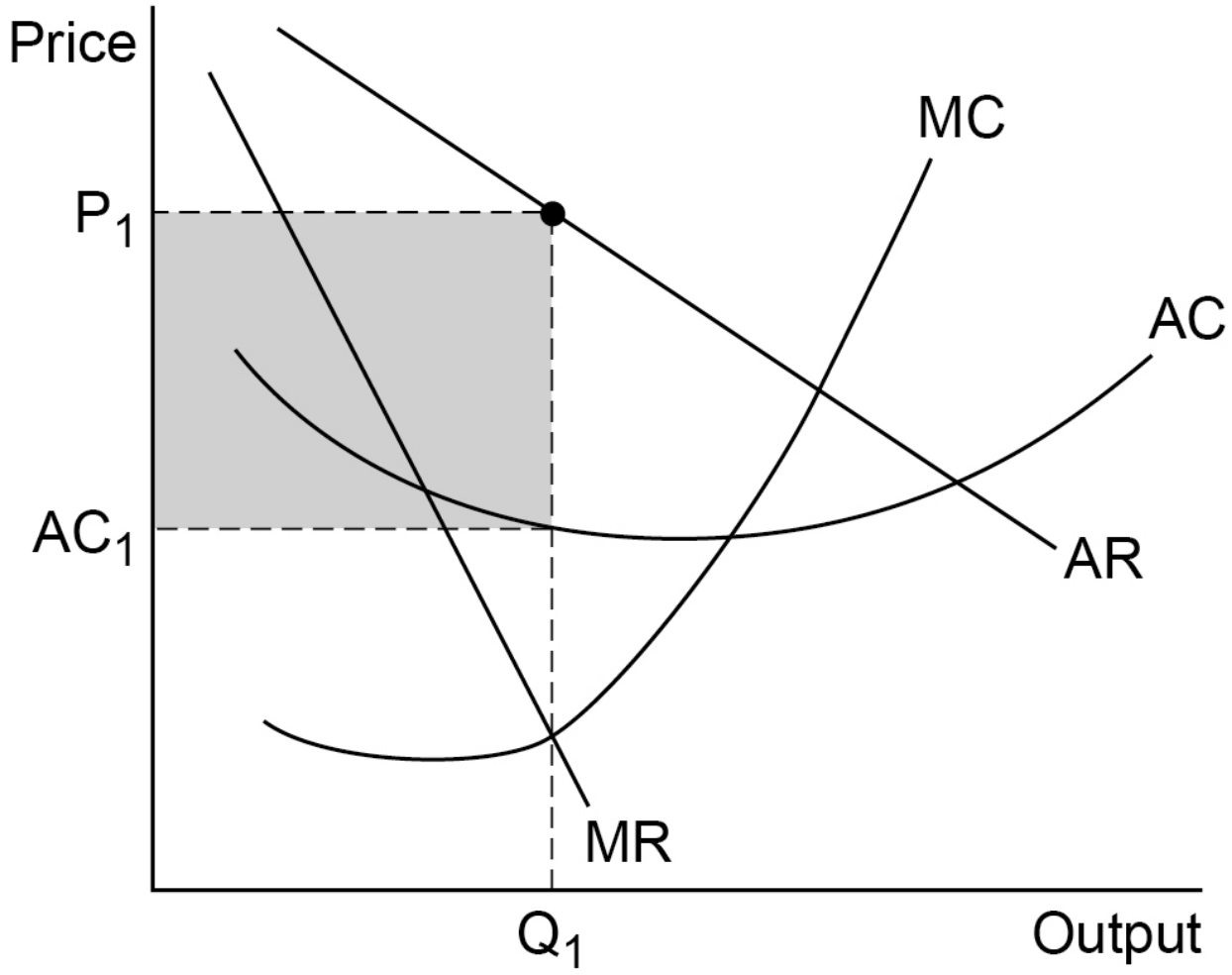
- many consumers and producers in the market
- perfect information for both consumers and producers
- no barriers to entry for firms wishing to enter any market and a homogenous product sold by all competing firms.

These assumptions produce the long run outcome where no excess profits are made, firms are efficient and consumers' welfare is maximised. Clearly the model of perfect competition is a theoretically desirable extreme, not really replicated in the real world. It does, however, give the economist a baseline against which real world provision can be compared. The diagram below shows the use of cost and revenue curves, which are developed at A2, to indicate the long run equilibrium of provision in a perfectly competitive market. We see that a firm will supply oQ1 at price oP1. Here the firm is just covering its total costs, as the price charged is equal to the average cost of the output Q1.



IMPERFECT COMPETITION: MONOPOLY (3.3.3.5), OLIGOPOLY (3.3.3.4) AND MONOPOLISTIC COMPETITION (3.3.3.3)

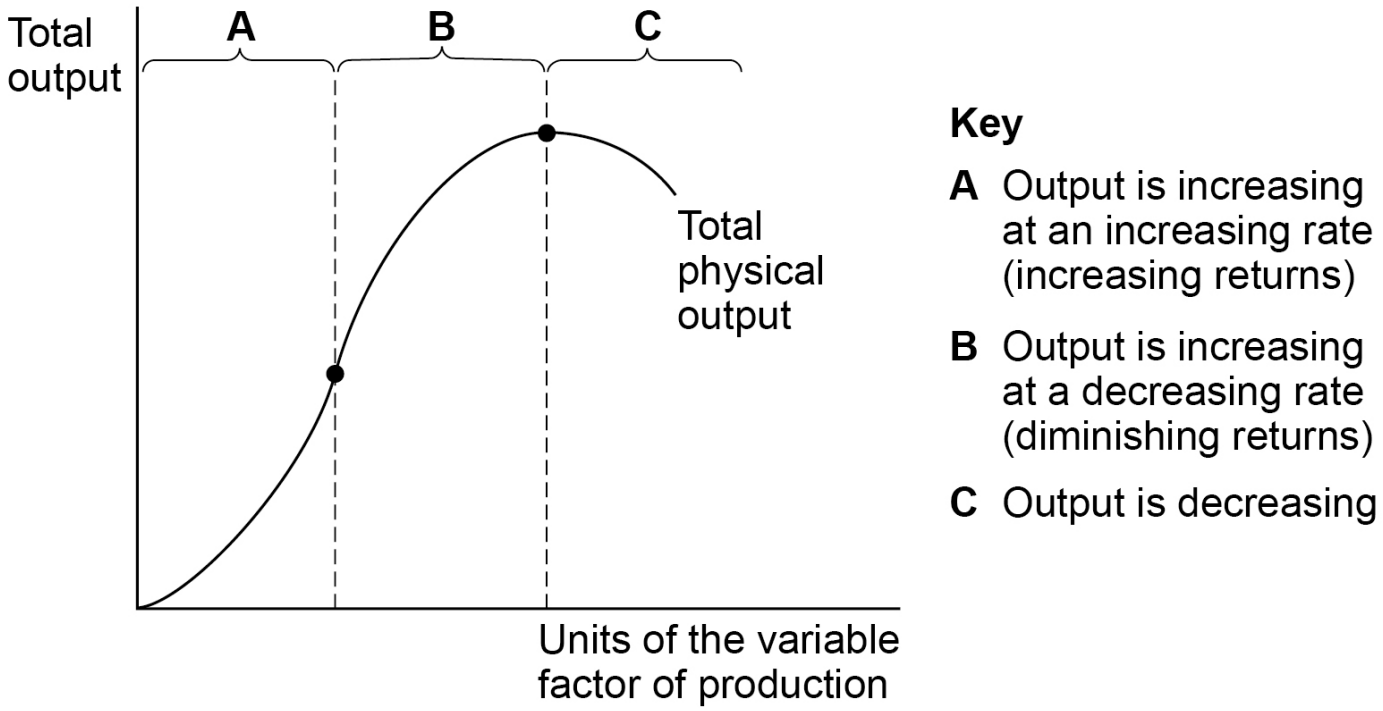
Monopoly power is considered in unit 1 (3.1.4.4) but a diagrammatic analysis is not required until A2, where cost and revenue curves are derived to help illustrate likely price and output strategies in differing circumstances. Monopoly is analysed in detail as it is the polar opposite of perfect competition and the long run equilibrium of monopoly provision is indicated in the diagram below. Here we see that the monopolist is likely to charge a price well in excess of the average cost of producing output Q1 and excess profits, equal to the shaded area, are earned.



Students will be encouraged to consider the welfare implications and efficiency arguments surrounding this possible outcome and compare their findings with the model of perfect competition.

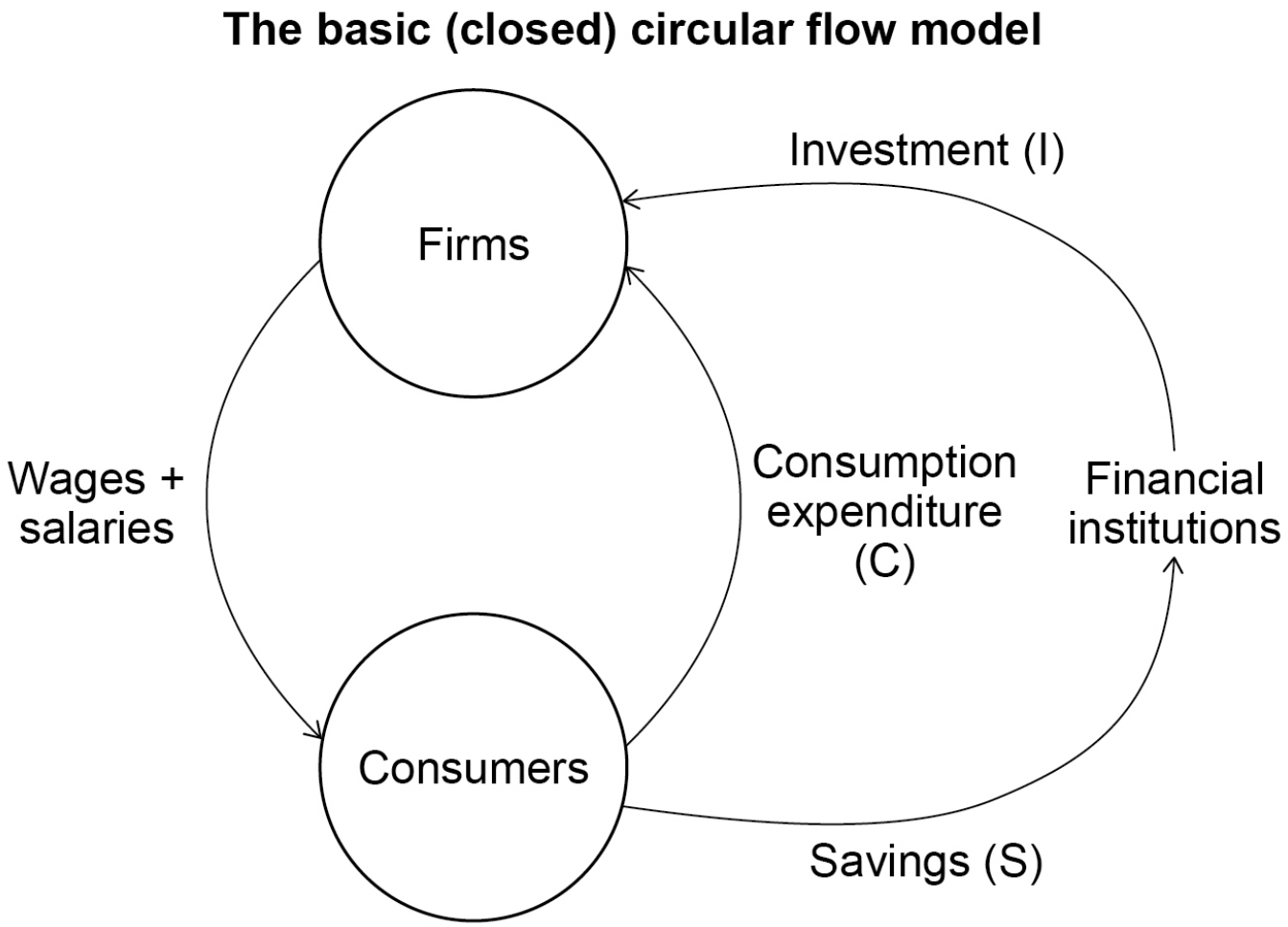
THE THEORY OF DIMINISHING RETURNS 3.3.2.1

This theory considers the implications for a firm of adding consecutive units of variable factors of production to a fixed factor of production. The theory suggests that, in such circumstances, output is likely to grow, initially at an increasing rate, followed by a decreasing rate and finally peaking and declining. This basic relationship is shown in diagram 4. The model is utilised at A2 to develop a firm's likely cost curves (marginal, average and total costs).



THE CIRCULAR FLOW OF INCOME 3.2.2.1

This is a key starting point for the study of macroeconomics. It considers the monetary flows affecting an economy. The basic model shown in the diagram below shows money flowing from firms to employees (also consumers) in the form of wages and salaries, which is either saved or spent. It also assumes that money is saved in financial institutions which loan funds to those who wish to invest in business projects. This basic model can then be further developed to consider the impact of government spending and taxation and international trade.

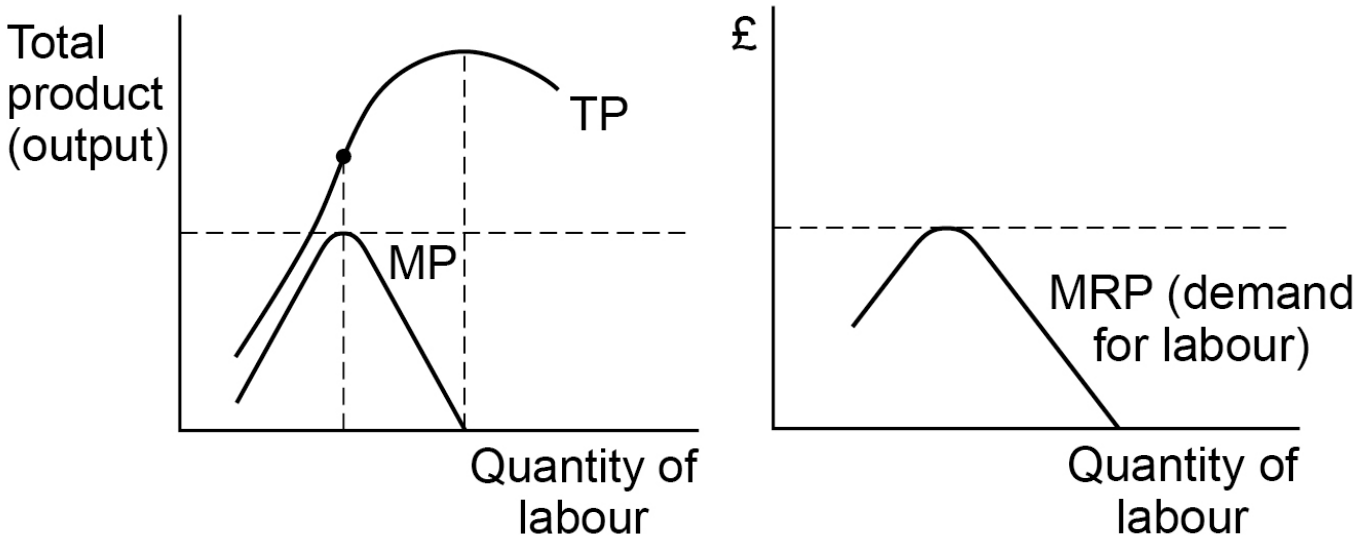


MONETARY POLICY 3.2.4.1

The study of the role of the central bank in influencing interest rates, the supply of money and credit and the exchange rate. Monetary policy is regarded as a key macroeconomic tool in influencing growth, output and price levels. It covers more recent developments such as quantitative easing and attempts to influence expectations in an economy through forward planning.

THE DEMAND FOR LABOUR AND MARGINAL PRODUCTIVITY THEORY 3.3.4.1

The labour market is studied in detail and the starting point is to consider the factors influencing the demand curve for labour. Students will consider the earlier section on diminishing returns and will build on this by considering the likely impact of adding more labour to a production process where other factors of production are fixed. This will reveal a direct relationship between the theory of diminishing returns and the likely demand curve for labour by applying a monetary value to the marginal product (MP) of labour. This is achieved by multiplying MP by the market price of the good in question (called the marginal revenue product of labour – MRP). This will make clear to students that the demand curve for labour is effectively the MRP curve for labour. The two diagrams below illustrate this.



FINANCIAL MARKETS 3.4.2.3

Over the past 50 years, money, capital and foreign exchange markets have become increasingly sophisticated and, for many economies, these sectors contribute significantly to total national income. This means that the financial services sector is often a key employer and its success is critical to future economic progress. However, there have been periods when these important sectors can create problems for an economy. The financial crash of 2007−2008 heavily impacted most developed nations and central governments decided that there was a need for closer monitoring and regulation to minimise systemic risk.

This section of the specification analyses in some detail the components of this sector including the role of money, the functions of the central bank and how governments can regulate financial institutions.

THE THEORY OF COMPARATIVE ADVANTAGE 3.4.1.2

The model of comparative advantage is the key economic theory that suggests that all nations can benefit from engaging in free trade. It illustrates that, despite the possibility that some nations may have an **absolute** advantage (ie they can produce more than their competitors) in the production of some goods, it is **comparative** advantage that matters. Comparative advantage considers the comparative costs of production based on resources used up in the production process. Once this is understood, students possess a clear rationale for the promotion of free trade and they can then consider issues such as protectionism and the impacts of globalisation.

A simple numerical example can illustrate the theory of comparative advantage.

We start with the assumption that two nations produce only two goods – say, cars and motorcycles – and we also assume that one nation is endowed with greater resources and can produce more of both goods (ie it has an **absolute** advantage in the production of both goods). The simple table below indicates this, and we see that Nation A has an absolute advantage in the production of both cars and motorcycles.

	Country A	Country B
Maximum possible output of cars if all resources are employed	10 million	1 million
Maximum possible output of motorcycles if all resources are employed	40 million	2 million

If we now work out, for each nation, the opportunity cost of producing solely cars or motorcycles, measured in terms of the lost output of the other good, we will establish comparative advantages and thus the potential for trade to take place. The table below indicates this:

	Country A	Country B
Opportunity costs of devoting all resources to the production of cars (expressed as motorcycles forfeited for each car that is produced)	4	2
Opportunity costs of devoting all resources to the production of motorcycles (expressed as cars forfeited for each motorcycle that is produced)	0.25	0.5

The two conclusions that we draw from this table are:

1. Country A has a comparative advantage in the production of motorcycles.
2. Country B has a comparative advantage in the production of cars.

There is therefore the potential for these two nations to derive mutual benefit from specialising and trading any surpluses. The theory suggests that both nations should specialise in the production of those goods for which they have a comparative advantage – and trade any surpluses. In this case, Nation A should produce only motorcycles and trade any surplus for cars produced by Nation B.

SUBJECT SPECIFIC VOCABULARY

In the following section, we provide explanations of some of the content on the specification that may be less familiar to you:

Opportunity cost
This describes the cost of any economic decision in terms of lost alternatives. For example, if a consumer with a fixed budget spends that entire budget on product X, then the opportunity cost of that decision is any other combination of goods that might have been purchased with the fixed budget. Since economic resources are finite, opportunity cost is a central theme in the study of economics.

Product differentiation
Firms in competitive markets will strive to convince the consumer that their product is different and more desirable than products offered by competitors. Product differentiation is the attempt to achieve real, distinguishable differences between products. Often advertising is used to emphasise and overstate marginal, or even spurious, product differences.

Monopoly and monopoly power
The term **monopoly** describes a market with one supplier. This rarely exists in reality. Economists are more likely to refer to **degrees of monopoly power** – usually based on magnitudes of market share. Concentration ratios calculate the proportion of a total market held by a few firms and therefore give us a measure of monopoly power.

Oligopoly
This term describes a market dominated by a few, highly interdependent firms. Each has a degree of monopoly power but this power is counterbalanced by the existence of similarly sized firms. In most modern economies telecoms, banking, food retailing are typical examples of oligopolistic markets. Oligopolists are always wary of making big changes, particularly prices, as they fear how their close rivals might react. As a consequence, the study of oligopoly is an interesting area as it often difficult to predict how firms may behave.

Monopolistic competition
This term describes a competitive market with many firms, each attempting to create a degree of monopoly power. They do this through product differentiation and advertising product differences. Many real world markets conform to this categorisation and ultimately a monopolistically competitive market may deliver reasonably efficient outcomes for consumers.

Externalities
The twin actions of consumption and production may produce effects which impact on others not directly involved in the act of consumption or production. These impacts we call **externalities** and they can be positive or negative with consequent impacts upon the wellbeing of others. For example, a negative production externality would be the emission of greenhouse gasses by a coal−fired power station.

Market failure
Free market economists argue that the market is generally the most efficient way to allocate scarce resources but few would consider that the free market is always and everywhere the most effective solution to economic problems. When the free market is clearly struggling to produce the most desired outcomes we say that there is **market failure** and this gives rise to the case for government intervention in such a market.

Merit goods
These are goods which have strong positive externalities, such as healthcare or education, making a strong case for government provision as the free market is likely to underprovide these goods.

Public goods
In the case of the pure public good, the market will not provide it at all and so there will be complete market failure. This is because such goods have the characteristics of **non−excludability** (provision for one implies provision for all) and **non−rivalry** (one person's consumption does not deny others the opportunity to consume). Because of these characteristics firms would not be able to charge a fair price for such goods as other consumers will be able to consume the good without paying (free riders). This will result in firms not providing the good.

Probably the best example of a public good would be clean, pollution free air where it is impossible to charge for this. In reality goods may exhibit a degree of '**publicness'**. For example, a park might be viewed as a **quasi−public good** if it is open to all but it is possible to exclude consumers if a high fence was built around the park and an admission fee charged.

Gini coefficient
A mathematical measure of income or wealth inequality which produces a value between 0 (income or wealth is equally distributed throughout the whole population) and 1 (all income or wealth is held by one individual).

Lorenz curve
This is a graphical representation of how equally distributed income or wealth is in a society.

Progressive and regressive taxation
A progressive tax takes a greater proportion of a person's income as their income increases. A regressive tax is the polar opposite and takes a smaller proportion of a person's income as that income increases.

Fiscal policy
The manipulation of both government spending and taxation. This is a key policy tool available to governments.

Monetary policy
A range of measures used by a government to influence the level of spending in an economy with a view to keeping growth, output, inflation and the exchange rate within acceptable parameters.

PPP exchange rates
Exchange rates are determined by the twin forces of demand and supply. Influencing a currency's price are speculative activities, tariffs and transportation costs which can distort a currency's *true* value. A PPP (purchasing power parity) exchange rate adjusts the market rate so that the revised measure provides an exchange rate which means that the two currencies involved will buy the same basket of goods in each country ie having the same purchasing power.

CHALLENGES TO TEACHERS DELIVERING THE SPECIFICATION

It is anticipated that teachers will welcome the flexibility that this specification facilitates as they can choose to deliver:

- a one year AS course
- a two year AS course alongside the study of other A-level subjects
- a one year AS course, followed by a one year A2 course, to complete the full A-level
- a two year A-level with the flexibility to teach the specification in any order that teachers wish.

The simplification of the economics included in the AS specification ensures that the study of economics is accessible to the widest possible student audience. Whilst the A2 material is more complex, and the A2 assessment regime gives greater weight to the skills of analysis and evaluation, there is every opportunity to apply economic theories studied to local contexts. This point is important as it is one of the key routes to high levels of student engagement.

Where teachers feel that they need support and advice in delivering the specification, they should feel assured that AQA have very well developed support networks. Podcasts, helplines and feedback events for teachers are planned in line with current UK provision. This can be verified by a cursory navigation of the AQA website. AQA take this aspect of their work very seriously and endeavor to provide support of the highest quality and relevance.

CONCLUSION

The OxfordAQA AS and A-level Economics is an exciting new opportunity for schools and colleges outside the UK to study an AS and A-level course which contains many similar features to the UK qualification, whilst at the same time having distinctive features of its own. This teaching guide is an introduction to the course at the point of its inception. Further reports, advice and guidance will be offered once the course is up and running.

Teachers should note that, in due course, there will be approved text books (details of which can be found at oxfordaqaexams.org.uk)

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