

International AS and A-level **Economics**

(9640) Specification



For teaching from September 2020 onwards

For International AS exams

May/June 2021 onwards

For International A-level exams

May/June 2022 onwards

For teaching and examination outside
the United Kingdom

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Are you using the latest version of this specification?

- You will always find the most up-to-date version of this specification on our website at oxfordaqa.com/economics
- We will write to you if there are significant changes to the specification.

1 Introduction

1.1 Why choose OxfordAQA for International AS and A-levels?

Our international qualifications enable schools that follow a British curriculum to benefit from the best education expertise in the United Kingdom (UK).

Our International AS and A-levels offer the same rigour and high quality as AS and A-levels in the UK and are relevant and appealing to students worldwide. They reflect a deep understanding of the needs of teachers and schools around the globe and are brought to you by Oxford University Press and AQA, the UK's leading awarding body.

Providing valid and reliable assessments, these qualifications are based on over 100 years of experience, academic research and international best practice. They have been independently validated as being to the same standard as the qualifications accredited by the UK examinations regulator, Ofqual. They reflect the latest changes to the British system, enabling students to progress to higher education with up-to-date qualifications.

You can find out about OxfordAQA at oxfordaqa.com

1.2 Why choose our International AS and A-level Economics?

We have worked closely with teachers, employers and higher education institutions to develop a relevant, engaging and up-to-date Economics specification to inspire, challenge and motivate every student no matter what their level of ability.

Our content is designed to provide a stimulating course that students will enjoy through studying topics and issues that are relevant in today's society. It will provide excellent preparation for students who wish to progress to study the subject at university. Students will acquire a firm foundation in micro and macroeconomics and will have ample opportunities to apply their knowledge to a variety of interesting and challenging national and global issues.

The variety of assessment styles used, including multiple choice, short answer, data response and essays allow students to develop a wide range of skills such as the ability to analyse data, develop their competence in applying quantitative techniques, logical thinking and making informed, well-supported judgements. The skills they acquire will be very valuable for further study and employment.

You can find out more about our International AS and A-level Economics qualifications at oxfordaqa.com/economics

1.3 Recognition

OxfordAQA meet the needs of international students. They are an international alternative and comparable in standard to the Ofqual regulated qualifications offered in the UK. Our qualifications have been independently benchmarked by UK ENIC, the UK national agency for providing expert opinion on qualifications worldwide. They have confirmed they can be considered 'comparable to the overall GCE A-level and GCSE standard offered in the UK'.

To read their report and see the latest list of universities who have stated they accept these international qualifications, visit oxfordaqa.com/recognition

1.4 The Oxford International Programme learner attributes

In order to equip students with the skills they need for success both now and in the future, we have worked with Oxford University Press to create the Oxford International Programme. This combines the Oxford International Curriculum with OxfordAQA qualifications, creating an integrated offer for international schools, from Early Years to A-level.

At its core we have introduced the Oxford International Programme learner attributes – the skills and competencies that enable our students to thrive academically, socially and personally.

The learner attributes, alongside our focus on demonstrating higher order critical thinking skills, ensure that students are equipped to get the grades that will take them places, and build the skills they need to be successful when they get there.



1.5 Support and resources to help you teach

We know that support and resources are vital for your teaching and that you have limited time to find or develop good quality materials. That's why we've worked with experienced teachers to provide you with resources that will help you confidently plan, teach and prepare for exams.

Teaching resources

You will have access to:

- sample schemes of work to help you plan your course with confidence
- teacher guidance notes to give you the essential information you need to deliver the specification
- training courses to help you deliver our qualifications
- student textbooks that have been checked and approved by us.

Preparing for exams

You will have access to the support you need to prepare for our exams, including:

- specimen papers and mark schemes
- exemplar student answers with examiner commentaries.

Analyse your students' results with Enhanced Results Analysis (ERA)

After the first examination series, you can use this tool to see which questions were the most challenging, how the results compare to previous years' and where your students need to improve. ERA, our free online results analysis tool, will help you see where to focus your teaching.

Information about results, including maintaining standards over time, grade boundaries and our post-results services, will be available on our website in preparation for the first examination series.

Help and support

Visit our website for information, guidance, support and resources at oxfordaqa.com/9640

You can contact the subject team directly at economics@oxfordaqa.com or call us on +44 (0)161 696 5995 (option 1 and then 1 again).

Please note: We aim to respond to all email enquiries within two working days.

Our UK office hours are Monday to Friday, 8am – 5pm.

2 Specification at a glance

The titles of the qualifications are:

- OxfordAQA International Advanced Subsidiary Economics
- OxfordAQA International Advanced Level Economics.

These qualifications are modular. The full International A-level is intended to be taken over two years. The specification content for the International AS is half that of an International A-level. The International AS can be taken as a stand-alone qualification or can be used to count towards the International A-level. Students can take the International AS in the first year and then take the International A2 in the second year to complete the International A-level or they can take all the units together in the same examination series at the end of the course.

The International AS content will be 50% of the International A-level content but International AS assessments will contribute 40% of the total marks for the full International A-level qualification with the remaining 60% coming from the International A2 assessments.

The guided learning hours (GLH) for an OxfordAQA International Advanced Subsidiary is 180.

The guided learning hours (GLH) for an OxfordAQA International Advanced Level is 360.

These figures are for guidance only and may vary according to local practice and the learner's prior experience of the subject.

2.1 Subject content

- 1 The operation of markets, market failure and the role of government (page 11)
- 2 The national economy in a global environment (page 20)
- 3 The economics of business behaviour and the distribution of income (page 26)
- 4 Economic development and the global economy (page 35)
- 5 Quantitative skills (page 41)

2.2 International AS

Assessments

Unit 1: The operation of markets, market failure and the role of government	+	Unit 2: The national economy in a global environment
<p>What's assessed</p> <p>Any content from section 3.1 The operation of markets, market failure and the role of government and section 3.5 Quantitative skills.</p>		<p>What's assessed</p> <p>Any content from section 3.2 The national economy in a global environment and section 3.5 Quantitative skills.</p>
<p>How it's assessed</p> <p>Written exam: 1 hour and 45 minutes</p> <p>80 marks</p> <p>50% of the International AS</p> <p>20% of the International A-level</p>		<p>How it's assessed</p> <p>Written exam: 1 hour and 45 minutes</p> <p>80 marks</p> <p>50% of the International AS</p> <p>20% of the International A-level</p>
<p>Questions</p> <p>Two compulsory sections:</p> <p>Section A has multiple choice questions worth 15 marks.</p> <p>Section B has one data response context with short answer, calculations/diagrammatical and extended response questions worth 65 marks.</p>		<p>Questions</p> <p>Two compulsory sections:</p> <p>Section A has multiple choice questions worth 15 marks.</p> <p>Section B has one data response context with short answer, calculations/diagrammatical and extended response questions worth 65 marks.</p>

2.3 International A2

Assessments

Unit 3: The economics of business behaviour and the distribution of income	Unit 4: Economic development and the global economy
<p>What's assessed</p> <p>Any content from section 3.3 The economics of business behaviour and the distribution of income and section 3.5 Quantitative skills.</p> <p>Students will be expected to use the knowledge and skills they have developed in Unit 1 to support their understanding of the concepts, theories and issues introduced in Unit 3.</p>	<p>What's assessed</p> <p>Any content from section 3.4 Economic development and the global economy and section 3.5 Quantitative skills.</p> <p>Students will be expected to use the knowledge and skills they have developed in Units 1 and 2 to support their understanding of the concepts, theories and issues introduced in Unit 4.</p>
<p>How it's assessed</p> <p>Written exam: 2 hours</p> <p>90 marks</p> <p>30% of the International A-level</p>	<p>How it's assessed</p> <p>Written exam: 2 hours</p> <p>90 marks</p> <p>30% of the International A-level</p>
<p>Questions</p> <p>Four compulsory sections:</p> <p>Section A has multiple choice questions worth 10 marks.</p> <p>Section B has short answer questions worth 10 marks.</p> <p>Section C has one data response context with short answer and extended response questions worth 45 marks.</p> <p>Section D students answer one question, from a choice of two worth 25 marks each.</p>	<p>Questions</p> <p>Four compulsory sections:</p> <p>Section A has multiple choice questions worth 10 marks.</p> <p>Section B has short answer questions worth 10 marks.</p> <p>Section C has one data response context with short answer and extended response questions worth 45 marks.</p> <p>Section D students answer one question, from a choice of two worth 25 marks each.</p>

3 Subject content

During their course of study, students should be encouraged to develop their ability to think like an economist and use a variety of economic concepts, principles and skills to analyse and evaluate a variety of real-world issues and problems. Units 3 and 4 are synoptic and may draw on the subject knowledge specified in other units.

Students will be expected to acquire competence in quantitative skills that are relevant to the subject content and be familiar with the various types of statistical and other data which are commonly used by economists. The quantitative skills that will be assessed are given in section 3.5 of this specification. These skills may be assessed in any of the assessments.

3.1 The operation of markets, market failure and the role of government

3.1.1 The economic problem and methodology

3.1.1.1 The nature and purpose of economic activity

Content	Additional information
<ul style="list-style-type: none"> The central purpose of economic activity is the production of goods and services to satisfy needs and wants The key economic decisions are: what to produce, how to produce, and who is to benefit from the goods and services produced 	Students should understand that economic welfare is affected by how goods and services are distributed amongst individuals, as well as by what and how much is produced.

3.1.1.2 Economic resources

Content	Additional information
<ul style="list-style-type: none"> The economists' classification of economic resources into land, labour, capital and enterprise, which are the factors of production Renewable and non-renewable resources The environment is a scarce resource 	Students should understand that economic activity is dependent on the natural environment and that production and consumption can affect that environment.

3.1.1.3 Scarcity, choice and the allocation of resources

Content	Additional information
<ul style="list-style-type: none"> The fundamental economic problem is scarcity and that it results from limited resources and unlimited wants Scarcity means that choices must be made about how scarce resources are allocated between different uses Choices have an opportunity cost Allocation of resources in free market, mixed and centrally planned economies 	<p>Students should understand how markets and governments affect the allocation of resources.</p> <p>Students should understand the advantages and disadvantages of the different types of economic system that are used to allocate resources.</p>

3.1.1.4 Production possibility diagrams

Content	Additional information
<ul style="list-style-type: none"> Production possibility diagrams illustrate different features of the fundamental economic problem, including: resource allocation, opportunity cost and trade-offs, unemployment of economic resources, economic growth Why all points on the boundary are productively efficient but not all points on the boundary are allocatively efficient 	Students should be able to use production possibility diagrams to illustrate these features.

3.1.1.5 Economic methodology

Content	Additional information
<ul style="list-style-type: none"> Economics as a social science Similarities to and differences in methodology from natural and other sciences Difference between positive and normative statements How value judgements influence economic decision making and policy People's views concerning the best option are influenced by the positive consequences of different decisions and by moral and political judgements 	Students should understand how thinking as an economist may differ from other forms of scientific enquiry.

3.1.2 How markets work

3.1.2.1 The demand for goods and services

Content	Additional information
<ul style="list-style-type: none"> Factors which determine the demand for a good or service A demand curve shows the relationship between price and quantity demanded Causes of shifts in the demand curve 	Factors that influence the spending decisions of consumers should be taken to include: price, income, wealth, the price of substitutes and complementary goods, and individual preferences. Students should also appreciate that such decisions are influenced by social and emotional factors.

3.1.2.2 Price, income and cross elasticities of demand

Content	Additional information
<ul style="list-style-type: none"> • Meaning of price, income and cross elasticity of demand • Relationship between income elasticity of demand and normal and inferior goods • Relationship between cross elasticity of demand and substitute and complementary goods • Relationships between price elasticity of demand and firms' total revenue (total expenditure) • Factors that influence these elasticities of demand 	Students should be able to calculate and interpret numerical values of these elasticities of demand.

3.1.2.3 The supply of goods and services

Content	Additional information
<ul style="list-style-type: none"> • Factors which determine the supply of a good or service • A supply curve shows the relationship between price and quantity supplied • Understand higher prices imply higher profits and that this will provide the incentive to expand production • Causes of shifts in the supply curve 	

3.1.2.4 Price elasticity of supply

Content	Additional information
<ul style="list-style-type: none"> • Meaning of price elasticity of supply • Factors that influence price elasticity of supply 	Students should be able to calculate and interpret numerical values of price elasticity of supply.

3.1.2.5 The determination of market prices

Content	Additional information
<ul style="list-style-type: none"> • How the interaction of demand and supply determines equilibrium prices in a market economy • Difference between equilibrium and disequilibrium • Why excess demand and excess supply lead to changes in price • Causes of fluctuations in commodity prices, including speculation 	<p>Students should be able to use demand and supply diagrams to help them analyse causes of changes in market prices and should understand the significance of different price elasticities of demand and supply.</p> <p>Students should be able to apply their knowledge of the basic model of demand and supply to a variety of real-world markets.</p>

3.1.2.6 The interrelationship between markets

Content	Additional information
<ul style="list-style-type: none"> How changes in one market are likely to affect other markets Joint demand, competitive demand, composite demand, derived demand and joint supply 	Students should be able to explore the impact of changes in demand, supply and price in one market upon other related markets, including, the markets for substitutes and complements.

3.1.2.7 How markets and prices allocate resources

Content	Additional information
<ul style="list-style-type: none"> Rationing, incentive and signalling functions of prices in allocating resources and coordinating the decisions of buyers and sellers in a market economy The price mechanism is the way in which the basic economic problem is resolved in a market economy Advantages and disadvantages of the price mechanism and of extending its use into new areas of activity 	<p>Students should understand how economic incentives influence what, how and for whom goods and services are produced.</p> <p>Students should be able to assess the view that the price mechanism is an impersonal method of allocating resources.</p> <p>Students should also be able to assess the view that introducing the price mechanism and markets into some fields of human activity may be undesirable and is likely to affect the nature of the activity.</p>

3.1.3 An introduction to production, costs, revenue and profit

3.1.3.1 Production and productivity

Content	Additional information
<ul style="list-style-type: none"> Production converts inputs, such as raw materials, capital and labour, into final output Importance of the natural environment in sustaining economic activity Meaning of productivity, including labour productivity 	Students should appreciate relationships between production and the natural environment. The environment provides inputs into the productive process and can be damaged by productive activity.

3.1.3.2 Specialisation, division of labour and exchange

Content	Additional information
<ul style="list-style-type: none"> Benefits and costs of specialisation and division of labour Why specialisation requires an efficient means of exchanging goods and services, including the use of money as a medium of exchange 	

3.1.3.3 Costs of production

Content	Additional information
<ul style="list-style-type: none"> • Difference between the short run and the long run • Difference between fixed and variable costs • Difference between average and total costs 	<p>Students should be able to calculate average and total costs.</p> <p>Students should appreciate that the short-run average cost curve is likely to be U-shaped but a formal link with the law of diminishing returns is not expected. This is included in Unit 3.</p> <p>Students should understand that the shape of the long-run average cost curve is determined by economies and diseconomies of scale.</p>

3.1.3.4 Economies and diseconomies of scale

Content	Additional information
<ul style="list-style-type: none"> • Difference between internal and external economies of scale • Reasons for diseconomies of scale • Relationship between economies of scale, diseconomies of scale and the shape of the long-run average cost curve 	<p>Students should be able to categorise and give examples of both internal and external economies of scale.</p>

3.1.3.5 Average revenue, total revenue and profit

Content	Additional information
<ul style="list-style-type: none"> • Difference between average and total revenue • The average revenue curve is the firm's demand curve • Profit is the difference between total revenue and total costs 	<p>Students should be able to calculate average revenue, total revenue and profit.</p>

3.1.4 Competitive and concentrated markets

3.1.4.1 Market structures

Content	Additional information
<ul style="list-style-type: none"> • There is a range of market structures and they affect the behaviour of firms • Factors including the number of firms, the degree of product differentiation and ease of entry are used to distinguish between different market structures 	<p>Students are not required to draw or use the traditional 'theory of the firm' diagrams.</p>

3.1.4.2 The objectives of firms

Content	Additional information
<ul style="list-style-type: none"> Profit is an important objective of most firms Firms may also have other objectives including survival, growth and increasing their market share 	<p>Students should be aware that firms may have a variety of objectives but a detailed knowledge of these objectives is not required. However, students should appreciate that the objectives of a firm will affect its behaviour.</p>

3.1.4.3 Competitive markets

Content	Additional information
<ul style="list-style-type: none"> Main characteristics of a perfectly competitive market In such markets the price is determined by the interaction of demand and supply Why profits are likely to be lower in a competitive market than in a market which is dominated by a few large firms 	<p>An understanding of the formal model of perfect competition and the associated diagrams is not required.</p> <p>Students should understand factors that affect the competitiveness of a market, including the number of firms and barriers to entry.</p>

3.1.4.4 Monopoly and monopoly power

Content	Additional information
<ul style="list-style-type: none"> Difference between pure monopoly and monopoly power Monopoly power is influenced by various factors including barriers to entry, the number of competitors, advertising and the degree of product differentiation Concentration ratios and how to calculate a concentration ratio The basic model of monopoly suggests that higher prices and profits and inefficiency may result in a misallocation of resources compared to the outcome in a competitive market Potential benefits from monopoly, including economies of scale and possibly more invention and innovation 	<p>Students should appreciate that there are few examples of pure monopoly but many firms have monopoly power.</p> <p>A formal diagrammatic analysis of monopoly is not required but students should be able to use a demand curve to illustrate that if a monopolist raises the market price above the competitive level, output will fall. Students should also be able to use a long-run average cost curve to illustrate the benefits from economies of scale that may result from monopoly.</p> <p>Students should appreciate the various factors which affect the behaviour and performance of firms in a variety of real-world markets.</p>

3.1.4.5 The competitive market process

Content	Additional information
<ul style="list-style-type: none"> Firms do not just compete on price but competition will also lead firms to strive to improve products, reduce costs and improve the quality of the service provided 	<p>Students should recognise that many large firms compete vigorously with each other, benefiting consumers, but that monopoly power may lead to a misallocation of resources and consumers being exploited.</p>

3.1.5 Market failure and government intervention in markets

3.1.5.1 The meaning of market failure

Content	Additional information
<ul style="list-style-type: none"> Market failure occurs whenever a market leads to a misallocation of resources Meaning of a misallocation of resources How public goods, positive and negative externalities, merit and demerit goods, monopoly and other market imperfections, and inequalities in the distribution of income and wealth can lead to market failure 	Students should be able to provide examples of each of these causes of market failure.

3.1.5.2 Private goods, public goods and quasi-public goods

Content	Additional information
<ul style="list-style-type: none"> Pure public goods are non-rival and non-excludable and recognition of the significance of these characteristics Difference between a public good and a private good Circumstances when a public good may take on some of the characteristics of a private good and become a quasi-public good Significance of technological change, eg television broadcasting is now excludable Free-rider problem Tragedy of the commons 	Students should understand the relevance of the 'tragedy of the commons' for environmental market failures. Students should also understand the criticisms of the theory.

3.1.5.3 Positive and negative externalities in consumption and production

Content	Additional information
<ul style="list-style-type: none"> Externalities exist when there is a divergence between private and social costs and benefits Why negative externalities are likely to result in overproduction and that positive externalities are likely to result in underproduction Why the absence of property rights may result in externalities and hence market failure 	<p>Students should be able to illustrate the misallocation of resources resulting from externalities in consumption and production, using demand and supply diagrams.</p> <p>Students are not required to use Marginal Social Costs/ Marginal Social Benefit (MSC/MSB) diagrams.</p>

3.1.5.4 Merit and demerit goods

Content	Additional information
<ul style="list-style-type: none"> The classification of merit and demerit goods depends upon a value judgement Such products may be subject to positive and negative externalities in consumption How underprovision of merit goods and overprovision of demerit goods may also result from imperfect information 	<p>Students should be able to illustrate the misallocation of resources resulting from the consumption of merit and demerit goods using demand and supply diagrams.</p> <p>Students are not required to use MSC/MSB diagrams.</p> <p>Students should understand that not all products that result in positive or negative externalities in consumption are either merit or demerit goods.</p>

3.1.5.5 Market imperfections

Content	Additional information
<ul style="list-style-type: none"> Why imperfect and asymmetric information can lead to market failure Why the existence of monopoly and monopoly power can lead to market failure Why the immobility of factors of production can lead to market failure Why price instability may be a source of market failure 	<p>Students should understand that economic agents may not have access to the same information and that this may contribute to markets operating inefficiently.</p>

3.1.5.6 An inequitable distribution of income and wealth

Content	Additional information
<ul style="list-style-type: none"> Difference between income and wealth Distinction between equality and equity In the absence of government intervention, the market mechanism is likely to result in a very unequal and inequitable distribution of income and wealth In a market economy, an individual's ability to consume goods and services depends upon their income and wealth, and an inequitable distribution of income and wealth leads to a misallocation of resources and market failure 	<p>Students should understand that economic welfare is affected by the distribution of income and wealth.</p> <p>Students should understand that the degree of inequality can be measured but that whether or not a given distribution of income is equitable (fair and just) involves a value judgement.</p>

3.1.5.7 Government intervention in markets

Content	Additional information
<ul style="list-style-type: none"> • The existence of market failure, in its various forms, provides an argument for government intervention in markets • Governments influence the allocation of resources in a variety of ways, including through public expenditure, taxation and regulations • Governments have a range of objectives and these aims affect how they intervene in a mixed economy to influence the allocation of resources • Use of indirect taxation, subsidies, price controls, buffer stocks, pollution permits, extension of property rights, state provision and regulation to correct market failure 	<p>Students should be able to assess the role of the government and markets in a variety of situations.</p> <p>Students should be able to analyse the effects of government intervention in markets on consumers, producers and other economic agents.</p> <p>Students should understand that taxes and government spending can be used to reduce inequality.</p> <p>Students should be able to evaluate the case for and against government intervention in markets and to assess the relative merits of different methods of intervention.</p>

3.1.5.8 Government failure

Content	Additional information
<ul style="list-style-type: none"> • Government failure occurs when government intervention in the economy leads to a worse allocation of resources and a fall in economic welfare • Inadequate information, inappropriate or conflicting objectives, administrative costs and corruption are possible sources of government failure • Government intervention can lead to unintended consequences 	<p>Students should understand that government involvement in an economy can improve economic welfare but they should also understand that government intervention may lead to a reduction in economic welfare.</p>

3.2 The national economy in a global environment

3.2.1 The measurement of macroeconomic performance

3.2.1.1 The objectives of government economic policy

Content	Additional information
<ul style="list-style-type: none"> Main objectives of government macroeconomic policy: economic growth, price stability, minimising unemployment and a stable balance of payments on current account The possibility of conflicts arising when attempting to achieve these objectives The importance attached to different objectives will affect the policies adopted by the government 	<p>Students should recognise that governments may also have other economic policy objectives, including balancing the budget, achieving an equitable distribution of income and wealth, and protecting the environment.</p> <p>Students should be aware that the importance attached to the different objectives changes over time and is affected by political and social factors.</p>

3.2.1.2 Macroeconomic indicators

Content	Additional information
<ul style="list-style-type: none"> Data which is commonly used to measure the performance of an economy, including: real GDP, real GDP per capita, Gini coefficient, consumer price index, measures of unemployment, productivity and the balance of payments on current account How index numbers are calculated, including the base year and weights 	<p>Students should understand the difference between real and nominal data and the significance of this distinction.</p> <p>Students should understand how index numbers are used to measure changes in the price level and other economic variables.</p>

3.2.2 How the macroeconomy works

3.2.2.1 The circular flow of income

Content	Additional information
<ul style="list-style-type: none"> What national income measures Difference between nominal (money) and real income Real national income as an indicator of economic performance The circular flow of income model, the equation $\text{income} = \text{output} = \text{expenditure}$ and the concepts of equilibrium and full employment income Difference between injections and withdrawals into the circular flow of income Effects of changes in injections and withdrawals on national income 	<p>Students are not expected to have a detailed knowledge of the construction of national income accounts.</p> <p>Students should appreciate that although national income is an important indicator of macroeconomic performance, there are many other factors that influence economic well-being.</p>

3.2.2.2 Aggregate demand and aggregate supply analysis

Content	Additional information
<ul style="list-style-type: none"> Changes in the price level are represented by movements along the aggregate demand (AD) and aggregate supply (AS) curves Factors that shift the AD curve and the short-run aggregate supply (SRAS) curve Factors which affect long-run aggregate supply Underlying economic growth is represented by a rightward shift in the long-run aggregate supply (LRAS) curve Use AD/AS diagrams to illustrate macroeconomic equilibrium Effects of demand-side and supply-side shocks on the macroeconomy 	<p>Students should be able to use AD and AS analysis to help them explain macroeconomic problems and issues. This includes using AD and AS diagrams to illustrate changes in the price level, demand-deficient (cyclical) unemployment and economic growth.</p> <p>Students should also understand how global economic events affect the domestic economy.</p>

3.2.2.3 Determinants of aggregate demand

Content	Additional information
<ul style="list-style-type: none"> Meaning of aggregate demand (AD) Components of AD Determinants of consumption, investment, government spending, exports and imports Determinants of savings Marginal propensities to consume, save, tax and import Difference between saving and investment Basic accelerator process 	<p>Students will not be required to undertake calculations to illustrate the accelerator process.</p> <p>Students should understand how changes in net exports affect AD and how global events affect economic performance.</p>

3.2.2.4 Aggregate demand and the level of economic activity

Content	Additional information
<ul style="list-style-type: none"> Role of AD in influencing the level of economic activity Multiplier process, why an initial change in expenditure may lead to a larger change in local or national income 	<p>Students should be able to calculate the value of the multiplier.</p>

3.2.2.5 Determinants of short-run aggregate supply

Content	Additional information
<ul style="list-style-type: none"> The price level and production costs are the main determinants of short-run aggregate supply Changes in costs, including: money wage rates, raw material prices, indirect taxes and productivity, will shift the SRAS curve 	<p>Students should be able to distinguish between causes of movements along and shifts in the SRAS curve.</p>

3.2.2.6 Determinants of long-run aggregate supply

Content	Additional information
<ul style="list-style-type: none"> Fundamental determinants of long-run aggregate supply including the capital stock, technology, working population, productivity, attitudes, enterprise, factor mobility, and economic incentives The position of the vertical LRAS curve represents the normal capacity level of output of the economy 	<p>It is assumed that the LRAS curve is vertical. However, students should understand the Keynesian view that an economy can get stuck producing well below its normal capacity level of output for many years.</p>

3.2.3 Economic performance

3.2.3.1 Economic growth and the economic cycle

Content	Additional information
<ul style="list-style-type: none"> Difference between short-run and long-run growth Various demand-side and supply-side determinants of short-run growth of real national income and the long-run trend rate of economic growth The concept of the economic cycle and the use of a range of economic indicators, including real GDP, the rate of inflation, unemployment and investment, to identify the various phases of the economic cycle Difference between positive and negative output gaps How demand-side and supply-side shocks in the national and global economy affect domestic economic activity 	<p>Students should be able to use production possibility diagrams and AD/AS diagrams to illustrate the distinction between short-run and long-run economic growth.</p> <p>Students should understand that long-run economic growth occurs when the productive capacity of the economy is increasing, and is a term used to refer to the trend rate of growth of real national output in an economy over time.</p> <p>Students should understand that a positive output gap occurs when real GDP is above the productive potential of the economy, and a negative output gap occurs when real GDP is below the economy's productive potential.</p>

3.2.3.2 Employment and unemployment

Content	Additional information
<ul style="list-style-type: none"> Measuring of unemployment, including the International Labour Organisation (ILO) measure Cyclical, structural, frictional and seasonal unemployment Distinction between unemployment and underemployment How employment, unemployment and underemployment may be determined by both demand-side and supply-side factors Global influences upon employment and unemployment 	<p>Students should understand that unemployment has a variety of causes and the appropriate policies to reduce unemployment depend on the cause.</p> <p>Students should understand that a negative output gap is linked to cyclical unemployment and that supply-side causes of unemployment affect the normal capacity level of output and the position of the LRAS curve.</p>

3.2.3.3 Inflation and deflation

Content	Additional information
<ul style="list-style-type: none"> Inflation, deflation and disinflation Demand-pull and cost-push influences on the price level How external events may affect domestic inflation including changes in world commodity prices How changes in the exchange rate affect inflation 	<p>Students should understand that deflation exists when the price level is falling whereas disinflation is when the rate of inflation is falling.</p> <p>Students should understand that excessive growth in the money supply will increase aggregate demand and cause inflation.</p> <p>Students should appreciate that deflationary policies are policies to reduce aggregate demand and do not necessarily result in deflation.</p>

3.2.3.4 The balance of payments on current account

Content	Additional information
<ul style="list-style-type: none"> Importance of international trade for an economy The balance of payments is a record of a country's financial transactions with the rest of the world The current account comprises trade in goods, trade in services, primary income and secondary income Meaning of a deficit and a surplus on current account Factors that influence a country's current account balance including productivity, inflation, the exchange rate, and economic activity at home and abroad 	<p>Students should be aware that the current account is only one part of the balance of payments. Other parts of the balance of payments account are included in Unit 4.</p>

3.2.3.5 Possible conflicts between macroeconomic policy objectives

Content	Additional information
<ul style="list-style-type: none"> How economic growth may affect the environment, the distribution of income, unemployment and the budget balance How negative and positive output gaps relate to unemployment and inflationary pressures How economic policies may be used to try to reconcile possible policy conflicts both in the short run and the long run 	<p>Students should be able to use macroeconomic models, including the AD/AS model, to analyse the causes of possible conflicts between policy objectives in the short run and long run.</p>

3.2.4 Macroeconomic policy

3.2.4.1 Monetary policy

Content	Additional information
<ul style="list-style-type: none"> Monetary policy involves the central bank acting to influence interest rates, the supply of money and credit, and the exchange rate Objectives and targets of monetary policy Use of interest rates to control inflation and affect economic activity How changes in the exchange rate affect aggregate demand and the various macroeconomic policy objectives Other instruments of monetary policy, including quantitative easing 	<p>For this unit, students do not need to know how interest rates and the exchange rate are determined but they do need to know how changes in interest rates and the exchange rate affect macroeconomic performance.</p> <p>Students should recognise that the prime objective of monetary policy is usually to control inflation, but it may also have subsidiary objectives, including to moderate fluctuations in economic activity.</p> <p>Students should understand that quantitative easing is when the central bank makes large-scale purchases of government bonds, and that this can help to increase aggregate demand by increasing the money supply and reducing interest rates.</p>

3.2.4.2 Fiscal policy

Content	Additional information
<ul style="list-style-type: none"> ● Fiscal policy involves the manipulation of government spending, taxation and the budget balance ● Fiscal policy can have both macroeconomic and microeconomic functions ● How fiscal policy can be used to influence aggregate demand ● How fiscal policy can be used to influence aggregate supply ● How government spending and taxation can affect the allocation of resources and the pattern of economic activity ● Direct and indirect taxes ● Progressive, proportional and regressive taxes ● The relationship between the budget balance and the national debt ● Cyclical and structural influences on the budget balance 	<p>Students should appreciate that governments may deliberately run budget deficits and surpluses to try to influence aggregate demand.</p> <p>Students should understand how government spending and taxation can be used to try to achieve economic objectives, including an equitable distribution of income, protection of the environment, low unemployment and stable economic growth.</p>

3.2.4.3 Supply-side policies

Content	Additional information
<ul style="list-style-type: none"> ● Difference between supply-side policies and supply-side improvements in the economy ● How supply-side policies can help to achieve supply-side improvements in the economy ● How supply-side policies, including tax changes designed to change incentives, may increase the potential output of the economy and increase the underlying trend rate of economic growth ● How supply-side policies can affect unemployment, inflation and the balance of payments on current account ● Supply-side policies including government spending on education and training, investment in infrastructure, welfare reforms, deregulation and industrial policy 	<p>Students should recognise that supply-side improvements in an economy often originate in the private sector, independently of government, including through invention, innovation, training, investment and increases in productivity.</p>

3.3 The economics of business behaviour and the distribution of income

3.3.1 The objectives of individuals and firms

3.3.1.1 The individual as a rational economic decision maker

Content	Additional information
<ul style="list-style-type: none"> • Utility theory: total and marginal utility, the hypothesis of diminishing marginal utility and utility maximisation • Importance of information for decision-making • Significance of asymmetric information 	<p>Students should appreciate that the hypothesis of diminishing marginal utility supports a downward sloping demand curve but they are not expected to understand the principle of equi-marginal utility or to use this principle to explain why there is likely to be an inverse relationship between price and quantity demanded.</p> <p>Students should recognise that imperfect information makes it difficult for economic agents to make rational decisions and is a potential source of market failure.</p>

3.3.1.2 Behavioural influences on individual economic decision making

Content	Additional information
<ul style="list-style-type: none"> • Bounded rationality and bounded self-control • Biases in decision-making: computational problems, inertia, rules of thumb, anchoring and social norms • The importance of altruism and perceptions of fairness 	<p>Students should appreciate that behavioural economists question the assumption of traditional economic theory that individuals are rational decision makers who aim to maximise their utility.</p> <p>Students should understand some of the reasons why an individual's economic decisions may be biased.</p> <p>Students should appreciate how an understanding of the behavioural influences on individual decision-making may affect the actions of firms and governments, including the use of nudges.</p>

3.3.1.3 The objectives of firms

Content	Additional information
<ul style="list-style-type: none"> • The models that comprise the traditional theory of the firm are based upon the assumption that firms aim to maximise profits • A profit maximising firm will produce in the short run if it can cover its variable costs but will only produce in the long run if it can make normal profit • The reasons for, and the consequences of, a divorce of ownership from control • Firms may have a variety of other possible objectives • The satisficing principle • Government ownership and/or control of a firm may affect its objectives 	<p>Students should recognise that firms have a range of possible objectives including survival, growth, quality, maximising their sales revenue and increasing their market share.</p> <p>Students should be able to discuss how the divorce of ownership from control may affect the objectives of firms. Students should understand that the objectives of a firm may affect price, output and other aspects of conduct and performance.</p>

3.3.1.4 The growth of firms

Content	Additional information
<ul style="list-style-type: none"> • How and why firms grow • Difference between internal (or organic) growth and external growth (mergers and takeovers) • Different types of integration (vertical, horizontal and conglomerate) 	<p>Students should understand the benefits and costs of different types of integration.</p>

3.3.2 Costs, revenue and profits

3.3.2.1 The law of diminishing returns and returns to scale

Content	Additional information
<ul style="list-style-type: none"> • Difference between marginal, average and total returns • Law of diminishing returns • Returns to scale • Difference between increasing, constant and decreasing returns to scale 	<p>Students should appreciate that both the law of diminishing returns and returns to scale explain relationships between inputs and output.</p> <p>Students should also understand that these relationships have implications for costs of production and the shape of a firm's cost curves.</p>

3.3.2.2 Short-run cost curves

Content	Additional information
<ul style="list-style-type: none"> • Marginal, average and total costs • Reasons for the shape of the marginal, average and total cost curves • How factor prices and productivity affect firms' costs of production and their choice of factor inputs 	<p>Students should be able to calculate marginal, average and total costs</p> <p>Students should be able to draw and interpret short-run cost curves.</p>

3.3.2.3 Long-run cost curves

Content	Additional information
<ul style="list-style-type: none"> • Relationship between the short-run and long-run average cost curves • The L-shaped long-run average cost curve • Minimum efficient scale of production 	<p>Students should understand the significance of the minimum efficient scale for the structure of an industry and barriers to entry.</p>

3.3.2.4 Marginal, average and total revenue curves

Content	Additional information
<ul style="list-style-type: none"> • Marginal, average and total revenue • The relationship between average and marginal revenue • The relationship between marginal revenue, total revenue and price elasticity of demand 	<p>Students should be able to calculate marginal, average and total revenue.</p> <p>Students should be able to draw and interpret revenue curves.</p>

3.3.2.5 Profit

Content	Additional information
<ul style="list-style-type: none"> • Difference between normal and abnormal (supernormal) profit • The role of profit in a market economy 	<p>Students should understand why normal profit varies from one industry to another.</p>

3.3.2.6 Technological change

Content	Additional information
<ul style="list-style-type: none"> • Difference between invention and innovation • Technological change can affect methods of production, productivity, efficiency and firms' costs of production • Technological change can lead to the development of new products, the development of new markets and may destroy existing markets • Technological change can influence the structure of markets • Patents and intellectual property rights • Role of governments in generating technological change 	<p>Students should understand how the process of creative destruction is linked to technological change.</p> <p>Students should understand the arguments for and against protecting intellectual property rights through a system of patents.</p> <p>Students should understand that invention, innovation and technological change can be generated in both the public and private sectors of an economy.</p>

3.3.3 Perfect competition, imperfectly competitive markets and monopoly

3.3.3.1 Market structures

Content	Additional information
<ul style="list-style-type: none"> The spectrum of competition ranging from perfect competition at one end of the spectrum to pure monopoly at the other Factors including the number of firms, the degree of product differentiation and ease of entry are used to distinguish between different market structures 	

3.3.3.2 Perfect competition

Content	Additional information
<ul style="list-style-type: none"> Main characteristics of a perfectly competitive market Formal diagrammatic analysis of the perfectly competitive model in the short and long run Firms operating in perfectly competitive markets are price takers The proposition that, given certain assumptions, including the absence of externalities, perfect competition will result in an efficient allocation of resources 	<p>Students should be aware that perfect competition, in both product and labour markets, may provide a yardstick for judging the extent to which real world markets perform efficiently, and the extent to which a misallocation of resources occurs.</p> <p>Students should also be able to assess critically the proposition that perfectly competitive markets lead to an efficient allocation of resources.</p>

3.3.3.3 Monopolistic competition

Content	Additional information
<ul style="list-style-type: none"> The main characteristics of monopolistically competitive markets The formal diagrammatic analysis of the monopolistically competitive model in the short and long run Non-price competition in monopolistically competitive markets 	<p>Students should appreciate that non-price competition is a means by which firms strengthen their monopoly power but may also enhance the competitiveness of markets and benefit consumers.</p>

3.3.3.4 Oligopoly

Content	Additional information
<ul style="list-style-type: none"> ● Main characteristics of oligopolistic markets ● Oligopolistic markets can be very different including in relation to the number of firms, the degree of product differentiation and ease of entry ● Factors which influence the conduct and performance of firms in oligopolistic industries ● Collusive and competitive oligopoly ● Tacit and overt collusion, and cartels ● Kinked demand curve model ● Reasons for and types of non-price competition, including branding and advertising ● Pricing behaviour, including price leadership, price agreements, predatory pricing, limit pricing and price wars ● Importance of spending on research and development in oligopolistic markets ● Strategic and innocent barriers to entry ● Significance of interdependence and uncertainty in oligopoly ● Objectives affect behaviour and the performance of firms in oligopolistic markets ● Advantages and disadvantages of oligopoly 	<p>Students should be aware of various factors which affect the behaviour and performance of firms in a variety of real-world markets, including barriers to entry, the degree of concentration and product differentiation.</p> <p>Students should understand that the kinked demand curve model illustrates the interdependence between firms and that it offers insights into a limited number of features of some oligopolistic markets.</p> <p>Students should recognise that collusion may allow oligopolists to act as a monopolist and maximise their joint profits.</p>

3.3.3.5 Monopoly and monopoly power

Content	Additional information
<ul style="list-style-type: none"> ● Formal diagrammatic analysis of the monopoly model ● Natural monopolies ● Monopoly power is influenced by factors including barriers to entry, the number of competitors, advertising and the degree of product differentiation ● Advantages and disadvantages of monopoly 	<p>Students should appreciate that firms operating in monopolistically competitive and oligopolistic markets are price makers and have varying degrees of monopoly power.</p>

3.3.3.6 Price discrimination

Content	Additional information
<ul style="list-style-type: none"> • Third-degree price discrimination • Conditions necessary for price discrimination • Advantages and disadvantages of price discrimination 	<p>Students should be aware of real-world examples of third-degree price discrimination and be able to assess its impact on producers and consumers.</p> <p>A diagrammatic analysis of price discrimination is expected.</p>

3.3.3.7 Contestable markets

Content	Additional information
<ul style="list-style-type: none"> • Significance of market contestability for the performance of an industry • Sunk costs and hit-and-run competition 	

3.3.3.8 The dynamics of competition and competitive market processes

Content	Additional information
<ul style="list-style-type: none"> • Short-run and long-run benefits which may result from competition • Firms do not just compete on the basis of price; competition will also lead firms to strive to improve products, reduce costs and improve the quality of the service provided • The process of creative destruction 	<p>Students should understand that if firms have monopoly power and are making large profits, over time there will be an incentive for new firms to enter the market and to innovate to overcome the existing barriers to entry.</p> <p>Students should understand that this process of creative destruction is a fundamental feature of the way in which competition operates in a market economy.</p>

3.3.3.9 Static efficiency, dynamic efficiency and resource allocation

Content	Additional information
<ul style="list-style-type: none"> • Difference between static and dynamic efficiency • Conditions required for productive efficiency (minimising average total costs) and allocative efficiency (price = marginal cost) • X-inefficiency • Dynamic efficiency is influenced by research and development, investment in human and non-human capital, and technological change 	<p>Students should be able to apply efficiency concepts when comparing the performance of firms in markets with different structures.</p> <p>Students should understand how conduct and performance indicators can be used to compare market structures.</p>

3.3.3.10 Consumer and producer surplus

Content	Additional information
<ul style="list-style-type: none"> • Consumer and producer surplus and the concept of a deadweight loss • Applications include the welfare effects of price discrimination, monopoly and tariffs 	<p>Diagrammatic analysis is expected.</p>

3.3.3.11 Competition policy

Content	Additional information
<ul style="list-style-type: none"> ● Prevention of dominant firms abusing their monopoly power ● Regulation of mergers and takeovers ● Policies to control restrictive practices and protect consumers ● Measures to promote competition and reduce entry barriers ● Price and profit controls 	<p>Students should understand the arguments in favour of competition policies, and the limitations and costs of such policies.</p>

3.3.3.12 Public ownership, privatisation, regulation and deregulation of markets

Content	Additional information
<ul style="list-style-type: none"> ● Case for and against the public ownership of firms and industries ● Case for and against the privatisation of state-owned enterprises ● Arguments for and against the regulation and deregulation of markets ● Regulatory capture 	

3.3.4 The labour market

3.3.4.1 The demand for labour, marginal productivity theory

Content	Additional information
<ul style="list-style-type: none"> ● Demand for a factor is derived from the demand for the product ● Marginal productivity theory of the demand for labour ● The demand curve for labour shows the relationship between the wage rate and number of workers firms wish to employ ● Causes of shifts in the demand curve for labour ● Determinants of the elasticity of demand for labour 	

3.3.4.2 The supply of labour to different labour markets

Content	Additional information
<ul style="list-style-type: none"> Supply of labour to a particular occupation is influenced by monetary and non-monetary considerations The supply curve for labour shows the relationship between the wage rate and number of workers willing to work in an occupation Causes of shifts in the market supply curve for labour 	Students are not expected to understand the determinants of an individual's supply of labour or the backward-bending supply curve.

3.3.4.3 The determination of relative wage rates and levels of employment in perfectly competitive labour markets

Content	Additional information
<ul style="list-style-type: none"> Wage determination in a perfectly competitive labour market Role of market forces in determining relative wage rates 	Students should appreciate that all real-world labour markets are imperfectly competitive to a greater or lesser extent.

3.3.4.4 The determination of relative wage rates and levels of employment in imperfectly competitive labour markets

Content	Additional information
<ul style="list-style-type: none"> How various factors including monopsony power, trade unions and imperfect information contribute to imperfections in a labour market Determination of wages and employment where there is a monopsonist Factors that affect the ability of trade unions to influence wages and levels of employment How wages and employment are likely to be affected by the introduction of a trade union into a previously perfectly competitive labour market and into a monopsony labour market 	Use of relevant diagrams is expected.

3.3.4.5 Discrimination in the labour market

Content	Additional information
<ul style="list-style-type: none"> Conditions necessary for wage discrimination Impact of gender, ethnicity and other forms of discrimination on wages, levels and types of employment 	<p>Real-world examples should be used to illustrate wage discrimination.</p> <p>Students should be able to assess the advantages and disadvantages of wage discrimination for workers, employers and the economy as a whole.</p>

3.3.4.6 Minimum wage laws

Content	Additional information
<ul style="list-style-type: none"> • Effects of minimum wage controls on labour markets • Advantages and disadvantages of a national minimum wage 	

3.3.5 Poverty and inequality

3.3.5.1 The distribution of income and wealth within an economy

Content	Additional information
<ul style="list-style-type: none"> • Factors that affect the distribution of income • Factors that affect the distribution of wealth • Lorenz curve and Gini coefficients • Relative and absolute poverty • Causes and effects of poverty • Likely benefits and costs of more equal and more unequal distributions of income and wealth 	<p>Students will be expected to interpret measures of inequality including the Gini coefficient but they will not be expected to calculate the Gini coefficient.</p> <p>Students should understand that excessive inequality is both a cause and consequence of market failure. Students should also appreciate that value judgements will influence people's views of what constitutes an equitable distribution of income and wealth and that these views will influence policy prescriptions.</p>

3.3.5.2 Government policies to alleviate poverty and to influence the distribution of income and wealth

Content	Additional information
<ul style="list-style-type: none"> • Policies that can be used to influence the distribution of income and wealth and to alleviate poverty • Consequences of such policies 	<p>Students should be able to evaluate the various approaches to redistributing income and wealth and alleviating poverty, recognising the moral and political perspectives.</p>

3.4 Economic development and the global economy

3.4.1 Globalisation and trade

3.4.1.1 Globalisation

Content	Additional information
<ul style="list-style-type: none"> • Main characteristics of globalisation • Causes of globalisation • Consequences of globalisation for less economically developed (LEDCs) and for more economically developed countries (MEDCs). • Globalisation and the natural environment • Role of transnational corporations (TNCs) in a globalised world economy 	<p>Students should be able to assess costs and benefits resulting from the growth of TNCs, including political influence and the use of transfer pricing.</p>

3.4.1.2 Trade

Content	Additional information
<ul style="list-style-type: none"> • Model of comparative advantage • Difference between absolute and comparative advantage. • Causes of comparative advantage and why comparative advantage changes over time • The model shows that specialisation and trade can increase total output • Other economic benefits of trade, including economies of scale and increased competition • Costs of international trade • Protectionist policies, including tariffs, quotas and export subsidies • Reasons for and consequences of countries adopting protectionist policies • Changing pattern of world trade • Terms of trade • Causes and effects of changes in a country's terms of trade • Trading blocs: free trade area, customs union, common market and monetary union • Role of the World Trade Organisation (WTO) 	<p>Students should be able to use a simple numerical example to illustrate the principle of comparative advantage and the associated benefits of trade. Students should also understand the arguments in favour of protectionism.</p> <p>Students should be able to use diagrams to illustrate the effects of imposing restrictions on trade.</p> <p>Students should understand the significance of the terms of trade in the model of comparative advantage. Students should also understand how they are measured and be able to calculate the terms of trade from indices of export and import prices.</p>

3.4.2 The balance of payments, exchange rates and financial markets

3.4.2.1 The balance of payments

Content	Additional information
<ul style="list-style-type: none"> • The current, capital and financial accounts on the balance of payments • Deficits and surpluses and their significance • Foreign direct investment (FDI) and portfolio investment • Consequences of investment flows between countries • Policies that might be used to deal with balance of payments problems • Expenditure-switching and expenditure-reducing policies • Effects policies used to correct a deficit or surplus may have on other policy objectives 	<p>A detailed knowledge of the structure of the capital and financial accounts is not required.</p> <p>Students should understand the significance of elasticities of demand and supply in determining the effectiveness of policies used to correct a balance of payments deficit or surplus. A formal understanding of the Marshall-Lerner condition is not required.</p>

3.4.2.2 Exchange rates

Content	Additional information
<ul style="list-style-type: none"> • Determination of exchange rates in a freely floating exchange rate system • Causes of changes in the exchange rate, including speculation and herding behaviour • Government intervention to influence the exchange rate • Advantages and disadvantages of free floating, managed and fixed exchange rate systems • How changes in the exchange rate affect individuals, firms and economic performance • Role of the International Monetary Fund (IMF) 	<p>Students should understand why the price elasticities of demand for exports and imports are important when assessing the effects of changes in the exchange rate.</p> <p>Students should understand the difference between the terms revaluation, devaluation, appreciation and depreciation of the exchange rate.</p>

3.4.2.3 Financial markets

Content	Additional information
<ul style="list-style-type: none"> ● Characteristics and functions of money ● Money, capital, and foreign exchange markets ● Spot and forward markets in currencies and commodities ● Role of financial markets in facilitating saving, lending, the exchange of goods and services, and insurance ● Difference between debt and equity ● Difference between commercial and investment banks ● Why a bank might fail, including the risks involved in lending long term and borrowing short term ● Functions of a central bank, including lender of last resort ● Moral hazard, asymmetric information and market bubbles ● Regulation of financial markets ● Shadow banking market ● Systemic risk and the impact of problems in domestic and global financial markets on the real economy 	<p>Students should be aware of the differences between a commercial bank and an investment bank but they do not need a detailed knowledge of the activities and functions of an investment bank. Students should also be aware that many banks are engaged in both investment banking and commercial banking activities and that this may increase systemic risk.</p> <p>Students should be aware that there are other institutions that operate in financial markets, for example, pension funds and insurance companies.</p> <p>Students should understand that speculation in financial markets can be stabilising or destabilising and that ‘herding behaviour’ can lead to large fluctuations in asset prices.</p> <p>Students should understand how a central bank can use required reserve ratios to influence the stability of banks.</p>

3.4.3 Economic growth and development

3.4.3.1 Measuring economic growth, development and living standards

Content	Additional information
<ul style="list-style-type: none"> ● Difference between economic growth and development ● General characteristics of MEDCs, emerging economies and LEDCs ● Changes in real national income as the main measure of economic growth ● Human Development Index (HDI), Inequality-adjusted HDI (IHDI) and the Multidimensional Poverty Index (MPI) as indicators of economic development ● Other indicators of development, including infant mortality rates, literacy rates and measures of inequality ● Economic development is sustainable, improving the well-being of current and future generations ● Measuring changes in living standards over time and comparing living standards between countries at a point in time ● Use of Purchasing Power Parity (PPP) exchange rates when making international comparisons of living standards ● Strengths and weaknesses of real GDP per head as an indicator of living standards within and between countries ● Environmental and social limits to economic growth and development 	<p>Students do not need a detailed knowledge of the measurement of national income, but they should know the difference between GDP, Gross National Income and Net National Income (GNI and NNI).</p> <p>Students should be aware of the limitations of the different indicators of growth, development and living standards.</p>

3.4.3.2 Factors that affect economic development

Content	Additional information
<ul style="list-style-type: none"> ● Stock of physical capital, including infrastructure ● Flow of saving and investment ● Harrod-Domar model ● Access to financial services ● The natural environment including climate and access to raw materials ● Demographic factors ● Education, skills and investment in human capital ● Health care and access to services to meet basic needs, eg clean water and housing ● Inequalities in income, wealth and opportunity ● Inequality and environmental Kuznets curves and associated critiques ● Primary product dependency and fluctuations in commodity prices ● Prebisch-Singer hypothesis and associated critiques ● Importance of foreign trade ● Public and private sector debt ● Industrialisation and urbanisation ● Rule of law, property rights, good governance, corruption, political instability, war and conflict 	<p>Students should recognise that understanding the content of the AS Modules 1 and 2 is essential when analysing factors that affect economic development and policies to promote development.</p> <p>Students should understand that there is a variety of social and economic factors that affect the development of an economy, and that they are often interrelated.</p> <p>Students should understand the principles of the Harrod-Domar model but they are not required to know the mathematical derivation of the growth rate. They should appreciate the limitations of the model.</p> <p>Students should understand arguments for and against governments running budget deficits and the possible consequences of rising public sector debt in MEDCs and LEDCs.</p>

3.4.3.3 Policies to promote development

Content	Additional information
<ul style="list-style-type: none"> ● Demand-side and supply-side policies ● Difference between market-based and interventionist strategies ● Market-based strategies include: trade liberalisation, privatisation, deregulation, encouraging FDI, low taxes and minimising state involvement in the economy, floating exchange rates ● Interventionist strategies include: protectionism, public ownership, industrial strategies, government spending on infrastructure, education and health care, managed exchange rates ● Advantages and disadvantages of FDI ● Use of buffer stocks to stabilise commodity prices ● Microfinance and fair trade schemes ● Types of foreign aid, including debt relief, and the role of foreign aid in helping development ● Role of remittances ● Promotion of tourism ● Role of the World Bank, IMF and Non-Governmental Organisations (NGOs) in promoting development 	<p>Students should recognise that economists have different views concerning the best way of promoting development. Some advocate market-based strategies and others an interventionist approach. Students should also understand that the distinction between market-based and interventionist strategies is not always clear cut and that they can complement each other.</p>

3.5 Quantitative skills

The following quantitative skills could be assessed in any of the assessments:

- QS1 – calculate, use and understand ratios and fractions
- QS2 – calculate, use and understand percentages and percentage changes
- QS3 – understand and use the terms mean, median (for A2 assessments, students will also need to understand and use relevant quantiles)
- QS4 – construct and interpret a range of standard graphical forms
- QS5 – calculate and interpret index numbers
- QS6 – calculate cost, revenue and profit, including average and totals (for A2 assessments, students will also need to calculate marginal values)
- QS7 – make calculations to convert from money to real terms
- QS8 – make calculations of elasticity and interpret the result
- QS9 – interpret, apply and analyse information in written, graphical and numerical forms.

4 Scheme of assessment

Find mark schemes, and specimen papers for new courses, on our website at: oxfordaqa.com/economics

These qualifications are modular. The full International A-level is intended to be taken over two years. The specification content for the International AS is half that of an International A-level.

The International AS can be taken as a stand-alone qualification or it can count towards the International A-level. To complete the International A-level, students can take the International AS in their first year and the International A2 in their second year or they can take all the units together in the same examination series at the end of the two year course.

The International AS content will be 50% of the International A-level content. International AS assessments contribute 40% of the total marks for the full International A-level qualification. The remaining 60% comes from the International A2 assessments.

The specification provides an opportunity for students to produce extended responses either in words or using open-ended calculations.

The specification content will be split across units and will include some synoptic assessment. This allows students to draw together different areas of knowledge from across the full course of study.

All materials are available in English only.

Our International AS and A-level exams in Economics include questions that allow students to demonstrate their ability to:

- draw together their knowledge, skills and understanding from across the full course of study
- provide extended responses.

4.1 Availability of assessment units and certification

Exams and certification for this specification are available as follows:

	Availability of units		Availability of certification	
	International AS	International A2	International AS	International A-level
June 2021	✓		✓	
January 2022	✓		✓	
June 2022	✓	✓	✓	✓
January 2023 onwards	✓	✓	✓	✓
June 2023 onwards	✓	✓	✓	✓

4.2 Aims

Our International AS and A-level Economics courses based on this specification should encourage students to:

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

4.3 Assessment Objectives

The exams will measure how students have achieved the following Assessment Objectives.

- 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.

Quality of Written Communication (QWC)

Students must:

- ensure that text is legible and that spelling, punctuation and grammar are accurate so that meaning is clear
- select and use a form and style of writing appropriate to purpose and to complex subject matter
- organise information clearly and coherently, using specialist vocabulary when appropriate.

Questions in the papers for this specification do not include specific marks for QWC. However, poor written communication may lead to lower marks due to lack of clarity in answers.

4.3.1 Assessment Objective weightings for International AS Economics

Assessment Objectives (AOs)	Unit weightings (approx %)		Overall weighting of AOs (approx %)
	Unit 1	Unit 2	
AO1	14–16	14–16	28–32
AO2	14–16	14–16	28–32
AO3	11–14	11–14	22–28
AO4	6–9	6–9	12–18
Overall weighting of units (%)	50	50	100

4.3.2 Assessment Objective weightings for International A-level Economics

Assessment Objectives (AOs)	Unit weightings (approx %)				Overall weighting of AOs (approx %)
	Unit 1	Unit 2	Unit 3	Unit 4	
AO1	6–7	6–7	6–8	6–8	24–28
AO2	6–7	6–7	6–8	6–8	24–28
AO3	5–6	5–6	8–10	8–10	26–30
AO4	3–4	3–4	6–8	6–8	18–22
Overall weighting of components (%)	20	20	30	30	100

4.4 Assessment weightings

The raw marks awarded on each unit will be transferred to a uniform mark scale (UMS) to meet the weighting of the units and to ensure comparability between units sat in different exam series. Students' final grades will be calculated by adding together the uniform marks for all units. The maximum raw and uniform marks are shown in the table below.

Unit	Maximum raw mark	Percentage weighting International A-level (AS)	Maximum uniform mark
Unit 1	80	50	80
Unit 2	80	50	80
International AS qualification	–	100	160
Unit 1	80	20	80
Unit 2	80	20	80
Unit 3	90	30	120
Unit 4	90	30	120
International A-level qualification	–	100	400

5 General administration

We are committed to delivering assessments of the highest quality and have developed practices and procedures to support this aim. To ensure all students have a fair experience, we have worked with other awarding bodies in England to develop best practice for maintaining the integrity of exams. This is published through the Joint Council for Qualifications (JCQ). We will maintain the same high standard through their use for OxfordAQA.

More information on all aspects of administration is available at oxfordaqa.com/exams-administration

For any immediate enquiries please contact info@oxfordaqa.com

Please note: We aim to respond to all email enquiries within two working days.

Our UK office hours are Monday to Friday, 8am – 5pm local time.

5.1 Entries and codes

You should use the following subject award entry codes:

Qualification title	OxfordAQA entry code
OxfordAQA International Advanced Subsidiary Economics	9641
OxfordAQA International Advanced Level Economics	9642

Please check the current version of the Entry Codes book and the latest information about making entries on oxfordaqa.com/exams-administration

You should use the following unit entry codes:

Unit 1 – EC01

Unit 2 – EC02

Unit 3 – EC03

Unit 4 – EC04

A unit entry will not trigger certification. You will also need to make an entry for the overall subject award in the series that certification is required.

Exams will be available May/June and in January.

5.2 Overlaps with other qualifications

There is overlapping content in the International AS and A-level specifications. This helps you teach the International AS and A-level together.

This specification overlaps with the AQA UK AS and A-level Economics (7135/7136).

5.3 Awarding grades and reporting results

The International AS qualification will be graded on a five-point scale: A, B, C, D and E.

The International A-level qualification will be graded on a six-point scale: A*, A, B, C, D and E. To be awarded an A*, students will need to achieve a grade A on the full A-level qualification and 90% of the maximum uniform mark on the aggregate of the A2 units.

Students who fail to reach the minimum standard for grade E will be recorded as U (unclassified) and will not receive a qualification certificate.

We will publish the minimum raw mark needed for each grade in each unit when we issue students' results. We will report a student's unit results to schools in terms of uniform marks and unit grades and we will report qualification results in terms of uniform marks and grades.

The relationship between uniform marks and grades is shown in the table below.

Uniform mark range per unit and per qualification						
Grade	Unit 1	Unit 2	International AS Economics	Unit 3	Unit 4	International A-level Economics
Maximum uniform mark	80	80	160	120	120	400
A*						* See note below
A	64–80	64–80	128–160	96–120	96–120	320–400
B	56–63	56–63	112–127	84–95	84–95	280–319
C	48–55	48–55	96–111	72–83	72–83	240–279
D	40–47	40–47	80–95	60–71	60–71	200–239
E	32–39	32–39	64–79	48–59	48–59	160–199

* For the award of grade A*, a student must achieve grade A in the full International A-level qualification and a minimum of 216 uniform marks in the aggregate of Unit 3 and Unit 4.

5.4 Resits

Unit results remain available to count towards certification, whether or not they have already been used, provided the specification remains valid. Students can resit units as many times as they like, so long as they're within the shelf-life of the specification. The best result from each unit will count towards the final qualification grade. Students who wish to repeat a qualification may do so by resitting one or more units.

To be awarded a new subject grade, the appropriate subject award entry, as well as the unit entry/entries, must be submitted.

5.5 Previous learning and prerequisites

There are no previous learning requirements. Any requirements for entry to a course based on this specification are at the discretion of schools.

5.6 Access to assessment: equality and inclusion

Our general qualifications are designed to prepare students for a wide range of occupations and further study whilst assessing a wide range of competences.

The subject criteria have been assessed to ensure they test specific competences. The skills or knowledge required do not disadvantage particular groups of students.

Exam access arrangements are available for students with disabilities and special educational needs.

We comply with the *UK Equality Act 2010* to make reasonable adjustments to remove or lessen any disadvantage that affects a disabled student. Information about access arrangements is issued to schools when they become OxfordAQA centres.

5.7 Working with OxfordAQA for the first time

You will need to apply to become an OxfordAQA centre to offer our specifications to your students. Find out how at [oxfordaqa.com/centreapprovals](https://www.oxfordaqa.com/centreapprovals)

5.8 Private candidates

Centres may accept private candidates for examined units/components only with the prior agreement of OxfordAQA.

If you are an approved OxfordAQA centre and wish to accept private candidates, please contact OxfordAQA at:

info@oxfordaqa.com

Private candidates may also enter for examined only units/components via the British Council; please contact your local British Council office for details.

Fairness *first*

Thank you for choosing OxfordAQA,
the international exam board that puts
fairness first.

Benchmarked to UK standards, our
exams only ever test subject ability, not
language skills or cultural knowledge.

This gives every student the best
possible chance to show what they can
do and get the results they deserve.



Get in touch

You can contact us at
oxfordaqa.com/contact-us

or email info@oxfordaqa.com