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International GCSE

Economics

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Topic aims

You will be able to:

- understand the difference between a need and a want
- explain how needs and wants can change over time
- understand the meaning of absolute poverty and relative poverty.



▲ Figure 1.1: Clean water is needed for human survival.

1.1 Needs and wants

The difference between needs and wants

A **need** is something that humans require for survival. Needs include food, clean water, shelter, and warmth. A **want** is a desirable **good** or **service** that is not essential for human survival. Examples could include the latest computer game console, a holiday abroad, or a new car.

How needs can change over time

Over time, countries tend to become more **developed**. This leads to an increase in average **income**, meaning that a country's population has more resources for its basic needs. Due to this trend, the majority of the world's population has gained access to food, water, shelter, and warmth. However, not everybody in the world can always meet their basic needs. In 2022, the World Bank estimated that around 9 per cent of the global population lives in extreme poverty, which it defined as anyone living on less than \$2.15 per day. Anyone with this extremely low income would find it very difficult to meet their needs for survival.

The ability of a population to meet its needs can change gradually over time, for example, due to climate change. Needs can also change suddenly, due to extreme weather events, natural disasters, and wars. These events may leave people without shelter, warmth, clean water, or enough food.

How wants can change over time

Wants may never be fully satisfied, as humans always appear to want more than they currently have. Even if you obtain a good or service you have desired for a long time, you may soon become tired of it and want something else.

However, the types of wants people have can change over time. As incomes increase, people tend to want a greater range of luxury goods, as their basic needs are already met (refer to Chapter 3). Some goods and services that seem to be luxuries to some people may become easier to buy as incomes rise. When this happens, a product changes from being a luxury to an everyday product. As countries and their populations have become richer, products such as toothpaste are no longer seen as luxuries.

Changes in fashions, trends, and **advertising** can also lead to people wanting different types of goods and services. Effective advertising by businesses can increase demand for certain products.

Developments in technology have also given people greater awareness of a wide range of goods and services. The rise of social media and viral marketing have surrounded people with advertisements for products that companies want them to buy, at

all hours of the day and night. Technology has also given people better access to goods and services. Online shopping also means you can view and buy products from all over the world.

Wants may also change throughout an individual's life. A child may desire to have the latest toy or game to play with. Later in life, as an adult, they may want to go on holiday with their family, or to buy a car to get to their workplace.



Study tip

Remember to revisit the definitions and examples you have learned for needs and wants.

◀ Figure 1.2: Humans have unlimited wants.

Relative poverty and absolute poverty

Poverty is related to people's ability to satisfy their needs and wants. **Relative poverty** is when people are poor in comparison to other people in society. Relative poverty exists in more and less developed countries. **Absolute poverty** is when people do not have access to the basic items required for human survival. Absolute poverty is more likely to occur in less-developed countries.

Skills activities

1. Decide whether each of the following is a need or a want. Explain your choices.

a book	clothing	a car
a pen	a bottle of water	a meal
a house	a smartphone	
2. Make a list of your own needs and a list of your wants.

Summary questions

1. In your own words, write definitions of:
 - a) needs
 - b) wants
 - c) relative poverty
 - d) absolute poverty.
2. Give two examples of each of the following:
 - a) needs
 - b) wants.
3. Explain how an individual's wants may change over time.

Key points

- A **need** is necessary for human survival; a **want** is not necessary for human survival.
- People's ability to meet their needs can change over time; for example, if incomes rise, people are more able to buy basic goods to meet their needs.
- Extreme weather events, natural disasters, and wars make it more difficult for people to meet their needs.
- Wants can change over time due to changes in income, fashion, technology, and an individual's stage of life.
- **Absolute poverty** is when people lack access to the basic things needed for survival; **relative poverty** is when people are poor in comparison to others.

Topic aims

You will be able to:

- understand the central purpose of economic activity
- understand the key economic decisions that societies need to make
- know the main economic groups
- identify and explain how the main economic groups interact.

Study tip

Make sure you know the difference between a good and a service, and can give an example of each.

1.2 The central purpose of economic activity

The central purpose of economic activity

The main purpose of an economy, known as the central purpose of **economic activity**, is the production of goods and services to satisfy needs and wants. You learned about needs and wants in Section 1.1. Goods are physical products that can be seen or touched, such as a smartphone. Services are products that cannot be seen or touched, such as education.

Satisfying needs and wants leads to improvements in the wellbeing and **standard of living** of people in society.

The key economic decisions

Economic resources are limited, but a society's wants are unlimited. Decisions must be made about how resources are allocated (refer to Topic 1.4). There are three key economic decisions:

- what to produce
- how to produce it
- who is to benefit from the goods and services produced.

These decisions often depend upon the type of economic system in a particular country.

Societies must decide what goods and services to produce, and in what quantities. Goods can be divided into **consumer goods** and **capital goods**. Consumer goods are those bought and used by people, such as food or a car. Capital goods are those used to create other goods and services, such as a computer or 3D printer.

Societies must decide how goods and services are produced. For example, whether to use production methods that involve a lot of machinery or production methods that mainly involve human **labour**.

Societies must also decide which individuals or groups receive the goods and services. For example, should those with the highest incomes receive the most goods and services, or should goods and services be allocated equally to all people?

The main economic groups and how they interact

The main economic groups in society are **consumers, producers**, and the **government**. Each can have an important influence over what is produced, how it is produced, and who gets the goods and services that are produced. Each group also interacts with the other groups, meaning that the three groups are all linked with each other. Table 1.1 describes the main economic groups and how they interact in more detail.



▲ Figure 1.3: Consumers and producers interacting.

	Consumers	Producers	Government
Description	Consumers are individuals who buy goods and services for their own use. When deciding what to buy, consumers aim to maximize their satisfaction or enjoyment for the amount of money they spend. In other words, they will try to maximize 'value for money'.	Producers are individuals or organizations that supply goods and services. Producers are also sometimes referred to as firms, businesses, or suppliers. Producers make decisions about what goods and services to produce, and the most efficient ways of producing them. People usually assume that producers are motivated to maximize the profit they can earn.	A government is a group of individuals with the power to run a country to best meet the interests of its people. Governments set and enforce rules and laws, receive income through taxes , and spend money on public services.
Interaction	Consumers interact with producers by buying goods and services and providing the producers with revenue from sales. Consumers may also interact with the government, for example, to ask the government for protection against faulty or low-quality goods and services from producers.	Producers may interact with consumers by carrying out market research to find out about the consumers' preferences for goods and services produced. Producers may also interact with the government, for example, to ask the government to protect them from unfair competition .	Governments interact with consumers by adding taxes to the prices of goods and services when they are sold by producers. Government decisions can influence the type and quantity of goods and services that consumers buy. Governments can also influence the decisions producers make by setting certain rules and laws, for example, to require producers not to harm the environment.

▲ Table 1.1: Economic groups and how they interact.

Key points

- 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 benefits from the goods and services produced.
- The main economic groups are **consumers, producers**, and **government**.
- The main economic groups interact in a variety of ways. For example, consumers buy goods and services from producers; governments receive taxes from both consumers and producers.

Summary questions

1. Briefly state the central purpose of economic activity.
2. Briefly explain the three key economic decisions.
3. Explain, with examples, how these economic groups interact:
 - a Consumers and producers
 - b Consumers and government
 - c Producers and government.

Skills activity

Research examples of interactions between the main economic groups, using recent news articles. Share your examples with others in your class.

Topic aims

You will be able to:

- identify the main economic objectives of governments
- understand the meaning of high employment
- understand the meaning of price stability
- understand the meaning of economic growth
- understand the meaning of a balance of payments.

Study tip

Having objectives does not mean that governments will achieve those objectives. Governments often struggle to achieve all of their objectives at the same time.



▲ Figure 8.1: Prices of consumer goods often rise quickly when people are spending more.

8.1 The main economic objectives of a government

Government objectives

Macroeconomics refers to the whole economy of a country—the national economy. **Governments** try to manage the national economy so that it leads to improvements in the **standard of living** of the population. People can then enjoy a better quality of life. To enable these improvements, governments have objectives they hope to achieve. These objectives are goals or aims the government has for the national economy (the macroeconomy) as a whole.

Most governments across the world have similar (but not identical) economic objectives to each other. These include:

- maintaining high levels of **employment**
- ensuring **price stability**
- achieving **economic growth**
- having a **balance of payments**.

This section gives an overview of these four objectives. You will learn about each objective in more detail later in the chapter.

Maintaining high levels of employment

Governments want people of working age to have a job. People with jobs have higher **incomes** than those without jobs. This means that the quality of life of employed people is likely to be higher. Also, the more people who are employed, the more **taxes** can be collected. Governments can find it expensive to support those who do not have jobs (depending on how much support a government chooses to provide). As a result, governments try to maintain high levels of employment (or low levels of **unemployment**).

Ensuring price stability

Price stability means that, on average, prices are not rising or falling significantly. It does not mean that all prices remain the same, but that for the average person or business, the prices paid for **goods** and **services** are largely the same from one year to the next. Price stability is considered better for people and businesses in the economy.

Inflation means that prices are rising in general across the economy. For example, prices of **consumer goods** often rise quickly when people are spending more. Governments don't normally set many prices themselves (although they may set limits for some goods and services in terms of how much their price can rise by).

Achieving economic growth

Governments want the output of goods and services in the national economy to rise over time. **Gross Domestic Product (GDP)** is a measure of the output of the whole economy.

Economic growth refers to the rate at which output in the economy is increasing. Rising output usually means higher incomes for people in the country (although this might not apply to everyone). Higher incomes mean people can buy more goods and services, and enjoy a better quality of life. Governments want a positive rate of economic growth that can be sustained over time. Although the rate of economic growth is normally positive, there are times when the growth rate is negative.

Having a balance of payments

All countries trade with other countries. The balance of payments is a record of the transactions that take place. Governments want to ensure that goods and services bought by their own populations from other countries (**imports**) are affordable. This is made possible by the country selling goods and services to other countries at the same time (**exports**). Governments want to balance the amount that the country earns from selling abroad with the amount the country spends when buying from abroad.

Skills activities

1. Research the economic situation of your own country, using sources such as the CIA's *The World Factbook*, the International Monetary Fund (IMF), or the United Nations Statistics Division (UNSD) to find out the current:
 - a level of inflation
 - b rate of unemployment
 - c rate of economic growth.
2. Based on your answers to question 1, do you think your government is currently achieving the objectives mentioned in this section?
3. The GDP of an economy is \$1,410 billion for 2022. Real economic growth in 2023 was 5.2 per cent. Calculate the level of GDP by the end of 2023.

Summary questions

1. State the four main economic objectives for a government.
2. Explain why governments want to reduce the number of people who are unemployed.
3. Explain how attaining economic growth leads to people enjoying a better quality of life.

Key points

- A government's main economic objectives are maintaining high employment, ensuring price stability, achieving economic growth, and having a level of exports similar to the level of imports on the balance of payments.
- **High employment** means those looking for work can find jobs without remaining unemployed for too long.
- **Price stability** means the average change in prices is kept at a low level.
- **Economic growth** is when the output of the economy is increasing. This means rising incomes for most of the population.
- The **balance of payments** compares spending on imports (goods and services bought from abroad) with earnings from exports (goods and services sold abroad).

Topic aims

- You will be able to:
- understand how attempting to achieve a government objective can have negative effects on groups of people
 - understand how attempting to achieve one objective can make it harder to achieve other objectives.



▲ **Figure 8.2:** When spending falls, people are more likely to lose their jobs.

8.2 Conflicts arising from government objectives

Potential negative effects of pursuing government objectives

Although pursuing economic objectives is beneficial to a country overall, it may lead to negative effects on groups within the country. Different objectives create different negative effects.

Negative effects of pursuing price stability

Pursuing price stability by keeping inflation low is an objective of most governments. One method of keeping inflation low is by reducing overall spending in the economy. This can be achieved by increasing **interest rates** or taxes.

People often borrow money to buy property. When interest rates increase, buying property becomes more difficult. Also, those who have already borrowed money will usually pay more in interest payments. This means people have less money to spend on other things, and will have a lower quality of life. By spending less, less income is created elsewhere—one person's reduced spending means another person's reduced income—and this passes on around the economy.

Higher interest rates are good, however, for those who have not borrowed money and are savers instead. They now earn higher income from the interest on their savings.

Increasing taxes to control inflation (by controlling spending) has a similar effect. Taxes are often placed on incomes, which means a proportion of a person's income goes to the government rather than to the person earning the money. Higher taxes mean that people have less money to spend, leading to lower spending and less income for others.

Negative effects of pursuing a balance of payments

Governments often achieve their balance of payments objective by reducing how much is spent on imports into a country. This can have negative effects on a country's population.

Governments can restrict the flow of imports into the country, meaning that goods and services previously bought may not be available. Governments can place taxes on imports to discourage people buying them. Although these imports will still be available, they are more expensive for people.

Governments may also increase taxes or interest rates to reduce spending in the economy. This means, with less money available to spend, people are less likely to spend money on imports.

Did you know?

Interest rates are the charges made for borrowing money. They are normally expressed as a percentage of the amount borrowed. Increased interest rates make borrowing money more expensive for people.

Conflicts when pursuing different government objectives

Although more complex than this, the achievement of all four main economic objectives is affected by the level of spending in the economy.

This makes it difficult to achieve all four main objectives at the same time. This situation is referred to as a policy conflict (also known as a trade-off). As a government moves closer to achieving one objective, achieving other objectives becomes less likely.

	Higher spending	Lower spending
Objectives achieved more easily	Economic growth depends on the level of spending in the economy. More spending means more output is needed, leading to higher growth. Any policies that promote higher spending help achieve this objective. Higher spending also means employment is likely to rise (and unemployment to fall), as increased output means more workers are needed.	Inflation (and therefore price stability) is easier to control when spending is low in an economy. Also, when spending is low, less is spent on imports, which is helpful for achieving a balance of payments.
Trade-offs	However, higher spending can mean more spending on imports, making it harder to achieve a balance of payments. Higher spending can also mean higher inflation, making it harder to achieve price stability.	However, trying to reduce the level of spending in the economy makes it harder to achieve other objectives. If spending is low, then output levels will also be low, leading to lower economic growth. Also, if spending and output are low, there is reduced demand for workers to produce output, meaning that unemployment will rise.

▲ **Table 8.1:** Some economic objectives are easier to achieve if spending is high, and others are easier to achieve if spending is low.

Summary questions

1. State three problems that can be caused by increasing interest rates to control inflation.
2. Explain which objectives are easier to achieve if spending in the economy is high, and which objectives are easier to achieve if spending in the economy is low.
3. Explain why high employment and price stability often conflict when trying to achieve both as objectives.

Did you know?

The ability of the government to achieve objectives for the economy is often affected by factors outside the government's control. For example, low economic growth in other countries reduces the demand for exports.

Skills activities

1. Collect data for unemployment and inflation in your country for the last ten years. Look at Wikipedia, the UNSD, IMF, and the CIA's *The World Factbook*. Is there a pattern between the two variables? Does it suggest that there is a conflict in achieving both objectives?
2. What is the current level of interest rates in your country? What has happened to the level of interest rates over the last year?

Key points

- Policies used to achieve government objectives can have negative effects on different groups in society.
- It is difficult for a government to achieve all four main economic objectives at the same time.
- Sometimes achieving one objective makes it easier to achieve another one, but it can also be the case that it becomes harder to achieve other objectives.
- Many of the objectives are easier to achieve when spending in the economy is high, but some are easier to achieve when spending is low.