

# Scheme of work

## Introduction

This scheme of work offers a route through the AS and A-level Economics (7136) specification.

It covers the specification in a logical order and suggests possible teaching and learning activities for each section of the specification. It includes opportunities to develop the necessary set of skills required for the economist's 'tool kit'.

The specification references are shown at the start of each section, whilst the learning outcomes indicate what most students should be able to achieve after the work is completed.

Timings have been suggested but are approximate. Teachers should select activities appropriate to their students and the curriculum time available.

The order is by no means prescriptive and there are many alternative ways in which the content could be organised.

When there is one teacher delivering the subject, the scheme of work assumes microeconomics (Sections 3.1 (AS) and 4.1) is taught first followed by macroeconomics (Sections 3.2 (AS) and 4.2). If two teachers are delivering the subject, Teacher 1 could teach microeconomics alongside Teacher 2 teaching macroeconomics.

The resources indicate those resources commonly available to schools, and other references that may be helpful. Resources are only given in brief and risk assessments should be carried out.

In addition, teachers and students may wish to use a textbook. There are several textbooks available to buy. The AQA approved textbook, *AQA A-Level Economics, Fifth Edition*, covers both years 1 and 2.

It is expected that students will acquire a good knowledge of trends and developments in the economy which have taken place over the past 15 years and have an awareness of earlier events, helping to give recent developments a longer-term perspective.

To develop their skills, knowledge and understanding in economics, students need to have acquired competence in the quantitative skills that are relevant to the subject content, and which are applied in the context of an Economics A-level. These are explicitly referred to in the specification as follows:

- calculate, use and understand ratios and fractions
- calculate, use and understand percentages and percentage changes
- understand and use the terms mean, median and relevant quantiles (relevant quantiles, A-level only)
- construct and interpret a range of standard graphical forms
- calculate and interpret index numbers
- calculate cost, revenue and profit (marginal, average and totals) (marginal, A-level only)
- make calculations to convert from money to real terms
- make calculations of elasticity and interpret the result
- interpret, apply and analyse information in written, graphical and numerical forms.

We have highlighted opportunities to develop and practise students' quantitative skills.

### Assumed coverage

This scheme of work assumes the AS course is a 1-year course or the first year of a 2-year A-level course, with 4 hours of lessons per week; approximately 120 taught hours per year. It assumes that the additional A-level content is also taught for 4 hours per week; approximately 136 hours per year. If time allows, it makes sense to begin teaching the A-level content during the summer term of the first year. There is time built into each section for assessment activities, but all timings are approximate. A considerable amount of work would need to be completed outside lessons, partly depending on lesson time available.

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## 3.0 AS Subject content

### 3.1 The operation of markets and market failure

This section of the specification is primarily about microeconomics. Students will be required to acquire knowledge and understanding of a selection of microeconomic models and to apply these to current problems and issues. Students should be able to apply their knowledge and skills to a wide variety of situations and to different markets and examples of market failure, including environmental market failures. They should appreciate that economic decisions relating to individual markets may be affected by developments in the macroeconomy.

#### 3.1.1 Economic methodology and the economic problem

##### Specification content and reference

3.1.1.1 Economic methodology (although placed at the beginning of the specification, teachers may prefer to introduce economic methodology later in this section once students have developed an understanding of what Economics is about.)

- Economics as a social science.
- Similarities to and differences in methodology from natural and other sciences.
- The 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.

##### Learning outcomes

- Understand that Economics is classed as a social science.
- Understand the similarities to and differences in methodology from natural and other sciences.
- Be able to explain the difference between, and identify and provide examples of, positive and normative statements.
- Understand that people's views concerning the best option are influenced by the positive consequences of different decisions and by moral and political judgements, and that value judgements influence economic decision making and policy.
- Understand how thinking as an economist may differ from other forms of scientific enquiry.

##### Suggested timing

1 hour

## Possible teaching and learning activities

- Research the difference between social sciences and natural sciences, and between qualitative and quantitative data, providing examples of each.
- Find out what is meant by empirical research and time permitting. Test a simple hypothesis.
- Distinguish between simple examples of positive and normative statements.
- Provide or ask students to find newspaper/internet articles relating to a recent event. Ask students to identify the 'reporting' comments, i.e. those that are positive and those offering an opinion, those that are normative comments, and highlight the differences.
- Provide groups of students with some questions/points of view and ask them to discuss the pros/cons, providing an overall judgement or offering alternative views. This helps them to see how Economics may be applied to any context. For example, 'It is wrong that firefighters are paid less than top-flight footballers'; 'The government is right to ban the sale of disposable vapes'; 'Should protection of the environment be a government's main priority?'
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- The following websites provide really useful information for teachers and students: [Discover Economics](#) (it is possible to arrange an in-school workshop) and [Why Study Economics](#).
- Visit the [UK Research and Innovation Council webpage Economics and Social Research Council](#) provides lots of information about Economics as a social science.
- Visit the [Tutor2u webpage Nature of Economics – Introductory Concepts](#) has useful introductory concepts to consolidate learning.
- Watch the [Why study Economics? video \(YouTube\) \(2 minutes\)](#).
- Watch the [Positive & Normative video \(YouTube\) \(2 minutes\)](#).

## Specification content and reference

### 3.1.1.2 The nature and purpose of economic activity

- 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.

### 3.1.1.3 Economic resources

- The economists' classification of economic resources into land, labour, capital and enterprise, which are the factors of production.
- The environment is a scarce resource.

### 3.1.1.4 Scarcity, choice and the allocation of resources

- The fundamental economic problem is scarcity and that it results from limited resources and unlimited wants.
- Scarcity means that choices have to be made about how scarce resources are allocated between different uses.
- Choices have an opportunity cost.

## Learning outcomes

- Be able to explain what is meant by the fundamental economic problem/the problem of scarcity.
- Be able to explain what is meant by opportunity cost and give examples.
- Be able to identify, explain, and provide examples of the four factors of production.
- Understand that the environment is an example of a scarce resource.
- Understand that the central purpose of economic activity is the production of goods and services to satisfy needs and wants.
- Be able to identify and explain the three key decisions that must be made to solve the basic economic problem: what goods and services should be produced, how they should be produced and for whom they should be produced. Understand that these decisions are likely to be influenced by value judgements.

## Suggested timing

4 hours

## Possible teaching and learning activities

- Play the 'survival' game. A great way to introduce students to the basic economic problem, scarcity, factors of production, division of labour, productivity amongst others etc.
- Provide examples of opportunity costs for individuals, households, firms and governments.
- Provide, or ask students to find, newspaper/internet articles relating to recent government spending decisions. Students consider the opportunity cost of the spending decisions.
- Use photographs/images to identify and classify economic resources/factors of production.
- Research how different countries respond to the basic economic problem. This could include the difference between a free market and command approach, and/or the difference in approach to the provision of a good such as healthcare in the UK and the USA.
- Topic-specific multiple-choice questions.

## Resources

- The Survival Game: There are several different versions of a survival game, such as in the EBEA Journal, Volume 6 Number 1, Spring 2002. You may be able to gain access to it via your school library or [ProQuest](#) (minimum 1 hour).
- Visit the [Economics Help webpage Basic Economic Problem](#) – for students to use to consolidate what they learn in the classroom, and/or simplify economic theory.
- Flashcards provide a useful way to check learning. This set from [Quizlet](#) provides 11 'test-yourself' questions.
- Simple factors of production drawings/photographs: [Fisher in a boat](#); [Construction site](#); [Farm scene](#); [Coal mining \(Roberts Environmental\)](#).
- The government's budget statement can be used to support many topics. Here it can be used to introduce students to macroeconomics in the early stages of the course, and specifically, to consider the opportunity cost of government spending decisions, the opportunity cost to individuals and firms of taxation decisions: [Autumn Statement 2024: what you need to know](#) (5 minutes to read and/or use as an extension activity)
- [What, how and for whom activity: Celebrations, EBEA article](#) (page 14 – 17, 1 hour – this activity can be used as a 'taster' session for Year 10 and 11 students).

## Specification reference and content

### 3.1.1.5 Production possibility diagrams

- Production possibility diagrams illustrate different features of the fundamental economic problem, such as: 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.

## Learning outcomes

- Be able to use production possibility diagrams to illustrate different features of the fundamental economic problem, such as resource allocation, opportunity cost and trade-offs, unemployment of economic resources and economic growth.
- Understand that all points on the boundary are productively efficient but not all points on the boundary are allocatively efficient.

## Suggested timing

2 hours

## Possible teaching and learning activities

- Construct and interpret a variety of production possibility diagrams to illustrate various features of the basic economic problem.
- An opportunity to link back to earlier lessons where students provided examples of opportunity costs for individuals, households, firms and governments, as now they can use a diagram to illustrate these examples. Similarly, they can refer to any news articles they used and construct diagrams to support analysis.
- Complete calculations based on the production possibility diagrams.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Read the [Economics Help webpage Production Possibility Frontier](#).
- Use the [Economic Online 12 question production possibility frontiers quiz](#).
- Watch the [Production Possibility Frontiers video \(YouTube\) \(10 minutes\)](#).
- Read the Economics Today, Volume 19, September 2011 article, *How does the PPF fit into Economics?*

## 3.1.2 Price determination in a competitive market

### Specification reference and content

#### 3.1.2.1 The determinants of the demand for goods and services

- The factors which determine the demand for a good or service.
- A demand curve shows the relationship between price and quantity demanded.
- The causes of shifts in the demand curve.

#### 3.1.2.2 Price, income and cross elasticities of demand

- Be able to calculate price, income and cross elasticities of demand.
- The relationship between income elasticity of demand and normal and inferior goods.
- The relationship between cross elasticity of demand and substitute and complementary goods.
- The relationships between price elasticity of demand and firms' total revenue (total expenditure).
- The factors that influence these elasticities of demand.

### Learning outcomes

Be able to:

- Explain the relationship between the price of a good and quantity demanded.
- Explain the factors that determine the demand for a good or service.
- Construct demand-curve diagrams and understand the difference between shifts in the demand curve and movements along the demand curve.
- Explain the extent to which demand will change in response to changes in other variables, such as price, income and the price of another good.
- Calculate various elasticities of demand and interpret the numerical results.

### Suggested timing

5 hours

### Possible teaching and learning activities

- Consider a variety of goods and the factors that affect demand for those goods. Bring in a variety of goods or use photos/pictures to provide context.
- Construct demand-curve diagrams both 'free-hand' and from given data.
- Re YED: ask students to consider which goods and services they buy now, and which they assume they will continue to buy/buy more of/buy less of when they are earning a higher income.
- Complete simple questions, and progress to reading articles to 'extract' relevant information.
- Provide, or ask students to find, newspaper/internet articles relating to recent events.
- Complete elasticity calculations and interpret the results.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Visit the [Economics Help webpage Factors affecting demand](#) and watch the video [The Law of Demand \(10 minutes\)](#).
- Quizlet flashcards [Quizlet demand flashcards](#).
- Quizlet flashcards [Quizlet elasticity flashcards](#).
- Economics Today Vol. 19. Sep 2011 article Elasticities (15 minutes).
- An example of an article. This discusses changes in the streaming market, students are asked to find the reasons for changes in demand [BBC streaming article](#) (5 minutes).
- Demand video clip [YouTube demand video clip](#) (12 minutes).
- PED video clip [YouTube PED video clip](#) (8 minutes).

## Specification reference and content

### 3.1.2.3 The determinants of the supply of goods and services

- The 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.
- The causes of shifts in the supply curve.

### 3.1.2.4 Price elasticity of supply

- Be able to calculate price elasticity of supply.
- The factors that influence price elasticity of supply.

## Learning outcomes

- Be able to explain the relationship between the price of a good and quantity supplied.
- Be able to explain the factors that determine the supply of a good or service.
- Be able to construct supply-curve diagrams and understand the difference between shifts in the supply curve and movements along the supply curve.
- Understand higher prices imply higher profits and that this will provide the incentive to expand production.
- Be able to explain the extent to which the quantity supplied will change in response to changes in price.
- Be able to calculate price elasticity of supply and interpret the numerical results.

## Suggested timing

3 hours

## Possible teaching and learning activities

- Consider a variety of goods and the factors that affect supply of those goods. Use photos/images to provide context.
- Construct supply-curve diagrams, 'free-hand' and from given data.
- Complete simple questions, and progress to reading articles to 'extract' relevant information.
- Provide, or ask students to find, newspaper/internet articles relating to recent events.
- Complete elasticity calculations and interpret the results.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Read the article: [Economics Help supply notes](#) (10 minutes).
- Supply notes presentation slides [Tutor2u Supply presentation](#) (10 minutes).
- Article example: [BBC fruit and vegetable shortage](#).
- Economics Today. Vol 20. March 2013 article Why do we get confused by price elasticity of supply? (15 minutes).
- Allow students to create a mind map including the various elasticities, on paper or using a resource such as [www.canva.com](http://www.canva.com)

## Specification reference and content

### 3.1.2.5 The determination of equilibrium market prices

- How the interaction of demand and supply determines equilibrium prices in a market economy.
- The difference between equilibrium and disequilibrium.
- Why excess demand and excess supply lead to changes in price.

### 3.1.2.6 The interrelationship between markets

- Changes in a particular market are likely to affect other markets.
- The implications of joint demand, demand for substitute goods, composite demand, derived demand and joint supply.

## Learning outcomes

Be able to:

- Explain how the interaction of demand and supply in markets determines equilibrium prices.
- Explain how, following a change in demand or supply, the market adjusts to eliminate excess demand or supply.
- Construct demand and supply diagrams to illustrate changes in markets and support theoretical analysis.
- Explain the interrelationships that exist between different markets and analyse how changes in one market affect another market.

## Note

Some teachers may prefer to teach section [3.1.5.1 How markets and prices allocate resources](#) at this stage.

## Suggested timing

5 hours

## Possible teaching and learning activities

- Use demand and supply schedules to identify equilibrium price, excess demand and excess supply.
- Use this data to construct demand and supply diagrams and explain the adjustment to the equilibrium.
- Consider various goods or services to provide context and create scenarios; use demand and supply diagrams to illustrate the impact of changes.
- Complete simple questions, and progress to reading articles to 'extract' relevant information.
- Provide, or ask students to find, newspaper/internet articles relating to recent events.
- Complete past-paper questions – there are various 10-mark questions that students will be able to complete at this stage. It's a good idea to introduce AOs (assessment objectives) at this stage and develop them throughout the course.
- Research factors affecting the demand and supply of a commodity over a period of say 15 years; use data to support and provide context. Prepare a presentation to deliver to the rest of the class. An excellent opportunity to apply economic theory to the real world, to develop quantitative skills, teamworking and communication skills.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Read the article: [Economics online demand and supply notes](#) (15 minutes)
- Equilibrium price notes [Tutor2u equilibrium price notes](#) (10 minutes)
- Invisible Hand video clip. [60 second adventures in Economics – Invisible hand](#) (2 minutes)
- Article example: [BBC electric car sales](#) (5 minutes)
- Make a compilation of past paper questions. Here, May 2014, AS Unit 1, Context 2, The Newspaper Market works well. In addition to the 10-mark question (at that time 12 marks) students can become familiar with the technique required for the data interpretation questions.

## 3.1.3 Production, costs and revenue

### Specification reference and content

#### 3.1.3.1 Production and productivity

- Production converts inputs, or the services of factors of production such as capital and labour, into final output.
- The meaning of productivity, including labour productivity.

#### 3.1.3.2 Specialisation, division of labour and exchange

- The benefits of specialisation and division of labour.
- Why specialisation necessitates an efficient means of exchanging goods and services, such as the use of money as a medium of exchange.

### Learning outcomes

- Understand the difference between production and productivity.
- Be able to explain what is meant by specialisation and the division of labour and analyse the benefits.
- Understand the importance of an efficient means of exchange, including the use of money as a medium of exchange.

### Suggested timing

3 hours

### Possible teaching and learning activities

- This is a good opportunity to refer to the Survival game if played in section [3.1.1 Economic methodology and the economic problem](#).
- There are several other games that can be played using production lines, paper lantern making or flag making, using basic raw materials such as paper, felt tips, straws etc. Place the students in varying group sizes and record output per worker.
- Consider how to measure productivity in different occupations and link to efficiency; refer back to the production possibility diagrams.
- Calculate productivity.
- Research Adam Smith and the pin factory.
- Research examples of specialisation in a variety of real-world situations.
- Topic-specific multiple-choice questions.

### Note:

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 at this stage. This is covered in section [4.1.4.3 The law of diminishing returns and returns to scale](#).

## Resources

- Economics Help notes [Economics Help specialisation notes](#) (5 minutes)
- Adam Smith's pin factory. Interactive website [Adam Smith Works – Pin factory](#) (15 minutes)
- Specialisation and efficiency video clip [Tutor2u Inside a BMW factory](#) (3.5 minutes)
- Money as a medium of exchange video clip [Gradual report What is money?](#) (3 minutes)

## Specification reference and content

### 3.1.3.3 Costs of production

- The difference between the short run and the long run.
- The difference between fixed and variable costs.
- The difference between average and total costs.

### 3.1.3.4 Economies and diseconomies of scale

- The difference between internal and external economies of scale.
- Reasons for diseconomies of scale.
- The relationship between economies of scale, diseconomies of scale and the shape of the long-run average cost (LRAC) curve.

### 3.1.3.5 Average revenue, total revenue and profit

- The difference between average and total revenue.
- Why the average revenue curve is the firm's demand curve.
- Profit is the difference between total revenue and total costs.

## Learning outcomes

- Be able to explain the difference between the microeconomic short run and long run.
- Understand the meanings of and calculate different types of costs and revenues.
- Be able to explain the meaning of and calculate profit.
- Be able to explain the difference between internal and external economies of scale and provide examples.
- Be able to explain the reasons for diseconomies of scale.
- Be able to construct a LRAC curve and explain how economies and diseconomies of scale affect the shape of the LRAC.

## Suggested timing

4 hours

## Possible teaching and learning activities

- In the context of two very different firms/industries, for example, a sweet stall and a car factory, students identify different costs of production, then categorise into different types, fixed and variable.
- Construct cost curve diagrams from given data and 'free hand', for example total, fixed, variable and average total cost curves.
- Construct an average revenue curve and refer back to the demand curve.
- In the context of one big and one small firm, for example, a supermarket and the local corner shop, ask students to consider the benefits of being 'big' to introduce the idea of economies of scale, and the potential problems that may occur as an introduction to diseconomies of scale.
- Calculate different types of costs, revenues and profit from given data.
- Research different types of economies of scale, internal and external.
- Provide a list of scenarios and ask students to categorise, for example, Tesco buys Heinz goods in bulk and receives a discount; JLR's car plant is surrounded by component suppliers.
- Economies and diseconomies of scale matching exercise.
- Construct cost-curve diagrams and introduce the idea of optimum plant size.
- Explore real-world examples and investigate whether optimum plant size has changed over time.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Tutor2u notes and video clip [Tutor2u video clip and notes costs of production](#) (10 minutes)
- Economics Help notes [Economics help Economies of scale notes](#) (10 minutes)
- Quizlet flashcards [Quizlet Economics of scale flashcards](#) (5 minutes)
- Economies of scale video [YouTube the Grand Theory of Amazon](#) (10.5 minutes)
- FT Article economies of scale [FT online Coca Cola, Costa and Economies of scale](#) (10 minutes)

## 3.1.4 Competitive and concentrated markets

### Specification reference and content

#### 3.1.4.1 Market structures

- There is a range of market structures.
- Factors such as the number of firms, the degree of product differentiation and ease of entry are used to distinguish between different market structures.

#### 3.1.4.2 The objectives of firms

- Profit is an important objective of most firms.
- Firms may also have other objectives such as survival, growth and increasing their market share.

### Learning outcomes

- Understand that there is a range of market structures and explain the factors that are used to distinguish between them.
- Understand that whilst profit is an important objective for most firms, they may pursue other objectives.

### Suggested timing

3 hours

### Possible teaching and learning activities

- Begin with a blank 'spectrum of competition', adding prompts if/when required. Students to identify characteristics of each market structure and give examples of firms to provide context.
- Building from this, or as a starter activity, research different (sizes of) real-world firms, confirm the market structure, discuss their behaviour and establish their objectives.
- Find recent articles regarding firms' behaviour/decisions; a point for discussion could be the reasons why these decisions have been made.
- Topic-specific multiple-choice questions.

### Resources

- Notes [Tutor2u Market structures and the degree of competition notes](#) (5 minutes)
- Article Economics Today. Vol. 21. Jan 2014. How to compare market structures (15 minutes)
- Recent news articles re firms' decisions: [BBC article Nestle axes Breakaway bar after 54 years](#) (2 mins) [BBC article Morrisons agrees to sell forecourts in £2.5bn tie up](#) (2 mins)

## Specification reference and content

### 3.1.4.3 Competitive markets

- The 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.

### 3.1.4.4 Monopoly and monopoly power

- The difference between pure monopoly and monopoly power.
- Monopoly power is influenced by factors such as 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.
- The potential benefits from monopoly, for example, economies of scale and possibly more invention and innovation.

### 3.1.4.5 The competitive market process

Firms do not just compete on the basis of price but that competition will, for example, also lead firms to strive to improve products, reduce costs, improve the quality of the service provided.

## Learning outcomes

- Understand the characteristics of a perfectly competitive market, and how the interaction of demand and supply influences outcomes in such markets.
- Be able to distinguish between pure monopoly and monopoly power, and the reasons for the existence of monopoly/monopoly power.
- Be able to analyse and evaluate the potential benefits and drawbacks of monopoly/monopoly power.
- Understand the significance of and calculate concentration ratios.
- Understand that there is a range of ways in which firms compete in markets.

## Suggested timing

4 hours

## Possible teaching and learning activities

- Use simple demand and supply diagrams to distinguish between competitive markets and monopoly outcomes.
- Research an individual market which has characteristics of perfect competition.
- Research a firm which is either a pure monopoly or has significant market power. Students consider the benefits and drawbacks of each firm, and judge whether the firm is a 'good' monopoly or otherwise. This could be developed further to introduce the idea of competition policy (section [4.1.8.7 Competition policy](#)). Students give a presentation to the rest of the class, who represent the Competition and Markets Authority (CMA,) and the class decides whether action should be taken to protect consumers' interests.
- Use real-world data to calculate and interpret concentration ratios.
- Topic-specific multiple-choice questions.

## Resources

- Near-perfect competition, example photograph [Visit England Kippers in Craster photograph homogenous goods](#)
- Perfect competition video clip [YouTube Fishing in India video clip](#) (3 minutes)
- Monopoly article [BBC article Thames Water – Water should be a simple business...](#)

## 3.1.5 The market mechanism, market failure and government intervention in markets

### Specification reference and content

#### 3.1.5.1 How markets and prices allocate resources

- The 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.

### Learning outcomes

Understand the role of the price mechanism in resolving the basic economic problem in a market economy.

### Suggested timing

2 hours

### Possible teaching and learning activities

- An opportunity to revisit demand and supply analysis if this topic has not been covered already.
- Broken information activity: give students a disorderly list of words and phrases/clauses on separate lines and ask them to reorder them to make a paragraph. For example, this relates to the oil market: signal; ration; incentive; shortage of oil; fewer journeys; encourage research and development (R and D); hybrid cars; profit; etc. Students construct diagrams to support the analysis.
- Students observe 'the invisible hand' in action and record changes in their own local areas.
- Introduce the idea of market failure, identify markets where the price mechanism may not lead to a desirable outcome.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

### Resources

- Resource allocation lesson activity: EBEA article, Summer 2011, Volume 15, Number 2, 'Resource allocation – the curious case of Tesco, the local pub and an invisible hand'. (1 hour minimum)
- Introduce students to/research the [Adam Smith Institute](#)

## Specification reference and content

### 3.1.5.2 The meaning of market failure

- Market failure occurs whenever a market leads to a misallocation of resources.
- What is meant by a misallocation of resources.
- The difference between complete market failure (resulting in a missing market) and partial market failure (where a market exists but contributes to resource misallocation).
- 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.

### 3.1.5.3 Public goods, private goods and quasi-public goods

- Pure public goods are non-rival and non-excludable and recognition of the significance of these characteristics.
- The 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.
- The significance of technological change, e.g. television broadcasting is now excludable.
- The free-rider problem.

## Learning outcomes

- Understand how and why market failure occurs and be able to provide examples to support their discussions.
- Be able to distinguish between public goods, private goods and quasi-public goods, and understand the significance of their characteristics.
- Be able to judge whether the provision of public goods can be left to the price mechanism.

## Suggested timing

2 hours

## Possible teaching and learning activities

- Draw on previous learning on markets/the price mechanism and provide examples of goods where markets may lead to undesirable outcomes.
- Provide photographs/images of goods/services (a selection of public and private goods) and ask students to categorise them and begin to explain the distinguishing characteristics.
- Many of the 25-mark essay questions are focused on market failure and market provision versus government intervention. Consequently, students should be able to attempt all parts of the data response questions.
- Topic-specific multiple-choice questions.

## Resources

- Notes and video clip [Tutor2u notes and video clip Introduction to market failure](#) (10 minutes)
- Revision presentation public goods [Tutor2u public goods presentation](#) (10 minutes)
- Public goods article, Economics Today, January 2002, 'Why would public goods not be adequately provided by a free market?' (15 minutes)

## Specification reference and content

### 3.1.5.2 The meaning of market failure

Continued from previous section.

### 3.1.5.4 Positive and negative externalities in consumption and production

- 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 under-production.

### 3.1.5.5 Merit and demerit goods

- 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 under-provision of merit goods and over-provision of demerit goods may also result from imperfect information.

## Learning outcomes

- Understand the meaning of negative and positive externalities in both consumption and production, and why they are a cause of market failure.
- Understand how merit and demerit goods give rise to positive and negative externalities in consumption, how their consumption is affected by imperfect information, and that individuals may have differing opinions of these goods.
- Be able to illustrate the misallocation of resources resulting from externalities in both production and consumption, and the consumption of merit and demerit goods using demand and supply diagrams.

## Note

Students are not required to use Marginal Social Cost/Marginal Social Benefit (MSC/MSB) diagrams to illustrate the above. These are covered in sections [4.1.8.4 Positive and negative externalities in consumption and production](#) and [4.1.8.5 Merit and demerit goods](#). However, some teachers may wish to introduce these at this time.

## Suggested timing

6 hours

## Possible teaching and learning activities

- It is important to use lots of context and examples to bring the theory to life and have real-world applications. A good starting point is to use a photograph of a factory. Students are asked to consider the firm's costs of production (opportunity for recap) and relate to private costs. Then ask them to consider and identify the negative externalities in production.
- Repeat the activity to provide contexts for all externalities, and merit and demerit goods.
- Use diagrams to support the analysis.
- Introduce the idea of government intervention to deal with the market failures identified. There is an opportunity to signpost future lessons.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Economics Help notes [Economics help notes on negative and positive externalities](#) (10 minutes) Note: many of these resources use the marginal diagrams.
- Economics Help notes [Economics help notes on merit and demerit goods](#) (10 minutes)
- Merit good article, Economics Today, Vol. 21, Nov 2013. 'Should museums and cathedrals charge entry fees?'
- Demerit good video clip [YouTube BBC Medical impacts of vaping video](#) (5 minutes)

## Specification reference and content

3.1.5.2 The meaning of market failure (continued from previous section)

3.1.5.6 Market imperfections

- 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.

3.1.5.7 An inequitable distribution of income and wealth

- 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 is likely to lead to a misallocation of resources and hence market failure.

## Learning outcomes

- Understand how various imperfections in markets cause market failure.
- Understand how markets alone, without any government intervention, are likely to lead to an unequal and inequitable distribution of income and wealth, unsatisfactory outcomes, and therefore a cause of market failure.
- Understand that equity and fairness are normative concepts, whilst equality is a positive concept.

## Suggested timing

4 hours

## Possible teaching and learning activities

- As before it is important to use lots of context to reinforce the idea of imperfect information. Examples include buying a second-hand car, (this is likely to be very pertinent to students), vaping, visits to the dentist, etc.
- Opportunity to recap monopoly and link it to market failure.
- Research the income and wealth gaps in the UK, identify trends and quantify opportunity, and calculating index numbers. Research data from other countries, those considered contemporaries and elsewhere and make comparisons.
- Debate the pros and cons of the unequal distribution of income and wealth in small groups/whole class. A student(s) could 'chair' the debate.
- Topic-specific multiple-choice questions.

## Resources

- Economics Help notes [Economics help notes on information failure](#) (5 minutes)
- Income inequality data [ONS income inequality data FY ending 2022 \(latest release at the time of writing\)](#) (10 minutes)
- Research the work of the Resolution Foundation <https://www.resolutionfoundation.org/>
- The Guardian article [The Guardian article Inequality and the super-rich: the status quo is unsustainable](#) (15 minutes)
- Institute of Economic Affairs article [IEA Article Why we shouldn't worry about inequality](#) (15 minutes)

## Specification reference and content

### 3.1.5.8 Government intervention in markets

- 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 affect how they intervene in a mixed economy to influence the allocation of resources.
- The use of indirect taxation, subsidies, price controls, state provision and regulation to correct market failure.

### 3.1.5.9 Government failure

- Government failure occurs when government intervention in the economy leads to a misallocation of resources.
- Inadequate information, conflicting objectives and administrative costs are possible sources of government failure.
- Governments may create, rather than remove, market distortions.
- Government intervention can lead to unintended consequences.

## Learning outcomes

- Understand why and how governments intervene in markets.
- Understand the consequences of government intervention in markets for consumers, producers and other economic agents.
- Be able to evaluate the case for and against government intervention in particular markets and then assess the relative merits of different methods of intervention.
- Understand that, even when there is market failure, government intervention will not necessarily improve economic welfare and may be a cause of government failure.

## Note

Students may wish to include some aspects of behavioural policy here, section [4.1.2.4 Behavioural economics and economic policy](#).

## Suggested timing

8 hours

## Possible teaching and learning activities

- Begin with a 'rationale' for government intervention. This is a good opportunity for an early recap of the types of market failure. Students explain why government intervention may be required and suggest possible methods.
- Provide relevant context for each type of intervention; research recent articles/events.
- Construct appropriate diagrams to support analysis.
- Evaluate the effectiveness of each type of intervention in relevant markets and consider whether alternatives may be more appropriate. For example, in the market for alcohol, why might an indirect tax be considered better than a minimum price?
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Economics Help notes [Economics help notes on indirect tax](#) (15 minutes)
- Notes and videos [Tutor2u notes and videos subsidies](#) (30 minutes)
- Video clip [Econplus Dal Video clip price controls](#) (8 minutes)
- Government intervention article, Economics Today. Vol.18. Jan. 2011. 'Are government attempts to reduce the impact of climate change beneficial or harmful to UK firms?' (15 minutes)
- Government failure article, Economics Today. Vol. 17. Jan. 2010. 'Do Government attempts to overcome market failure always result in government failure?' (15 minutes)
- Education Hub on the gov.uk website, article on the vapes ban [Gov.uk The disposable vape ban and what it means for young people](#) (10 minutes)

## 3.2 The national economy in a global context

This section of the specification is primarily about macroeconomics. However, students should understand that microeconomic principles underpin the behaviour of the macroeconomy. Understanding some aspects of macroeconomic behaviour requires that students have a firm grasp of related microeconomic principles. For example, understanding of price elasticity of demand is essential when analysing the extent to which a fall in the exchange rate will lead to an increase in exports. Students should also be aware that the performance of the United Kingdom economy is influenced by external events in the international economy.

### 3.2.1 The measurement of macroeconomic performance

#### Specification reference and content

##### 3.2.1.1 The objectives of government economic policy

- The main objectives of government macroeconomic policy: economic growth, price stability, minimising unemployment and a stable balance of payments on current account.
- The possibility of conflict arising, at least in the short run, when attempting to achieve these objectives.

##### 3.2.1.2 Macroeconomic indicators

Data which is commonly used to measure the performance of an economy, such as: real GDP, real GDP per capita, Consumer Prices and Retail Prices Indices (CPI/RPI), measures of unemployment, productivity and the balance of payments on current account.

#### Learning outcomes

- Understand the main objectives of government macroeconomic policy, and the indicators used to measure economic performance.
- Understand that, at least in the short run, conflict may arise, when trying to achieve these objectives.
- Understand that governments may also have other objectives of macroeconomic policy, such as balancing the budget and achieving an equitable distribution of income, and that the importance attached to different objectives changes over time as governments' priorities change.

#### Suggested timing

4 hours

### Possible teaching and learning activities

- Research the four main objectives of macroeconomic policy, identify trends, and judge 'how well' the economy is performing. Students should be encouraged to continue collecting data/monitoring trends.
- This can be extended to include other economies, trading partners and emerging economies from which to draw comparisons.
- Lots of opportunities to interpret data and include quantitative skills.
- Topic-specific multiple-choice questions.

### Resources

- Macroeconomic objectives video [Tutor2u Video macroeconomic objectives](#) (7 minutes)
- UK economy overview, various indicators on the ONS website  
<https://www.ons.gov.uk/economy>
- UK economy overview, various indicators from the World Bank  
<https://data.worldbank.org/country/GB>

## Specification reference and content

### 3.2.1.3 Uses of index numbers

- How index numbers are calculated and interpreted, including the base year and the use of weights.
- How index numbers are used to measure changes in the price level and changes in other economic variables.

## Learning outcomes

Understand how index numbers are calculated and used.

## Note

Given the relevance to inflation indices, teachers may choose to teach index numbers after section [3.2.3.3 Inflation and deflation](#) has been completed.

## Suggested timing

2 hours

## Possible teaching and learning activities

- Simple calculations, including calculation of percentage changes.
- Interpretation of data, comparing changes in raw data and index numbers to appreciate the benefits of using index numbers.
- Research a wider range of contexts in which index numbers are used.
- Topic-specific multiple-choice questions. There are a number of questions that use index numbers, for some it may be appropriate use when the relevant knowledge has been taught.

## Resources

- Index number worksheet [TES Index number worksheet](#) (15 minutes)
- Indices in Economics, quizlet activity [Tutor2u Indices quizlet activity](#) (10 minutes)
- Index numbers video [Tutor2u Maths made easy for Economics – Index numbers video](#) (10 minutes)
- Inflation and price indices webpage <https://www.ons.gov.uk/economy/inflationandpriceindices>

## 3.2.2 How the macroeconomy works: the circular flow of income, aggregate demand/aggregate supply analysis, and related concepts

### Specification reference and content

#### 3.2.2.1 The circular flow of income

- What national income measures.
- The difference between nominal and real income.
- Real national income as an indicator of economic performance.
- The circular flow of income concept, the equation  $\text{income} = \text{output} = \text{expenditure}$ , and the concepts of equilibrium and full employment income.
- The difference between injections and withdrawals into the circular flow of income.
- The effect of changes in injections and withdrawals on national income.

### Learning outcomes

- Understand the circular flow of income model, and the differences between injections and withdrawals.
- Be able to analyse and evaluate the impact of changes in injections and withdrawals on national income.

### Suggested timing

2 hours

### Possible teaching and learning activities

- Draw the circular flow of income model, for both a closed and open economy.
- Find evidence of recent changes in injections and withdrawals, for example, latest budget data, changes in savings ratio, investment, and consider the impact on national income. Opportunity for quants activity.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

### Resources

- Economics Help notes [Economics help circular flow of income notes](#) (10 minutes)
- Circular flow of income model video [YouTube EconplusDal circular flow of income model](#) (9 minutes)
- Why study Economics short video clip. [YouTube Why study Economics clip](#) (2 minutes)
- Positive and normative short video clip. [YouTube Positive and normative statements](#) (2 minutes)

## Specification reference and content

### 3.2.2.2 Aggregate demand and aggregate supply analysis

- Changes in the price level are represented by movements along the aggregate demand (AD) and aggregate supply (AS) curves.
- The various factors that shift the AD curve and the short-run AS curve.
- The factors which affect long-run AS distinguish them from those which affect short-run AS.
- Underlying economic growth is represented by a rightward shift in the long-run AS curve.
- How to use AD/AS diagrams to illustrate macroeconomic equilibrium.
- How both demand-side and supply-side shocks affect the macroeconomy.

## Learning outcomes

Be able to use AD/AS analysis, in both written and diagrammatic form, to help explain a range of macroeconomic problems and issues.

## Note

It is necessary to have some understanding of determinants of aggregate demand, short-run aggregate supply, and long-run aggregate supply, sections 3.2.2.2, 3.2.2.5 and 3.2.2.6.

## Suggested timing

5 hours

## Possible teaching and learning activities

- Depending upon what has been covered so far, students use AD/AS analysis to illustrate a range of situations. There are many opportunities to revisit and develop students' understanding further throughout the course.
- Activities can be differentiated to include more stretch and challenge. Begin with simple instructions, explain how an increase in saving affects GDP; explain the effect of an increase in consumption on the macroeconomy; use articles relating to recent events and ask students to illustrate the impacts of changes.
- All diagrams should be accurately drawn. Reinforce the importance of accurate labels, distinguishing between the labels on demand and supply diagrams.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Due to overlap see sections 3.2.2.2, 3.2.2.5 and 3.2.2.6
- AD/AS article, Economics Today Vol.19 March 2012. 'An introduction to aggregate demand and aggregate supply analysis.'

## Specification reference and content

### 3.2.2.3 The determinants of aggregate demand

- What is meant by AD.
- The determinants of AD, i.e. the determinants of consumption, investment, government spending, exports and imports.
- The basic accelerator process.
- The determinants of savings.
- The difference between saving and investment.

### 3.2.2.4 Aggregate demand and the level of economic activity

- The role of AD in influencing the level of economic activity.
- The multiplier process and an explanation of why an initial change in expenditure may lead to a larger impact on local or national income.

## Learning outcomes

- Understand what is meant by aggregate demand, its components and how it influences the level of activity in an economy.
- Understand that investment not only increases AD, but also long-run average supply LRAS. (Opportunity to signpost future learning).
- Be able to construct accurate aggregate demand diagrams and use these to illustrate the impact of changes in an economy and support analysis.
- Be able to calculate the value of the multiplier from an initial change in injections and the resulting change in national income.

## Note

Students are not required to calculate the value of the multiplier using the marginal propensity to consume or the propensities to withdraw. Neither are they required to undertake calculations to illustrate the operation of the accelerator.

## Suggested timing

6 hours

## Possible teaching and learning activities

- Introduce the idea of ‘total’ or the ‘sum of all’ demand in an economy and identify the components.
- Consider all the components of AD individually and build upon students’ knowledge and experiences. For example, for the determinants of consumption, consider factors affecting their own household spending. For the determinants of investment, consider local firms to provide context and develop. Include factors that will both encourage and discourage economic activity.
- Use consumption data to identify trends. Why might changes have occurred?
- Use the latest budget data to consider the impact of decisions on AD; signpost to future learning on fiscal policy.
- Use trade data and relevant articles to consider the impact on AD; signpost to future learning on the balance of payments on current account.
- Calculations associated with the multiplier.
- Construct relevant diagrams to support analysis.
- Topic-specific multiple-choice questions.

## Resources

- Economics Help notes [Economics help notes on aggregate demand](#) (10 minutes)
- AD notes [Tutor2u AD notes](#) (5 minutes)
- Economics Help notes [Economics help notes the multiplier](#) (10 minutes)
- Investment article, Economics Today 2008, ‘What is the economic meaning of investment?’
- Consumption data [ONS consumption data Nov 2023](#)
- Rolls Royce article [BBC article Rolls-Royce gets funding to develop mini nuclear reactors](#) (5 minutes)

## Specification reference and content

### 3.2.2.5 Determinants of short-run aggregate supply

- The price level and production costs are the main determinants of the short-run AS (SRAS).
- Changes in costs, such as: money wage rates, raw material prices, business taxation and productivity, will shift the short-run AS curve.

### 3.2.2.6 Determinants of long-run aggregate supply

- The fundamental determinants of long-run AS such as technology, productivity, attitudes, enterprise, factor mobility, and economic incentives.
- The position of the vertical long-run AS curve represents the normal capacity level of output of the economy.

## Learning outcomes

- Understand what is meant by aggregate supply and the factors that affect both short-run and long-run aggregate supply.
- Students should assume that the long-run aggregate supply curve is vertical.
- Be able to construct accurate short-run and long-run aggregate supply diagrams and use these to illustrate the impact of changes on the economy and support analysis.

## Note

Teachers may wish to introduce the Keynesian AS curve, this is covered in section [4.2.2.6 Determinants of long-run aggregate supply](#).

## Suggested timing

4 hours

## Possible teaching and learning activities

- Activities can be differentiated to include more stretch and challenge. Begin with simple instructions: explain the factors that affect SRAS; explain the effect of a rise in oil prices on the macroeconomy; use articles relating to recent events and students illustrate the impacts of changes.
- Consider the factors that affect LRAS, and the idea of increasing productive potential/capacity of the economy using articles relating to recent events. Link back to investment in section [3.2.2.2 Aggregate demand and aggregate supply analysis](#) and production possibility diagrams in section [3.1.1.5 Production possibility diagrams](#).
- Construct LRAS diagrams.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Economics Help notes [Economics help notes on LRAS and SRAS](#) (10 minutes)
- Economics Help notes, the difference between SRAS and LRAS [Economics help notes The difference between SRAS and LRAS](#) (10 minutes)
- Video clip SRAS [YouTube Tutor2u SRAS video](#) (7 minutes)
- Video clips and LRAS and the Keynesian AS [Tutor2u Video clips LRAS and Keynesian AS](#) (10 and 5 minutes)
- Impact of investment on LRAS, Eden Project Morecambe article [BBC article Eden Project Morecambe gets £50m levelling up investment](#) (10 minutes)

## 3.2.3 Economic performance

### Specification reference and content

#### 3.2.3.1 Economic growth and the economic cycle

- The difference between short-run and long-run growth.
- The 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, such as real GDP, the rate of inflation, unemployment and investment, to identify the various phases of the economic cycle.
- The difference between positive and negative output gaps.
- How demand-side and supply-side shocks, including those that occur in the global economy, affect domestic economic activity.

### Learning outcomes

- Understand that fluctuations in economic activity occur over time and explain the characteristics of the various phases of the economic cycle.
- Be able to explain how demand-side and supply-side shocks affect economic activity.
- Be able to distinguish between short-run and long-run growth. Explain their determinants and use a production possibility curve and AD/AS diagrams to illustrate this distinction.
- 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.
- Understand that a positive output gap occurs when real GDP (Gross domestic product) is above the productive potential of the economy, and a negative output gap occurs when real GDP is below the economy's productive potential.
- Use AD/AS, economic cycle and PPC diagrams to illustrate economic growth and output gaps and support analysis.

### Suggested timing

5 hours

## Possible teaching and learning activities

- Construct a 'textbook' economic cycle diagram, identifying the various phases of the cycle, and positive and negative output gaps.
- Compile a list of the characteristics of each phase of the cycle.
- Use photographs/headlines to portray recent events, then ask students to identify the likely phase of the economic cycle. These can be obvious, such as 'rising consumption', or less so, such as 'falling house prices.'
- Use actual data to illustrate recent economic activity in the UK and elsewhere. Students are likely to be able to identify 'shocks' to the economy and explain the current position on the cycle. Link back to the 'textbook' diagram.
- Research recent activity in the UK and other countries; compare and evaluate performance.
- Snakes and ladders activity. Snakes represent barriers to growth; ladders represent factors likely to encourage growth. Students complete the snakes and ladders board with their ideas. To develop further, students prioritise factors, most significant barrier.
- Construct AD/AS diagrams to illustrate changes in short-run and long-run growth.
- Topic-specific multiple-choice questions.

## Resources

- The economic cycle notes and video [Tutor2u notes and video on the economic cycle](#) (20 minutes)
- Economics Help notes [Economics help economic growth notes](#) (15 minutes)
- GDP data ONS website [ONS GDP data latest release at the time of writing](#) (15 minutes)
- BBC article [BBC article UK at risk of recession as economy shrinks](#) (10 minutes)
- FT article [FT Discussion topic Measuring GDP article](#) (15 minutes)
- Example of downloadable snakes and ladders board [Pinterest snakes and ladders board](#)

## Specification reference and content

### 3.2.3.2 Employment and unemployment

- The main UK measures of unemployment, i.e. the claimant count and the Labour Force Survey measure.
- The terms seasonal, frictional, structural and cyclical unemployment.
- How employment and unemployment may be determined by both demand-side and supply-side factors.
- How changes in the rest of the world affect employment and unemployment in the UK.

## Learning outcomes

- Understand the meaning and causes of unemployment and employment.
- Be able to distinguish between demand-side and supply-side causes of unemployment.
- There is an opportunity to consider policies to deal with unemployment. Students should appreciate that appropriate policies to reduce unemployment depend on the cause.
- Use AD/AS and PPF diagrams to illustrate unemployment.

## Suggested timing

5 hours

## Possible teaching and learning activities

- Research recent news relating to unemployment and/or employment, locally or nationally, identifying the causes.
- Use data to distinguish between the International Labour Organisation (ILO) and claimant count measures. (Claimant count is less straightforward due to changes in benefits payments.)
- Convert numbers unemployed into percentages; convert absolute changes into percentage changes; convert to index number form. There are lots of opportunities to develop quantitative skills here.
- Signpost to later learning. Consider the consequences of unemployment to individuals and society in general; consider solutions to unemployment, use 'symptoms, diagnosis, prescription' technique.
- Topic-specific multiple-choice questions.

## Resources

- Economics Help notes and video [Economics help notes and video types and causes of unemployment](#) (20 minutes)
- Labour market data [ONS Labour market overview January 2024](#)
- Causes of unemployment article Tata Steel [BBC article Port Talbot: Tata Steel 2800 job cuts are 'devastating'](#) (10 minutes)
- Causes of unemployment article interest rates [BBC article Interest rates tipped to be held as jobs market weakens](#) (10 minutes)

## Specification reference and content

### 3.2.3.3 Inflation and deflation

- The concepts of inflation and deflation.
- Demand-pull and cost-push influence on the price level.
- How changes in world commodity prices affect domestic inflation.
- How changes in other economies can affect inflation in the UK.

## Learning outcomes

- Understand the meaning and causes of inflation and deflation.
- Understand how changes in other economies can affect inflation in the UK.
- Understand that deflation exists when the price level is falling, whereas disinflation is when the rate of inflation is falling/the price level is rising more slowly.
- Be able to appreciate that deflationary policies are policies to reduce aggregate demand and do not necessarily result in deflation.

## Suggested timing

5 hours

## Possible teaching and learning activities

- Starter activity: include a range of goods and services and ask students to consider how much they cost to buy in years gone (provide a limited number of options) compared to the present price. For example, a loaf of bread, Mars bar, a three bedroomed house, etc.
- Research various indices such as RPI and CPI and identify trends over the past 10 years.
- Use index numbers to calculate percentage changes. There are opportunities to develop quantitative skills here.
- Consider different baskets of goods and the idea of an 'average' household, does it exist? Students create their own basket of goods and make comparisons with one another.
- Use the inflation rate calculator.
- Review the latest changes to the CPI basket.
- Use diagrams to illustrate causes of inflation, and support analysis.
- Use recent articles to establish the causes of changes in the inflation rate.
- Research inflation rate trends in other countries and make comparisons.
- Opportunity to consider how inflation may be controlled. Signpost to future learning on monetary policy.
- Topic-specific multiple-choice questions.

## Resources

- Economics Help notes [Economics help Notes on inflation](#) (10 minutes).
- Inflation calculator [BBC UK inflation rate calculator: how much are prices rising for you?](#) (10 minutes).
- Inflation article [BBC article What is the inflation rate and how does it affect me?](#) (10 minutes).
- Changes to the basket article [BBC Article 'Inflation: alcopops out frozen berries in...](#) (5 minutes).
- Inflation data [ONS Inflation data December 2023, latest release at the time of writing](#) (10 minutes).
- Inflation and the 2% target Bank of England interactive page [Bank of England website Inflation and the 2% target](#) (15 minutes).

## Specification reference and content

### 3.2.3.4 The balance of payments on current account

- The importance of international trade for an economy such as the UK.
- The current account comprises trade in goods, trade in services, primary income and secondary income.
- The meaning of a deficit and a surplus on current account.
- The factors that influence a country's current account balance such as productivity, inflation and the exchange rate and economic activity in other countries.

## Learning outcomes

- Understand the importance of international trade for the UK.
- Be able to explain the various components of the current account on the balance of payments and the factors that influence the current account balance.
- Be able to calculate the balance of trade and the balance of payments on current account.
- Understand that the current account is only one part of the balance of payments but knowledge of the other parts of the account is not expected.

## Suggested timing

5 hours

## Possible teaching and learning activities

- Research UK international trade, including major export and import partners, types of goods and services and the value of trade with other countries.
- Balance of trade and current account calculations, opportunities to develop quantitative skills.
- Research balance of payments of current account/ trade data, identify trends, compare with other countries.
- Discussion of exchange rates, in the context of the impact on the current account balance. Use of quantitative skills.
- Opportunity for debate, for example, should a balance of trade deficit be a cause for concern in a country? Link back to other aspects of aggregate demand, and the significance of international trade for the UK economy. Signpost to future learning, section [4.2.6.3 The balance of payments](#).
- Topic-specific multiple-choice questions.

## Resources

- Current account video clip [Tutor2u Video Measuring the current account](#) (7 minutes)
- Balance of payments current account flashcards [Quizlet – Current account flashcards](#) (5 minutes)
- Balance of payments on current account data, includes interactive section [ONS UK trade webpage – latest release November 2023 at the time of writing](#) (10 minutes minimum)
- House of Commons Library [Commons Library Trade: key economic indicators article](#)
- Open University interactive article [OU Article What Britain buys and sells in a day...](#) (10 minutes)

## Specification reference and content

### 3.2.3.5 Possible conflicts between macroeconomic policy objectives

- 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.

## Learning outcomes

- Understand that there may be conflicts between macroeconomic policy objectives, and how policies may be used to try to reconcile those conflicts.
- 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.

## Note

- Some teachers may prefer to leave this section until after the following section [3.2.4 Macroeconomic policy](#) has been completed.
- Some teacher may wish to introduce the short-run Phillips curve here, but this is not required and is covered later in section [4.2.3.4 Possible conflicts between macroeconomic policy objectives](#).

## Suggested timing

2 hours

## Possible teaching and learning activities

- Draw on prior learning and use diagrams to illustrate how improvements in one macroeconomic objective may lead to worsening of another.
- Students should be able to draw on LRAS analysis, this is an opportunity to signpost supply-side policy.
- If the Keynesian AS has been taught, this provides opportunity for further discussion and evaluation.
- Complete a summary document.
- Topic-specific multiple-choice questions.

## Resources

[Tutor2u Notes on macroeconomic conflicts](#) (10 minutes)

## 3.2.4 Macroeconomic policy

### Specification reference and content

#### 3.2.4.1 Monetary policy

- Monetary policy involves the central bank taking action to influence the manipulation of interest rates, the supply of money and credit, and the exchange rate.
- The current objectives of monetary policy, set by the government.
- The role of the Monetary Policy Committee of the Bank of England (MPC) and how it uses changes in bank rate to try to achieve the objectives for monetary policy, including the government's target rate of inflation.
- The factors considered by the MPC when setting bank rate
- How changes in the exchange rate affect aggregate demand and the various macroeconomic policy objectives.

### Learning outcomes

- Understand what monetary policy involves, how it is used to achieve the current objectives, and its effects on the economy.
- Understand the role of the Monetary Policy Committee of the Bank of England (MPC), and the factors considered by its members when setting Bank Rate.
- Be able to use AD/AS analysis to illustrate the impact of changes in monetary policy, and support analysis and evaluation.

### Suggested timing

6 hours

### Possible teaching and learning activities

- Research how monetary policy has been used over the past 15 years, considering changes in Bank Rate and quantitative easing (QE), in conjunction with a review of the inflation rate. Opportunity to link back to prior learning.
- Review the Bank of England website, an excellent educational tool.
- Simulate a meeting of the MPC; in groups students review a range of data and decide whether to change Bank Rate.
- Arrange a visit from a member of the Bank of England's staff.
- Consider how changes in the exchange rate affect the AD and the various macroeconomic policy objectives – begin with trends and significant impacts, such as the Truss budget.
- Construct relevant AD/AS diagrams.
- Topic-specific multiple-choice questions.

## Resources

- Bank of England interactive website, this link is to one page only [BoE website – Interest rates](#) (10 minutes minimum) – an excellent resource, contains videos, sections on QE, minutes from MPC meetings, the letters to and from the Chancellor of the Exchequer. A fantastic way for students to see how the theory from the classroom is applied in the real world.
- [Economics help – Notes on monetary policy](#) (10 minutes)
- [BBC article What is QE and how will it affect you?](#) (10 minutes)
- [BBC article Reversing QE](#) (5 minutes)
- [Quizlet Monetary policy flashcards](#) (10 minutes)
- [ONS Inflation data December 2023, latest release at the time of writing](#) (10 minutes)

## Specification reference and content

### 3.2.4.2 Fiscal policy

- 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 pattern of economic activity.
- The difference between direct and indirect taxes.
- The difference between progressive, proportional and regressive taxes.
- The relationship between the budget balance and the national debt.

### Learning outcomes

- Understand what fiscal policy involves, how it is used in both a macroeconomic and microeconomic way, and its effects on the economy and various markets.
- Have an awareness of the main taxes in the UK and the main categories of government spending, for example, spending on defence, health, education and welfare.
- Understand that governments may deliberately run budget deficits and surpluses to try to influence aggregate demand. Students are not required to understand the arguments relating to the pros and cons of balancing the budget or attempting to limit the size of the national debt.

### Suggested timing

7 hours

### Possible teaching and learning activities

- Research the latest budget: depending upon the date, it might be possible to plan learning around the budget or use last year's data. Either way, it is a good idea to allocate some time to reviewing the current budget.
- The latest government 'book' includes revenue and spending pie charts: students can easily see spending/taxation decisions and data, and this can be used to help inform the reasons for spending and taxation. There are opportunities to link back to prior learning, for example, to basic economic problem and market failure.
- An opportunity to 'debate' the current budget and evaluate the effectiveness of taxation and spending decisions.
- Use AD/AS diagrams to illustrate the effects of fiscal policy decisions and support analysis and evaluation.
- Opportunity to signpost supply-side policy.
- Similarly, use demand and supply diagrams to illustrate the microeconomic effects of fiscal policy.
- Introduce the idea of different economic perspectives regarding how fiscal policy is used. Further opportunity for debate.
- Topic-specific multiple-choice questions.

## Resources

- HM Treasury Spring Budget 2023, pie charts on p113 and 114 [Gov.uk data Spring Review 2023](#) Use the latest data (20 minutes minimum)
- [Fiscal policy video clip](#) (9 minutes)
- [Keynes V Hayek clip](#) (8 minutes)
- UK National debt clock website [National Debt Clock](#) (5 minutes)

## Specification reference and content

### 3.2.4.3 Supply-side policies

- The 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, such as tax changes designed to change personal incentives, may increase the potential output of the economy and improve the underlying trend rate of economic growth.
- How supply-side policies can affect unemployment, the rate of change of prices and UK external performance, as reflected in the balance of payments on current account.
- Supply-side policies include measures such as government spending on education and training, cuts in income and corporation tax, welfare reform, and industrial policy.

### Learning outcomes

- Understand the meaning and effects of various supply-side policies.
- Appreciate the view that, in the long run, supply-side policies may help to resolve the conflicts that exist between the objectives of government macroeconomic policy.
- Understand that supply-side improvements in the economy often originate in the private sector, independently of government, for example, through productivity improvements, innovation and investment.
- Be able to use AD/AS/LRAS diagrams to illustrate the effects of supply-side policies and support analysis and evaluation.

### Suggested timing

6 hours

### Possible teaching and learning activities

- Research recent examples of supply-side policies, both nationally and locally, and analyse the effects and evaluate their effectiveness.
- Research changes in approach to government policy over the last 15 years, laissez-faire versus interventionist. Teachers may wish to refer to Thatcherism, Laffer etc to provide a wider context.
- Use diagrams to support analysis and evaluation.
- Opportunity to review all prior learning on policies, objectives of macroeconomic policies and how the macroeconomy works, and recommend changes to support the current economic situation.
- Simulation game.
- Topic-specific multiple-choice questions.

## Resources

- [Economics help notes Supply-side notes \(contains some Y2 content\)](#)
- Consider whether current tax and spending decisions concur with supply-side policy  
[Gov.uk data Spring Review 2023](#) Use the latest data (20 minutes minimum)
- Review local government industrial strategy, for example, the Northern Powerhouse website [Northern Powerhouse](#) (10 minutes) or the local council website [Chorley Council Choose Chorley for business](#) (10 minutes)
- EBEA simulation game [EBEA Simulation game](#) (1 lesson)

## 4.0 A-level Subject content

### 4.1 Individuals, firms, markets and market failure

This section of the specification is primarily about microeconomics. During their course of study, students should be provided with opportunities to use economic models to explore current economic behaviour. They should be able to apply their knowledge and skills to a wide variety of situations and to different markets and examples of market failure, including environmental and labour market failures. They should appreciate and be able to assess the impact that developments in the global economy have upon microeconomic behaviour and performance.

#### Note

4.1.1 Economic methodology and the economic problem is covered in Year 1 in section [3.1.1 Economic methodology and the economic problem](#).

### 4.1.2 Individual economic decision making

#### Specification reference and content

##### 4.1.2.1 Consumer behaviour

- Rational economic decision making and economic incentives.
- Utility theory: total and marginal utility, and the hypothesis of diminishing marginal utility
- Utility maximisation.
- The importance of the margin when making choices.

##### 4.1.2.2 Imperfect information

- The importance of information for decision making.
- The significance of asymmetric information.

##### 4.1.2.3 Aspects of behavioural economic theory

- Bounded rationality and bounded self-control.
- Biases in decision making: rules of thumb, anchoring, availability and social norms.
- The importance of altruism and perceptions of fairness.

##### 4.1.2.4 Behavioural economics and economic policy

- Choice architecture and framing.
- Nudges.
- Default choices, restricted choice and mandated choice.

## Learning outcomes

- Understand how and why individual decision making may support or conflict with traditional economic theory.
- Appreciate that the hypothesis of diminishing marginal utility supports a downward sloping demand curve.
- Understand that imperfect information makes it difficult for economic agents to make rational decisions and is a potential source of market failure.
- Understand that behavioural economists question the assumption of traditional economic theory that individuals are rational decision makers who endeavour to maximise their utility. Students should be able to explain some of the reasons why an individual's economic decisions may be biased.
- Appreciate that insights provided by behavioural economists can help governments and other agencies influence economic decision making.
- Use these ideas when discussing government intervention to correct market failure, as a complement and/or alternative to traditional types of intervention.

## Suggested timing

8 hours

## Possible teaching and learning activities

- Use data to calculate total and marginal utility, and identify utility maximisation, linking to demand theory.
- Play the [cookie challenge](#) to illustrate diminishing marginal utility.
- Using examples, consider the concept of a 'rational' individual decision maker and the influences which possibly make everyday decisions 'irrational', such as paying for gym membership but not attending, smoking a cigarette, etc.
- Carry out research to find examples of different biases in decision making. There is a huge amount of information available, and the examples provide context and help to bring the theory to life.
- Students acknowledge their own behavioural influences and share ideas.
- Discuss the market for 'lemons' (second-hand cars).
- The 'herding' experiment: give approximately half of the class a written instruction to leave the classroom at a certain point and go to a meeting place. Observe how the rest behaves.
- Research the work of the 'nudge unit.'
- Observe how behavioural influences have an effect on government policy making.
- Topic-specific multiple-choice questions.

## Resources

- [AQA guidance on teaching economic decision making](#) (1 hour minimum)
- Diminishing marginal utility notes [Tutor2u notes diminishing marginal utility](#) (10 marks)
- Behavioural economics video [What is behavioural economics?](#) (5 minutes)
- The Economist article the market for lemons [The Economist article Can you buy a good second hand car?](#) (10 minutes)
- Nudge video [YouTube Richard Thaler interview](#) (17 minutes)
- The Nudge Unit article [Institute for government article The Nudge Unit](#) (10 minutes)
- [The Behavioural Insight Team](#) (now independent of government) website
- Thinking fast and slow [Social science bites interview Kahneman on bias](#) (30 minutes)

## Note

4.1.3 Price determination in a competitive market is covered in [Year 1 \(AS\) in 3.1.3](#)

## 4.1.4 Production, costs and revenue

### Specification reference and content

4.1.4.1 Production and productivity (covered in [3.1.4.1 in AS](#))

4.1.4.2 Specialisation, division of labour and exchange (covered in [3.1.4.2 in AS](#))

4.1.4.3 The law of diminishing returns and returns to scale

- The difference between the short run and the long run.
- The difference between marginal, average and total returns.
- The law of diminishing returns.
- Returns to scale.
- The difference between increasing, constant and decreasing returns to scale.

### Learning outcomes

- This section builds on prior learning.
- Understand that the law of diminishing returns in the short run and returns to scale in the long run (explain relationships between inputs and output).
- Understand that these relationships have implications for costs of production.
- Calculate different types of returns and draw and interpret curves from the data.

### Suggested timing

4 hours

### Possible teaching and learning activities

- Recap Year 1 learning.
- Introduce the concept of the margin, and calculate total, average and marginal product.
- Draw diagrams/curves from given data and explain the relationship between the marginal product (MP), average product (AP) and total product (TP) curves.
- Use a model to show the relationship between the short run, when the law of diminishing returns occurs, and the long run, when firms are able to change all factors of production
- Calculate various returns to scale from given data.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

### Resources

- The law of diminishing returns video [YouTube Econplus Dal Law of diminishing returns](#) (9 minutes)
- Returns to scale video and notes [Tutor2u video and notes returns to scale](#) (8 minutes)

## Specification reference and content

### 4.1.4.4 Costs of production (partly covered in [3.1.4.4 in AS](#))

- The difference between fixed and variable costs.
- The difference between marginal, average and total costs.
- The difference between short-run and long-run costs.
- The 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.

### 4.1.4.5 Economies and diseconomies of scale (partly covered in [3.1.4.5 in AS](#))

- The difference between internal and external economies of scale.
- Reasons for diseconomies of scale.
- The relationship between returns to scale and economies or diseconomies of scale.
- The relationship between economies of scale, diseconomies of scale and the shape of the long-run average cost curve.
- The L-shaped long-run average cost curve.
- The concept of the minimum efficient scale (MES) of production.

### 4.1.4.6 Marginal, average and total revenue (partly covered in [3.1.3.5 in AS](#))

- The difference between marginal, average and total revenue.
- Why the average revenue curve is the firm's demand curve.
- The relationship between average and marginal revenue.
- The relationship between marginal revenue and total revenue.

### 4.1.4.7 Profit (partly covered in [3.1.3.5 in AS](#))

- Profit is the difference between total revenue and total costs.
- The difference between normal and abnormal (supernormal) profit.
- The role of profit in a market economy.

### 4.1.4.8 Technological change

- The 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.

## Learning outcomes

- This section builds on prior learning.
- Extend knowledge and understanding of different costs and revenues, and how they can be affected by technological change.
- Be able to calculate different costs and revenues from given data and draw and interpret cost and revenue curves.
- Understand the significance of the minimum efficient scale for the structure of an industry and barriers to entry.
- Understand how the process of creative destruction is linked to technological change.

## Suggested timing

5 hours

## Possible teaching and learning activities

- Recap Year 1 learning.
- Calculate different costs and revenues from given data and plot the resulting curves.
- Explain the reasons for the shape of the curves. Helps to develop analysis and reinforce the distinction between the short run and the long run.
- The curves may be used to illustrate profit-maximising level of output, distinguish between normal and abnormal profit.
- Use a diagram to illustrate minimum efficient scale. Compare the outcome with a firm producing less output and discuss the implications for market structure and barriers to entry.
- Research minimum efficient scale in the aircraft manufacturing or car industry.
- Research how technological change has affected markets in terms of structure and costs.
- Broadly consider different types of technology, AI/digital/internet-based, which may make markets less concentrated, and robotics/production line, which may make markets more concentrated.
- Research creative destruction and find context/examples.
- Research 3D printing.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Costs, revenues and profit video [Tutor2u video costs revenues and finding profit maximisation](#) (5 minutes)
- Profits presentation [Tutor2u Presentation Profits](#) (15 minutes)
- Minimum efficient scale 60-second economics [YouTube Tutor2u MES video](#) (1 minute)
- FT article [FT Coco Cola, Costa and economies of scale](#) (15 minutes)
- Technological change video [YouTube EconplusDal technological change and efficiencies](#) (11 minutes)
- Printing a bicycle with a 3-D printer video [YouTube video 3-D printing](#) (10 minutes)

## 4.1.5 Perfect competition, imperfectly competitive markets and monopoly

### Specification reference and content

#### 4.1.5.1 Market structures

- The spectrum of competition ranging from perfect competition at one end of the spectrum to pure monopoly at the other end of the spectrum.
- Factors such as the number of firms, the degree of product differentiation and ease of entry are used to distinguish between different market structures.

#### 4.1.5.2 The objectives of firms

- The models that comprise the traditional theory of the firm are based upon the assumption that firms aim to maximise profits.
- The profit-maximising rule ( $MC=MR$ ).
- The reasons for and the consequences of a divorce of ownership from control.
- Firms have a variety of other possible objectives.
- The satisficing principle.

### Learning outcomes

- Understand that there is a spectrum of competition and a range of objectives, including survival, growth, quality, maximising sales revenue and increasing their market share, that influence the behaviour and conduct of firms, both in theory and practice.
- Be able to discuss how the divorce of ownership from control may affect the objectives of firms, their conduct and performance.
- Signpost to future learning where students will be able to use diagrams to illustrate a range of objectives, such as profit maximising, revenue maximising and sales maximising, to support analysis and evaluation.

### Note

- Some teachers may wish to introduce Paper 3 exam technique at an early stage in Year 2, particularly the 10-mark question.
- Here the June 2022 investigation, 'The Commercial Aircraft Manufacturing Industry', 10-mark question may be appropriate: 'To what extent do the data support the view that Boeing has been more successful than Airbus since 2014? You must use the data in Extract B to support your assessment.'

### Suggested timing

2 hours

## Possible teaching and learning activities

- Students identify where a range of firms fall on the spectrum of competition.
- Identify and find examples of different types of businesses, from sole trader to PLC, and consider how this may affect performance and behaviour.
- Research various firms and identify their objectives. Link to the divorce of ownership from control.
- Is it possible to find evidence of negative consequences that may occur because of the divorce of ownership from control? Some high-profile examples of less than satisfactory behaviour include Tesco's horse-meat scandal, VW's emissions scandal, and the banking crisis.
- Opportunity to signpost financial markets, in particular capital markets and equity, and review share price/dividends data for various PLCs. Consider how pleased, or otherwise, shareholders may be with performance. Link back to the divorce of ownership from control.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Conduct and performance presentation [Tutor2u presentation market structure conduct and performance](#) (10 minutes)
- Divorce of ownership from control notes [Tutor2u notes divorce of ownership from control](#) (5 minutes)
- BBC article firms' objectives [BBC article Boeing shares stumble after mid-flight blowout](#) (5 minutes)
- Divorce of ownership from control video [YouTube AIB Shareholders fight back](#) (3 minutes)
- Example of share price chart [LSE.co.uk GSK share data](#)
- Objectives article, Economics Today Vol.21 March 2014. 'Do firms always profit maximise?'
- Economic Review article, Volume 41, February 2024 [Exploring the theory of the firm](#) (10 minutes)

## Specification reference and content

### 4.1.5.3 Perfect competition

- The formal diagrammatic analysis of the perfectly competitive model in the short and long run.
- The implications of the following for the behaviour of firms and the industry: large numbers of producers, identical products, freedom of entry and exit, and perfect knowledge.
- Firms operating in perfectly competitive markets are price takers.
- The proposition that, given certain assumptions, relating for example to a lack of externalities, perfect competition will result in an efficient allocation of resources.

## Learning outcomes

- Understand how firms behave in a perfectly competitive market, how price and output are determined, and how this results in an efficient allocation of resources.
- Understand that perfect competition, in both product and labour markets, provides a yardstick for judging the extent to which real world markets perform efficiently or inefficiently, and the extent to which a misallocation of resources occurs.
- Be able to assess critically the proposition that perfectly competitive markets lead to an efficient allocation of resources.
- Be able to construct and interpret the model of perfect competition, in both the short and long run, to support analysis and evaluation.

## Suggested timing

2 hours

## Possible teaching and learning activities

- Develop the basic learning from Year 1: a PC firm as a price taker, knowledge of cost and revenue curves and profit, to construct the model of perfect competition in the long run. Use an example to provide context.
- Consider a scenario, for example in the summertime more consumers eat lettuce, and illustrate the outcome in the market for lettuce using a demand and supply diagram. Students show how this impacts a firm using a short-run model, then drawing on the characteristics of PC, explain what happens in the long run. Support with another demand and supply diagram and a long-run model of PC.
- Topic-specific multiple-choice questions.

## Resources

- Perfect competition presentation [Tutor2u Presentation – perfect competition](#) (10 minutes)
- Perfect competition video [YouTube PAJ Holden perfect competition video](#) (8 minutes)

## Specification reference and content

### 4.1.5.4 Monopolistic competition

- The formal diagrammatic analysis of the monopolistically competitive model in the short and long run.
- The main characteristics of monopolistically competitive markets.
- Monopolistically competitive markets will be subject to non-price competition.

## Learning outcomes

- Understand how firms in monopolistic competition share characteristics with firms in perfect competition and monopoly, how this affects their behaviour, and how price and output are determined.
- Be able to construct and interpret the model of monopolistic competition, in both the short and long run, to support analysis and evaluation.

## Suggested timing

2 hours

## Possible teaching and learning activities

- Provide students with a list of characteristics of firms in monopolistic competition and ask them to identify and explain which come from perfect competition and which come from monopoly.
- Construct the model of monopolistic competition in the short run.
- Create a scenario, for example a new takeaway opens on the high street – use the model of monopolistic competition in the long run to illustrate what happens next to support analysis.
- Observe monopolistic competition in the real world. There is likely to be a lot of examples in the locality to help to bring the theory to life.
- Compare the outcomes in a monopolistically competitive market with those in a perfectly competitive market.
- Topic-specific multiple-choice questions.

## Resources

- Monopolistic competition presentation [Tutor2u presentation – monopolistic competition](#) (20 minutes)
- Monopolistic competition video [YouTube Econplus Dal monopolistic competition video](#) (13 minutes)
- FT article [FT article Coffee shops and market entry](#) (10 minutes)

## Specification reference and content

### 4.1.5.5 Oligopoly

- The main characteristics of oligopolistic markets.
- Oligopolistic markets can be very different in relation to, for example, the number of firms, the degree of product differentiation and ease of entry.
- Oligopoly can be defined in terms of market structure or in terms of market conduct (behaviour).
- Concentration ratios and how to calculate a concentration ratio.
- The difference between collusive and non-collusive oligopoly.
- The difference between cooperation and collusion.
- The kinked demand curve model.
- The reasons for non-price competition, the operation of cartels, price leadership, price agreements, price wars and barriers to entry.
- The factors which influence prices, output, investment, expenditure on research and advertising in oligopolistic industries.
- The significance of interdependence and uncertainty in oligopoly.
- The advantages and disadvantages of oligopoly.

### Learning outcomes

- Understand how and why the conduct and performance of firms may differ in oligopoly markets and how this may be affected by competition over time.
- Understand the various factors which affect the behaviour and performance of firms in a variety of real-world oligopoly markets, such as different barriers to entry and the degree of concentration and product differentiation.
- Understand that the kinked demand curve model should be used as an illustration of the interdependence between firms and not taught as if it is the only model of oligopoly.
- Understand that collusion may allow oligopolists to act as a monopolist and maximise their joint profits.
- Be able to evaluate the pros and cons of oligopoly.

### Suggested timing

3 hours

### Possible teaching and learning activities

- Provide students with a range of firms/industries, such as supermarkets in the grocery industry, energy firms, car firms or broadband providers, and ask them to consider how the firms behave and their impact on consumers. Review recent news articles to support. Students should conclude that firms in different industries behave differently, and this should provide real-world context. Emphasise 'interdependence' and 'uncertainty'.
- In turn, develop different models of oligopoly. Using diagrammatic analysis where appropriate and providing context.
- Opportunity to link back to technological change, benefits of innovation and invention, minimum efficient scale (MES).
- Opportunity to signpost future learning on competition policy.
- Overall evaluation of the oligopoly model with reference to specific industries.
- Topic-specific multiple-choice questions.

## Resources

- Economics Help notes [Economics help notes oligopoly](#) (10 minutes)
- Oligopoly video [Tutor2u video 5 minutes on oligopoly](#) (5 minutes)
- Energy market article [Tutor2u article The market for energy and gas](#) (5 minutes)
- BBC article [BBC article Supermarkets](#) (5 minutes)

## Specification reference and content

### 4.1.5.6 Monopoly and monopoly power

- The formal diagrammatic analysis of the monopoly model.
- That monopoly power is influenced by factors such as barriers to entry, the number of competitors, advertising and the degree of product differentiation.
- The advantages and disadvantages of monopoly.

## Learning outcomes

- Understand that pure monopoly/monopoly power is influenced by various factors, and that this determines the conduct and performance of firms.
- Be able to construct the formal diagrammatic analysis of the monopoly model, and use this support analysis and evaluation, to compare efficiencies and outcomes with other market structures.
- Evaluate the pros and cons of monopoly.

## Suggested timing

2 hours

## Possible teaching and learning activities

- Using real-world examples: identify, analyse and evaluate the characteristics of monopoly.
- Consider what it is that gives the firms their power and identify various types of barriers to entry.
- Appreciate that firms operating in monopolistically competitive and oligopolistic markets are price makers and have varying degrees of monopoly power.
- Construct the model of monopoly and use it to identify types of efficiency; compare with other types of market structures.
- Link back to objectives of firms. In addition to profit maximisation, the model of monopoly may be used to illustrate other objectives such as revenue maximisation and sales maximisation.
- Research recent news articles regarding various firms/industries.
- Overall evaluation of monopoly with reference to specific industries.
- Topic-specific multiple-choice questions.

## Resources

- Monopoly video [YouTube EconplusDal monopoly video](#) (8 minutes)
- Pros and cons of monopoly video [YouTube Econplus Dal Pros and cons of monopoly](#) (8 minutes)
- BBC article water industry [BBC article Water should be a simple business – why isn't it?](#) (15 minutes)
- The Guardian article water industry [The Guardian article Water firms urged to invest profits in cutting bills](#) (10 minutes)

## Specification reference and content

### 4.1.5.7 Price discrimination

- The conditions necessary for price discrimination.
- The advantages and disadvantages of price discrimination.

## Learning outcomes

- Understand the conditions under which firms are able to price discriminate and evaluate the pros and cons of price discrimination.
- Have an awareness of real-world examples of price discrimination and assess its impact on producers and consumers.
- A diagrammatic analysis of price discrimination is expected.

## Suggested timing

1 hour

## Possible teaching and learning activities

- Research real-world examples of price discrimination and consider how firms are able to successfully use price discrimination. Consider how consumers may be able to 'escape' their market segment if market seepage is allowed.
- Construct diagrams to illustrate how price discrimination may work, for example, on a last-minute basis, peak and off-peak times, and use these to support analysis and evaluation.
- Overall evaluation of price discrimination; emphasise the benefits which may be overlooked.
- Topic-specific multiple-choice questions.

## Resources

- Price discrimination video [YouTube Econplus Dal price discrimination video](#) (12 minutes)
- Movie price website <https://movietheaterprices.com/vue-cinema-prices/>
- Train tickets explained article [The train line article train tickets explained](#) (10 minutes)
- Cross-subsidisation notes [Tutor2u notes cross subsidisation](#) (5 minutes)

## Specification reference and content

### 4.1.5.8 The dynamics of competition and competitive market processes

- Both the short-run and long-run benefits which are likely to result from competition.
- That firms do not just compete on the basis of price but that competition will, for example, also lead firms to strive to improve products, reduce costs, improve the quality of the service provided.
- The process of creative destruction.

### 4.1.5.9 Contestable and non-contestable markets

- The significance of market contestability for the performance of an industry.
- Concepts such as sunk costs and hit-and-run competition.

### 4.1.5.10 Market structure, static efficiency, dynamic efficiency and resource allocation

- The difference between static efficiency and dynamic efficiency.
- The conditions required for productive efficiency (minimising average total costs) and allocative efficiency (price = marginal cost).
- Dynamic efficiency is influenced by, for example, research and development, investment in human and non-human capital and technological change.

### 4.1.5.11 Consumer and producer surplus

Be able to apply these concepts when discussing economic efficiency and welfare issues, such as price discrimination and the dead-weight losses associated with monopoly.

## Learning outcomes

- Understand the benefits which are likely to result from competition, including lower prices, the development of new products and improvements in quality.
- 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. Understand that this process of creative destruction is a fundamental feature of the way in which competition operates in a market economy.
- Understand the significance of market contestability on the performance of an industry.
- Be able to apply efficiency concepts when comparing the performance of firms in markets with different structures.
- Understand how conduct and performance indicators can be used to compare market structures.
- Be able to use consumer and producer surplus theory and diagrams to compare the impact on societal welfare in different circumstances.

## Suggested timing

3 hours

### **Possible teaching and learning activities**

- Research examples of contestability in markets.
- Apply different types of efficiency and consumer and producer surplus theory to different market structures; use relevant models to allow comparisons to be made.
- Opportunity for debate – which is more important static efficiency or dynamic efficiency?
- Research examples of industries where dynamic efficiency is crucial, in terms of process and products, for example, pharmaceuticals. Link back to types of market structures.
- Topic-specific multiple-choice questions.

### **Resources**

- Contestable markets video [YouTube Tutor2u video Contestable markets with examples](#) (9 minutes).
- Efficiency video [YouTube Econplus Dal efficiencies video](#) (7 minutes).
- Economics Help consumer and producer surplus notes [Economics help notes on consumer and producer surplus](#) (10 minutes) .

## 4.1.6 The labour market

### Specification reference and content

#### 4.1.6.1 The demand for labour, marginal productivity theory

- The demand for a factor is derived from the demand for the product.
- The marginal productivity theory of the demand for labour.
- The demand curve for labour shows the relationship between the wage rate and number of workers employed.
- The causes of shifts in the demand curve for labour.
- The determinants of the elasticity of demand for labour.

#### 4.1.6.2 Influences upon the supply of labour to different markets

- The supply of labour to a particular occupation is influenced by monetary and non-monetary considerations.
- Non-monetary considerations include job satisfaction and dissatisfaction and working conditions.
- The supply curve for labour shows the relationship between the wage rate and number of workers willing to work in an occupation.
- The causes of shifts in the market supply curve for labour.

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

- The economists' model of wage determination in a perfectly competitive labour market.
- Role of market forces in determining relative wage rates.

### Learning outcomes

- Understand the influences on the demand and supply of labour, and how wage rates and employment are determined in perfectly competitive labour markets.
- Be able to use diagrams and elasticity concepts to support theoretical analysis.
- Appreciate that all real-world markets are imperfectly competitive to a greater or lesser extent, but as with perfect competition in product markets this provides a yardstick for judging how well real-world market perform.

### Note

Students are not required to understand the determinants of an individual's supply of labour or the backward-bending supply curve.

### Suggested timing

4 hours

## Possible teaching and learning activities

- Using a range of occupations/labour markets ask students consider the factors that affect both the demand and supply of labour; this helps to provide real-world contexts.
- Practise calculations and draw curves/diagrams relevant to marginal productivity theory.
- Construct demand and supply of labour diagrams and use to support analysis and evaluation.
- Research relevant articles to analyse the impact on various labour markets.
- Topic-specific multiple-choice questions.

## Resources

- Demand for labour notes and videos [Tutor2u notes and video demand for labour](#) (20 minutes)
- Supply of labour notes and videos [Tutor2u notes and videos supply of labour](#) (15 minutes)
- FT labour markets [FT article Amazon and labour markets](#) (10 minutes)
- BBC article job losses impact on the demand for labour [BBC article demand for steel workers Tata](#) (10 minutes).

## Specification reference and content

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

- How various factors such as monopsony power, trade unions and imperfect information contribute to imperfections in a labour market.
- How, in a monopsony labour market, the employer can use market power to reduce both the relative wage rate and the level of employment below those that would exist in a perfectly competitive labour market.

4.1.6.5 The Influence of trade unions in determining wages and levels of employment

- The various factors that affect the ability of trade unions to influence wages and levels of employment in different labour markets.
- 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.

4.1.6.6 The National Minimum Wage

- The effects of a national minimum wage upon labour markets.
- The advantages and disadvantages of a national minimum wage.

4.1.6.7 Discrimination in the labour market

- The conditions necessary for wage discrimination.
- The impact of gender, ethnicity and other forms of discrimination on wages, levels and types of employment.

## Learning outcomes

- Understand how wage rates and levels of employment are determined in imperfectly competitive markets, including the roles played by trade unions, monopsonist employers and the government.
- Be able to construct relevant diagrams to support analysis and evaluation.
- Understand that, for a variety of reasons, real-world labour markets result in an inefficient allocation of resources and provide examples of labour market failure.

## Suggested timing

5 hours

## Possible teaching and learning activities

- Discuss examples of monopsonist employers to provide context and construct relevant diagrams to support analysis.
- Compare with the competitive labour market outcome.
- Research recent examples of trade union activity to support theoretical analysis.
- Research trends in trade union membership over time.
- Construct relevant diagrams to illustrate the impact of a trade union in a labour market, including when a trade union and monopsonist employer are present in a labour market, and compare outcomes.
- Research recent articles regarding the national minimum wage/living wage and construct relevant diagrams to support analysis and evaluation.
- Research evidence of discrimination in labour markets, the use of real-world examples is expected, and construct diagrams to support analysis.
- Topic-specific multiple-choice questions.

## Resources

- Economics Help notes monopsony [Economics help notes monopsony](#) (10 minutes)
- Trade unions videos [Tutor2u videos trade unions](#) (20 minutes)
- Trade Union data [TUC three charts on TU membership](#) (10 minutes)
- BBC article Junior Doctors strike [BBC article Junior doctors strike](#) (5 minutes)
- Pros and cons of the NMW video [YouTube Econplus Dal NMW video](#) (10 minutes)
- Gov.uk website minimum wage information [Gov.uk NMW rates](#)
- Wage differentials video [Tutor2u video wage differentials](#) (11 minutes)
- House of Commons Library article wage differentials [Commons Library article the Gender Pay Gap](#) (15 minutes)
- Discrimination article and video [Resolution Foundation article Unfair Treatment](#) (1hour 20 minutes)
- Gresham College Lectures [Gresham College video – Executive pay: what's right, what's wrong, what could be fixed?](#) (50 minutes)

## 4.1.7 The distribution of income and wealth: poverty and inequality

### Specification reference and content

#### 4.1.7.1 The distribution of income and wealth

- The difference between income and wealth.
- The various factors which influence the distribution of income and wealth.
- The difference between equality and equity in relation to the distribution of income and wealth.
- The Lorenz curve and Gini coefficient.
- The likely benefits and costs of more equal and more unequal distributions.

#### 4.1.7.2 The problem of poverty

- The difference between relative and absolute poverty.
- The causes and effects of poverty.

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

- The policies which are available to influence the distribution of income and wealth and to alleviate poverty.
- The economic consequences of such policies.

### Learning outcomes

- Understand how and why income and wealth are unequally distributed and assess policies which may be used to influence the unequal distribution and alleviate poverty.
- Some knowledge of the distribution of household income and wealth in the United Kingdom is expected.
- Understand that the degree of inequality can be measured but that whether a given distribution of income is equitable (fair and just) involves a value judgement.
- Interpret measures of inequality such as the Lorenz curve and Gini coefficient.
- Understand that excessive inequality is both a cause and consequence of market failure and 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.
- Evaluate the various approaches to redistributing income and wealth and alleviating poverty, recognising the moral and political perspectives.

### Suggested timing

8 hours

## Possible teaching and learning activities

- Research trends in the distribution of income and wealth in the UK. Note the meaning of relevant terms such as quintiles and deciles, and distinctions between absolute and relative values.
- Consider the factors that influence the distribution of income and wealth.
- Construct Lorenz curve diagrams to illustrate changes in the distribution of income and wealth.
- Research and interpret Gini coefficient data and make comparisons over time and between countries.
- Research relevant articles and news items relating to poverty.
- Consider the causes and effects of poverty, refer to the poverty cycle. Consider which groups of people are most likely to be susceptible to poverty.
- In groups students develop solutions to dealing with poverty highlighted above and evaluate the pros and cons of such policies.
- Research the ways in which the government is dealing with poverty and inequalities in the distribution of income and wealth.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Income and wealth inequality video [YouTube Tutor2u video Income and wealth inequality](#) (7 minutes)
- Absolute and relative poverty notes [Tutor2u notes absolute and relative poverty](#) (10 minutes)
- Household inequality data [ONS inequality data latest release at the time of writing](#)
- Policies to redistribute income and wealth video [YouTube Econplus Dal evaluate policies to redistribute income and wealth](#) (13 minutes)
- BBC article cost of living payment [BBC article Cost of living payment – what is it and who gets it?](#) (10 minutes)
- The Guardian foodbank article [The Guardian article Record number of households using foodbanks](#) (10 minutes)
- Review the work of the Resolution Foundation <https://www.resolutionfoundation.org/>
- Review the work of the Joseph Rowntree Foundation <https://www.jrf.org.uk/>

## 4.1.8 The market mechanism, market failure and government intervention in markets

### Specification reference and content

4.1.8.1 How markets and prices allocate resources (partly covered in [3.1.5.1 in AS](#))

- The rationing, incentive and signalling functions of prices in allocating resources and coordinating the decisions of buyers and sellers in a market economy.
- The advantages and disadvantages of the price mechanism and of extending its use into new areas of activity.

4.1.8.2 The meaning of market failure (covered in [3.1.5.2 in AS](#))

- Market failure occurs whenever a market leads to a misallocation of resources.
- The difference between complete market failure (resulting in a missing market) and partial market failure (where a market exists but contributes to resource misallocation).
- 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.

4.1.8.3 Public goods, private goods and quasi-public goods (partly covered in [3.1.5.3 in AS](#))

- Pure public goods are non-rival and non-excludable and recognition of the significance of these characteristics.
- The 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.
- The significance of technological change, e.g. television broadcasting is now excludable.
- The free-rider problem.
- The tragedy of the commons.

4.1.8.4 Positive and negative externalities in consumption and production (partly covered in [3.1.5.4 in AS](#))

4.1.8.5 Merit and demerit goods (partly covered in [3.1.5.5 in AS](#))

- 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 under-provision of merit goods and over-provision of demerit goods may also result from imperfect information.

4.1.8.6 Market imperfections (covered in [3.1.5.6 in AS](#))

- 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 under-production.
- Why the absence of property rights leads to externalities in both production and consumption and hence market failure.

## Learning outcomes

- This section builds on prior learning.
- Understand more about the advantages and disadvantages of the price mechanism as a means of allocating resources.
- Understand how economic incentives influence what, how and for whom goods and services are produced.
- Be able to assess the view that the price mechanism is an impersonal method of allocating resources, and 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.
- Be able to recognise a wide range of situations where markets could fail and provide real-world examples to inform discussions.
- Appreciate the relevance of the 'tragedy of the commons' for environmental market failures.
- Be able to illustrate the misallocation of resources resulting from externalities in both production and consumption, and the consumption of merit and demerit goods, using diagrams showing marginal private and social cost and benefit curves.

## Suggested timing

4 hours

## Possible teaching and learning activities

- Recap prior learning.
- Research recent relevant examples of market failure using news articles to consolidate and develop prior learning.
- Find evidence specifically relating to environmental market failure to introduce the idea of the tragedy of the commons.
- Link information failures to elements of behavioural theory.
- Construct MSC/MSB diagrams and use these to support analysis and evaluation.
- Topic-specific multiple-choice questions.

## Resources

- AQA guidance externalities [AQA externalities guidance notes](#) (15 minutes)
- Externalities diagrams [Tutor2u notes and diagrams externalities](#) (15 minutes)
- Economic Review article, Gambling as a Market Failure [Economics Review Gambling as a Market Failure](#) (10 minutes)
- UN Climate Change COP 28 article [UN Climate Change COP 28: what was achieved and what happens next?](#) (15 minutes)
- Tragedy of the commons video [Study.com video Tragedy of the commons](#) (7 minutes)
- Economic Review article, volume 40, November 2022 [Climate change and the use of renewable resources](#) (10 minutes).

## Specification reference and content

### 4.1.8.7 Competition policy

- The general principles of UK competition policy and some awareness of EU competition policy.
- The costs and benefits of such policies.

### 4.1.8.8 Public ownership, privatisation, regulation and deregulation of markets

- The arguments for and against the public ownership of firms and industries.
- The arguments for and against the privatisation of state-owned enterprises.
- The arguments for and against the regulation of markets.
- The arguments for and against the deregulation of markets.
- The problem of regulatory capture.

### 4.1.8.9 Government intervention in markets (partly covered in [3.1.5.8 in AS](#))

- 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 regulation.
- Governments have a range of objectives and these affect how they intervene in a mixed economy to influence the allocation of resources.
- The use of indirect taxation, subsidies, price controls, state provision and regulation, the extension of property rights and pollution permits to correct market failure.

### 4.1.8.10 Government failure (partly covered in [3.1.5.9 in AS](#))

- Government failure occurs when government intervention in the economy leads to a misallocation of resources.
- Inadequate information, conflicting objectives and administrative costs are possible sources of government failure.
- Governments may create, rather than remove, market distortions.
- Government intervention can lead to unintended consequences.

## Learning outcomes

- This section builds on prior learning.
- Understand more about how and why governments intervene in markets and why this may not necessarily improve economic welfare.
- Use real-world examples of competition policies to provide contexts and evaluate the use of such policies to deal with firms' behaviour.
- Be able to assess the application of public ownership, privatisation, regulation and deregulation in the United Kingdom and be able to evaluate their effects on economic performance.
- Be able to apply economic models to assess the role of markets and the government in a variety of situations, and explain, analyse and evaluate the strengths and weaknesses of the market economy and the role of government within it.
- Be able to evaluate the case for and against government intervention in particular markets and assess the relative merits of different methods of intervention.

## Suggested timing

6 hours

## Possible teaching and learning activities

- Recap prior learning.
- Research different aspects and examples of competition policy using recent news articles and evaluate their effectiveness.
- Opportunity to debate public versus private ownership.
- Research recent examples of government intervention in markets, use diagrams to support analysis and evaluate, (to consolidate and develop prior learning).
- Research the use of pollution permits.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Competition policy notes [Tutor2u notes Competition policy](#) (10 minutes)
- Public versus private sector video [Tutor2u video public versus private ownership](#) (12 minutes)
- The Guardian nationalisation article [The Guardian article Labour plans to renationalise energy industry](#) (10 minutes)
- Regulation article The Spectator [The Spectator article Did Rishi Sunak need to introduce a smoking ban?](#) (10 minutes)
- Cap and Trade video [YouTube Cap and Trade video](#) 10 minutes)

## 4.2 The national and international economy

This section of the specification is primarily about macroeconomics. However, students should understand that microeconomic principles underpin the behaviour of the macroeconomy. Understanding some aspects of macroeconomic behaviour requires that students have a firm grasp of related microeconomic principles, for example, understanding of price elasticity of demand is essential when analysing the impact of changes in the exchange rate on an economy. Students should also be aware of developments in the world economy, including the European Union, and how these have affected the UK. They are not required to have specific knowledge of economic developments in any individual country, other than the UK, but if this is needed, relevant data will be presented to students.

### 4.2.1 The measurement of macroeconomic performance

#### Specification reference and content

4.2.1.1 The objectives of government economic policy (covered in [3.2.1.1 in AS](#))

4.2.1.2 Macroeconomic indicators (covered in [3.2.1.2 in AS](#))

4.2.1.3 Uses of index numbers (covered in [3.2.1.3 in AS](#))

4.2.1.4 Uses of national income data

- The use and limitations of national income data to assess changes in living standards over time.
- The use and limitations of national income data to compare differences in living standards between countries.
- The importance of using purchasing power parity (PPP) exchange rates when making international comparisons of living standards.

#### Learning outcomes

- The section builds on prior learning of national income.
- Understand the use and limitations of national income data when making comparisons in living standards between countries over time and judge the appropriateness of national income as a measure of a country's standard of living.
- Understand the importance of PPP exchange rates when assessing living standards in different countries.

#### Suggested timing

3 hours

## Possible teaching and learning activities

- Recap Year 1 learning.
- Use a graph to illustrate changes in GDP per capita over time. Ask students to explain what this implies about living standards in the UK. Ask them to consider what it doesn't tell us about living standards.
- Students create a definition/explanation of standard of living.
- Students research GDP per capita in different countries and suggest what this implies about living standards between countries. Ask them to consider what it doesn't tell us.
- Compare with data using PPP exchange rates.
- Research alternative measures of living standards, such as HDI, signpost to future learning.
- Topic-specific multiple-choice questions.

## Resources

- GDP per capita ONS data [ONS UK GDP per capita data latest release at the time of writing](#) (10 minutes activity)
- Global GDP per capita data [The World Bank data interactive page](#) (10 minutes)
- Limitations of national income data [YouTube video Robert F Kennedy challenges GNP](#) (3 minutes)
- FT article [FT article Why we need to prioritise wellbeing overgrowth](#) (10 minutes)
- Economics Help notes [Economics Help PPP exchange rate notes](#) (10 minutes)
- The Big Mac Index [Economist.com article The Big Mac Index](#) (10 minutes).

## 4.2.2 How the macroeconomy works: the circular flow of income, aggregate demand/aggregate supply analysis and related concepts

### Specification reference and content

4.2.2.1 The circular flow of income (covered in [3.2.2.1 in AS](#))

4.2.2.2 Aggregate demand and aggregate supply analysis (covered in [3.2.2.2 in AS](#))

4.2.2.3 The determinants of aggregate demand (covered in [3.2.2.3 in AS](#))

4.2.2.4 Aggregate demand and the level of economic activity (partly covered in [3.2.2.4 in AS](#))

- The role of AD in influencing the level of economic activity.
- The multiplier process and an explanation of why an initial change in expenditure may lead to a larger impact on local or national income.
- The concept of the marginal propensity to consume and use the marginal propensity to consume to calculate the size of the multiplier.
- Why the size of the marginal propensity to consume determines the magnitude of the multiplier effect.

4.2.2.5 Determinants of short-run aggregate supply (covered in [3.2.2.5 in AS](#))

4.2.2.6 Determinants of long-run aggregate supply (partly covered in [3.2.2.6 in AS](#))

- The fundamental determinants of long-run AS such as technology, productivity, attitudes, enterprise, factor mobility, and economic incentives.
- The position of the vertical long-run AS curve represents the normal capacity level of output of the economy.
- The importance of the institutional structure of the economy in determining aggregate supply, such as the role of the banking system in providing business investment funds, should also be understood.
- The Keynesian AS curve.

### Learning outcomes

- This section builds on prior learning.
- Understand more about the multiplier and an alternative view of the AS curve.
- Calculate the multiplier from the marginal propensity to consume. Calculations from the marginal propensities to withdraw will not be expected.
- Use the Keynesian AS curve to support analysis and evaluation.

### Suggested timing

2 hours

### Possible teaching and learning activities

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- Recap Year 1 learning.
- Research recent events to find examples of multiplier effects; use AD/AS analysis to illustrate the impact on the economy.
- Calculate the multiplier from the MPC.
- Consider which households may have higher/lower MPCs and analyse/evaluate the impact of changes in government spending/taxation to various households on economic activity.
- Compare and contrast the macroeconomic effects of recent events in the UK using the vertical LRAS and the Keynesian AS.
- Research and debate – is it possible to identify how far the UK is from full capacity?
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

### Resources

- Video clip MPC and the multiplier [YouTube Khan Academy MPC and the multiplier](#) (10 minutes)
- Economics Online article fiscal multipliers [Economics Online Fiscal multiple article](#) (10 minutes)
- IEA article [IEA Multiplier madness and Laffer Lunacy: a guide to Trussonomics](#) (10 minutes)

## 4.2.3 Economic performance

### Specification reference and content

4.2.3.1 Economic growth and the economic cycle (partly covered in [3.2.3.1 in AS](#))

- The difference between short-run and long-run growth.
- The 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 costs and benefits of economic growth.
- The impact of growth on individuals, the economy and the environment.
- The concept of the economic cycle and the use of a range of economic indicators, such as real GDP, the rate of inflation, unemployment and investment, to identify the various phases of the economic cycle.
- The difference between positive and negative output gaps.
- The causes of changes in the various phases of the economic cycle, including both global and domestic demand-side and supply-side shocks.

### Learning outcomes

- This section builds on prior learning.
- Understand the causes of cyclical instability such as excessive growth in credit and levels of debt, asset price bubbles, destabilising speculation and animal spirits or herding.
- Analyse and evaluate the costs and benefits of economic growth, and discuss the impact of growth on individuals, the economy, and the environment.
- Discuss the sustainability of economic growth.

### Suggested timing

4 hours

### Possible teaching and learning activities

- Recap Year 1 learning.
- Research economic data over time and identify causes of cyclical instability.
- Analyse and evaluate the costs and benefits of economic growth and evaluate the extent to which growth is desirable and sustainable. Consider wider issues such as environmental damage and inequality. Links back to prior learning.
- Use negative externalities in production diagrams, Lorenz curve diagrams to illustrate the impacts of growth on the environment and inequality.
- Regarding the benefits of growth, students could focus more closely on living standards (link back to [4.2.1.4](#)) and research alternative measures of living standards, such as HDI. There is an opportunity to signpost future learning here.
- Opportunity to signpost economic development which is covered later.
- Debate – should the goal be changed, growth versus wellbeing?
- Topic-specific multiple-choice questions.

## Resources

- GDP data [ONS website GDP data latest release at the time of writing](#)
- Costs and benefits of growth video and notes [Tutor2u Video and notes The costs and benefits of growth](#) (15 minutes)
- 'The Growth Illusion', by Richard Douthwaite, 'How economic growth enriched the few, impoverished the many and endangered the planet' – use the quote as a starting point for a debate.
- Telegraph article [Telegraph article Richard Douthwaite obituary](#) (15 minutes)
- Doughnut Economics Action Lab website [Doughnut action Lab website 7 ways to think like a 21st century economist](#) (10 minutes minimum)
- Happy Planet Index Ted Talk video [YouTube video The Happy Planet Index](#) (18 minutes)
- Economic Review article volume 38, April 2021, [Exploring Economic Growth](#) (10 minutes)

## Specification reference and content

### 4.2.3.2 Employment and unemployment (partly covered in [3.2.3.2 in AS](#))

- The main UK measures of unemployment, i.e. the claimant count and the Labour Force Survey measure.
- The concepts of voluntary and involuntary unemployment.
- The terms seasonal, frictional, structural and cyclical unemployment.
- How employment and unemployment may be determined by both demand-side and supply-side factors.
- The concept of, and the factors which determine, real wage unemployment.
- The concept of, and the factors which determine, the natural rate of unemployment.
- The consequences of unemployment for individuals and for the performance of the economy.

## Learning outcomes

- This section builds on prior learning.
- Understand the concept of and the factors that determine the natural rate of unemployment and real-wage unemployment.
- Be able to analyse and evaluate the consequences of unemployment for individuals and the performance of the economy.

## Suggested timing

2 hours

## Possible teaching and learning activities

- Recap Year 1 learning.
- Understand that a negative output gap is linked to cyclical unemployment and that supply-side causes of unemployment affect the position of the long-run aggregate supply curve.
- Use diagrams to illustrate the short-run Phillips curve relationship and analyse and evaluate the implications for government policy.
- Use diagrams to illustrate the long-run Phillips curve, leading to the emergence of the NRU, and critically evaluate its relevance.
- Use a combination of diagrams, labour market, LRAS, and LRPC, to illustrate how labour market supply-side policies may affect the NRU. This integrates various elements of economic theory and helps to support analysis and evaluation.
- Plot inflation and unemployment data over time, getting students 'join the dots' to try to spot a Phillips curve relationship.
- Is it possible to identify the NRU?
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Labour market data ONS website [ONS Labour market data latest release at the time of writing](#)
- Economics Help notes [Economics Help article The Phillips curve explained](#) (20 minutes)
- Economics Today article Vol 18, Jan 2011, 'What has happened to the vertical Phillips curve? (15 minutes)
- Bank of England speech transcript [BoE article The Phillips curve: lower, flatter or in hiding?](#) (30 minutes – summarise?)

## Specification reference and content

### 4.2.3.3 Inflation and deflation (partly covered in [3.2.3.3 in AS](#))

- The concepts of inflation, deflation and disinflation.
- Demand-pull and cost-push influence on the price level.
- Fisher's equation of exchange  $MV = PQ$  and the Quantity Theory of Money in relation to the monetarist model.
- The effects of expectations on changes in the price level.
- The consequences of inflation for both individuals and the performance of the economy.
- The consequences of deflation for both individuals and the performance of the economy.
- How changes in world commodity prices affect domestic inflation.
- How changes in other economies can affect inflation in the UK.

## Learning outcomes

- This section builds on prior learning.
- Understand the consequences of inflation and deflation for individuals and the performance of the economy.
- Understand Fisher's equation of exchange in relation to the monetarist model.
- Students may use T instead of Q in the Fisher equation and understand that using Q means that PQ is nominal national income.

## Suggested timing

3 hours

## Possible teaching and learning activities

- Recap Year 1 learning.
- Research inflation data over time compared to earnings growth, use as a starting point to consider the consequences of inflation to individuals.
- Develop further, linking to the performance of the economy.
- Given recent trends there is a plethora of articles/ videos relating to the 'cost-of-living crisis', the choice between 'eating and heating' for students to review and summarise to support their knowledge and understanding.
- Research economies where deflation has been a problem, for example, Japan.
- Distinguish between benign and malignant deflation and find evidence of each.
- Explain the Fisher equation with links to QE and the money supply.
- Research Milton Friedman, Thatcherism, the monetarist experiment.
- Topic-specific multiple choice questions.
- Students create a multiple choice question and test it on peers.

## Resources

- Inflation data ONS website [ONS website Inflation and price indices data latest release at the time of writing](#)
- The Resolution Foundation article [The Resolution Foundation Cost of living pressures have not fallen as fast as inflation](#) (15 minutes)
- BBC article cost of living [BBC article wages outstrip inflation for first time in nearly two years](#) (10 minutes)
- Deflation video [YouTube EconplusDal video Causes and consequences of deflation](#) (10 minutes)
- Economics Help notes [Economics help article The policies of Thatcher](#) (20 minutes)
- The Telegraph article [The Telegraph Obituary Milton Friedman](#) (10 minutes)

## Specification reference and content

4.2.3.4 Possible conflicts between macroeconomic policy objectives (partly covered in [3.2.3.5 in AS](#))

- How negative and positive output gaps relate to unemployment and inflationary pressures.
- Both the short-run Phillips curve and the long-run, L-shaped Phillips curve.
- The implications of the short-run Phillips curve and the long-run, L-shaped Phillips curve for economic policy.
- How economic policies may be used to try to reconcile possible policy conflicts both in the short run and the long run.

## Learning outcomes

- This section builds on prior learning.
- Understand more about the possibility of conflicts arising between macroeconomic policy objectives and discuss approaches to reconciling these conflicts and the monetarist/supply-side view that the major macroeconomic objectives are compatible in the long run.
- Understand that the L-shaped Phillips curve is also known as the vertical long-run Phillips curve.

## Suggested timing

2 hours

## Possible teaching and learning activities

- Recap Year 1 learning.
- Use the different Phillips curve models to illustrate possible conflicts between macroeconomic policy objectives in the short run, and the possibility of reconciliation in the long run, to support analysis and evaluation.
- Evaluate the role of various policies in dealing with such conflicts.
- Consider other conflicts, such as lower unemployment and the effects on the current account balance, and increased spending on public services and the effects on the budget balance.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

Conflicts between macroeconomic policy objectives notes [Tutor2u notes Conflicting objectives](#) (10 minutes)

## 4.2.4 Financial markets and monetary policy

### Specification reference and content

#### 4.2.4.1 The structure of financial markets and financial assets

- The characteristics and functions of money.
- Definitions of the money supply and the distinction between narrow money and broad money.
- The difference between the money market, the capital market and the foreign exchange market.
- The role of financial markets in the wider economy.
- The difference between debt and equity.
- Why there is an inverse relationship between market interest rates and bond prices.

#### 4.2.4.2 Commercial banks and investment banks

- The difference between a commercial bank and an investment bank.
- The main functions of a commercial bank.
- The structure of a commercial bank's balance sheet.
- The objectives of a commercial bank, i.e. liquidity, profitability and security.
- Potential conflicts between these objectives.
- How banks create credit.

#### 4.2.4.3 Central banks and monetary policy (partly covered in [3.2.4.1 in AS](#))

- The main functions of a central bank.
- That monetary policy involves the central bank taking action to influence interest rates, the supply of money and credit and the exchange rate.
- The current objectives of monetary policy set by the government.
- The role of the Monetary Policy Committee of the Bank of England (MPC) and how it uses changes in bank rate to try to achieve the objectives for monetary policy, including the government's target rate of inflation.
- The factors considered by the MPC when setting the bank rate.
- How changes in the exchange rate affect aggregate demand and the various macroeconomic policy objectives.
- The monetary policy transmission mechanism, including the relationship between changes in interest rates and the exchange rate.
- How the Bank of England can influence the growth of the money supply.

#### 4.2.4.4 The regulation of the financial system

- Regulation of the financial system in the UK, e.g. the role of the Bank of England, the Prudential Regulation Authority (PRA), the Financial Policy Committee (FPC) and the Financial Conduct Authority (FCA).
- Why a bank might fail, including the risks involved in lending long term and borrowing short term.
- Liquidity ratios and capital ratios and how they affect the stability of a financial institution.
- Moral hazard.
- Systemic risk and the impact of problems that arise in financial markets upon the real economy.

## Learning outcomes

- This section builds on prior learning.
- Understand more about monetary policy, including the roles of different financial markets and institutions, such as commercial banks and the central bank, and the need for regulation.
- Be able to explain the ways in which firms raise finance by issuing shares, issuing corporate bonds and borrowing from a bank.
- Understand the terms coupon and maturity in relation to government bonds and be able to calculate the yield on a government bond.
- Have an awareness of the differences between a commercial bank and an investment bank but students do not need a detailed knowledge of the activities and functions of an investment bank.
- Understand that many banks are engaged in both investment banking and commercial banking activities and that this may increase systemic risk.
- Understand that there are other institutions that operate in financial markets, but students do not need to know about their activities or their functions.
- There is not a requirement to calculate the credit multiplier.
- Understand current and recent instruments of monetary policy such as quantitative easing/tightening, Funding for Lending and forward guidance.
- Understand how the MPC of the Bank of England uses changes in bank rate to try to achieve the objectives for monetary policy, including the government's target rate of inflation.
- An in-depth knowledge of the PRA, FPC and the FCA is not expected but students should appreciate their role in trying to maintain the stability of the financial system. Students are not required to calculate liquidity or capital ratios.

## Suggested timing

10 hours

## Possible teaching and learning activities

- Recap Year 1 learning on monetary policy.
- Opportunity to link back to the circular flow of income to illustrate the role commercial banks (financial intermediaries) play in the economy, for example, accepting deposits, (savings) and loaning money to firms, for investment.
- Activity regarding the difference between bonds and shares. Opportunity to link back to firms, and the divorce of ownership from control due to raising finance by selling shares. Research changes in dividends payments for various firms.
- Calculate bond yields.
- Research different commercial banks to establish their objectives, rates offered to savers/charged to borrowers.
- Research the financial crisis, understand the need for regulation.
- Develop deeper understanding of the role of the Bank of England.
- Debate the effectiveness of monetary policy over recent years.
- Topic-specific multiple-choice questions.

## Resources

- [AQA guidance on teaching financial markets](#) (1 hour minimum)
- Revisit the Bank of England website for relevant/recent articles, such as the Monetary Policy Report [BoE February Monetary policy Report](#) (15 minutes)
- Financial Crisis video [YouTube video How it happened – the financial crisis](#) (12 minutes)
- Coming soon: the Bank of Dave [YouTube video The Bank of Dave](#) (10 minutes)
- The Open University article [OU article Inside the Bank of England](#) (15 minutes)
- The Big Short film (cert 15) (2 hours 10 minutes)
- Bank of Dave film (cert 12) (1 hour 47 minutes)

## 4.2.5 Fiscal policy and supply-side policies

### Specification reference and content

#### 4.2.5.1 Fiscal policy (partly covered in [3.2.4.2 in AS](#))

- 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 pattern of economic activity.
- The types of and reasons for public expenditure.
- Why governments levy taxes.
- The difference between direct and indirect taxes.
- The difference between progressive, proportional and regressive taxes.
- The principles of taxation, such as that taxes should be equitable.
- The role and relative merits of different UK taxes.
- The relationship between the budget balance and the national debt.
- Cyclical and structural budget deficits and surpluses.
- The consequences of budget deficits and surpluses for macroeconomic performance.
- The significance of the size of the national debt.
- The role of the Office for Budget Responsibility.

### Learning outcomes

- This section builds on prior learning
- Understand the roles and relative merits of different UK taxes and the types of and reasons for government spending.
- Understand that an unbalanced budget may be cyclical and/or structural in nature and analyse and evaluate the consequences of budget surpluses and deficits.
- Have an awareness of the role of the Office for Budget Responsibility.

### Suggested timing

5 hours

## Possible teaching and learning activities

- Recap Year 1 learning.
- Using the most recent budget data, analyse and evaluate government spending decisions.
- Use the [Gov website](#) to review different taxes/rates and consider their role and the merits or otherwise of them. For example, income tax may be used to raise revenue, redistribute income, and create incentives, or the role of corporation tax in attracting FDI and incentivising domestic investment.
- Assess the economic significance of changes in the level and distribution of both public expenditure and taxation.
- Discuss different views regarding tax changes, free market versus interventionist.
- Use the Laffer curve to illustrate the effects of tax changes, and support analysis and evaluation.
- Discuss the issue of the budget balance and be able to evaluate the possible economic consequences of a government running a budget deficit or budget surplus and assess the impact of measures used to rebalance the budget.
- Debate regarding the size of the national debt. Is the current situation desirable? Consider intergenerational equity and crowding in and crowding out.
- Opportunity to link back to financial markets, money markets and bonds.
- Topic-specific multiple-choice questions.

## Resources

- Government spending presentation [Tutor2u Video and notes government spending](#) (15 minutes)
- Taxation presentation [Tutor2u video and notes taxation](#) (15 minutes)
- Income tax rates [Gov.uk website Income tax](#) It is possible to review all taxes
- HM Treasury Spring Budget 2023, pie charts on p113 and 114 [Gov.uk data Spring Review 2023](#) Use the latest data (20 minutes minimum)
- [Office for Budget Responsibility website](#)
- Example of recent article from the OBR website [OBR article Public Sector Finances December 2023](#) (15 minutes)
- BBC article [BBC article the inside story of the mini budget disaster](#) (15 minutes)
- Budget article, Economics Today. Vol.21 March 2014. 'Understanding the budget.' (15 minutes).
- Fiscal policy article, Volume 41, February 2024 [Fiscal Policy](#) (10 minutes)
- [The Debt Bombshell website](#)

## Specification reference and content

### 4.2.5.2 Supply-side policies (partly covered in [3.2.4.3 in AS](#))

- The 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, such as tax changes designed to change personal incentives, may increase the potential output of the economy and improve the underlying trend rate of economic growth.
- How supply-side policies can affect unemployment, the rate of change of prices and UK external performance, as reflected in the balance of payments on current account.
- The role of supply-side policies in reducing the natural rate of unemployment#.
- Free market supply-side policies include measures such as: tax cuts, privatisation, deregulation and some labour market reforms.
- Interventionist supply-side policies include measures such as: government spending on education and training, industrial policy, subsidising spending on research and development.
- Supply-side policies can have microeconomic as well as macroeconomic effects.

## Learning outcomes

- This section builds on prior learning.
- Understand more about a variety of supply-side policies, how they impact the economy, and their role in reducing the natural rate of unemployment.
- Understand the distinction between free-market and interventionist supply-side policies.
- Understand that supply-side policies have microeconomic as well as macroeconomic effects.

## Suggested timing

2 hours

## Possible teaching and learning activities

- Recap Year 1 learning.
- Analyse and evaluate the two differing approaches to supply-side policy: interventionist versus free market. Consider allowing groups of students to present the argument for one approach, and others provide the challenge, and so on.
- Students focus on issues relevant to the UK economy, for example, the productivity gap, and evaluate how effective supply-side policy may be in resolving the issue.
- Evaluate the overall effectiveness of supply-side policy.
- Topic-specific multiple-choice questions.
- Students create a multiple-choice question and test it on peers.

## Resources

- Supply-side policy [Tutor2u Powerpoint Supply-side policy](#) (15 minutes)
- The Office for Budget Responsibility Article [OBR The productivity puzzle](#) (20 minutes)
- Economics Today article, Economics Today. Vol 21. March 2014. 'What is meant by competitiveness?' (15 minutes).

## 4.2.6 The international economy

### Specification reference and content

#### 4.2.6.1 Globalisation

- The causes of globalisation.
- The main characteristics of globalisation.
- The consequences of globalisation for less-developed and for more-developed countries.
- The role of multinational corporations in globalisation.

### Learning outcomes

Understand the meaning and causes of globalisation and its consequences for countries at different stages of development.

### Suggested timing

4 hours

### Possible teaching and learning activities

- Students are likely to have some prior general knowledge of globalisation from Geography, RS, for example. In groups, ask students to produce a presentation using photographs, pictures and numerical/graphical data *only*, without any prose, and explain to the rest of the class what they understand by globalisation/what it means to them.
- Research recent articles relating to globalisation.
- In groups students research a MNC to help understand the role it plays in globalisation.
- Compare the effects of globalisation on a more-developed and less-developed economy, for example, the effect of deindustrialisation and outsourcing on jobs in the UK, compared to job creation in Bangladesh.
- An opportunity to signpost trade and development covered later. Teachers may wish to introduce the free-trade diagram.
- Topic-specific multiple-choice questions.

### Resources

- Globalisation presentation [Tutor2u revision presentation globalisation and development](#) (30 minutes)
- Video clip, an introduction to globalisation [YouTube video clip Crashcourse in world history: globalisation](#) (12 minutes)
- BBC FDI article [BBC article Sunak welcomes foreign firms' £29.5bn vote of confidence](#) (5 minutes)
- OECD article Global minimum tax rate [OECD Effects of a global minimum tax rate](#) (15 minutes)

## Specification reference and content

### 4.2.6.2 Trade

- The model of comparative advantage.
- The distinction between comparative and absolute advantage.
- The model shows that specialisation and trade can increase total output.
- Other economic benefits of trade, such as the ability to exploit economies of scale and increased competition.
- The costs of international trade.
- The reasons for changes in the pattern of trade between the UK and the rest of the world.
- The nature of protectionist policies, such as: tariffs, quotas and export subsidies.
- The causes and consequences of countries adopting protectionist policies.
- The main features of a customs union.
- The main characteristics of the Single European Market (SEM).
- The role of the World Trade Organisation (WTO).

### Learning outcomes

- Understand how and why countries trade, and the costs and benefits of trade, specifically the benefits from specialisation.
- Understand how and why countries may choose to restrict trade, and the consequences of implementing protectionist policies.
- Understand the reasons for changes in the pattern of trade between the UK and the rest of the world.
- An awareness of the role of the WTO.
- Use a simple numerical example to illustrate the principle of comparative advantage and the associated benefits of trade.
- Use a diagram to illustrate the effects of imposing a tariff on imports.

### Suggested timing

10 hours

## Possible teaching and learning activities

- Drawing from prior knowledge from various areas of Year 1 content, students consider the in general costs and benefits of international trade, from here more ‘theoretical rigour’ will be added to support their understanding. For example, regarding specialisation, students add the model of comparative advantage. There is an opportunity to develop quantitative skills here, such as calculating opportunity cost.
- Construct the free-trade diagram to illustrate both the benefits and costs of trade, and support analysis and evaluation. Link back to consumer and producer surplus. The addition of imports to the market could, all things being equal, be linked to the macroeconomy via AD/AS analysis and develop the analysis and evaluation further.
- Similarly, construct the tariff diagram, which follows on from the free-trade diagram. In addition to the above, refer to the deadweight welfare loss.
- Research recent trade articles, trade wars and trade agreements.
- Opportunity for debate, free-trade versus protectionism; develop further, assume protectionism; which method is the ‘best’?
- Research changes in the pattern of trade, opportunity to link back to globalisation.
- Topic-specific multiple-choice questions.

## Resources

- International trade notes and video [Tutor2u Video and notes international trade](#) (10 minutes).
- Absolute and comparative advantage video [YouTube PAJ Holden Absolute and comparative advantage video](#) (8 minutes).
- Stars and Triangles game [Active Learning in Political Science - comparative advantage game](#) (30 minutes to play the game).
- Economics Help notes [Economics Help notes Protectionism](#) (15 minutes).
- BBC article and video [BBC Trade wars: Trump tariffs and protectionism explained](#) (25 minutes).
- Trade agreement article House of Commons Library [Commons Library Progress on UK free trade agreement](#) (10 minutes).
- Quizlet international trade flashcards [Quizlet flashcards international trade](#) (15 minutes).

## Specification reference and content

### 4.2.6.3 The balance of payments (partly covered in [3.2.3.4 in AS](#))

- The difference between the current, capital and financial accounts on the balance of payments.
- The current account comprises trade in goods, trade in services, primary income and secondary income.
- The meaning of a deficit and a surplus on the current account.
- The factors that influence a country's current account balance such as productivity, inflation and the exchange rate.
- The consequences of investment flows between countries.
- The policies that might be used to correct a balance of payments deficit or surplus.
- Expenditure-switching and expenditure-reducing policies.
- The effect policies used to correct a deficit, or surplus may have upon other macroeconomic policy objectives.
- The significance of deficits and surpluses for an individual economy.
- The implications for the global economy of a major economy or economies with imbalances deciding to take corrective action.

## Learning outcomes

- This section builds on prior learning.
- Have a detailed knowledge of the structure of the current account of the balance of payments, however, only a general appreciation of the other sections of the balance of payments account is required.
- Analyse and evaluate policies that might be used to correct a balance of payments deficit or surplus and understand the effect they have on other macroeconomic policy objectives.
- Appreciate the difference between foreign direct investment (FDI) and portfolio investment and understand the consequences of investment flows between countries.
- Evaluate the significance of deficits and surpluses for an individual economy, and the implications for the global economy of a major or economies with imbalances deciding to take corrective action.

## Suggested timing

6 hours

## Possible teaching and learning activities

- Recap Year 1 learning.
- Research examples of inwards and outwards capital flows to illustrate how the capital account links to other components of the balance of payments. For example, Nissan in the UK.
- Use actual balance of payments (BOP) data to practise calculations, percentage changes, index numbers and data interpretation. Many opportunities to develop quantitative skills.
- Presentation/debate regarding the most effective way to deal with BOP current account imbalances. Further development: to what extent is a deficit on the current account a concern?
- Opportunity to signpost exchange rate systems and link back to exchange rates and elasticity in Year 1 regarding the Marshall-Lerner condition.
- Topic-specific multiple-choice questions.

## Resources

- Presentation notes and video [Tutor2u video and notes The causes and significance of BOP current account deficits](#) (15 minutes)
- Economics Help notes [Economics Help notes Reducing a trade deficit](#) (15 minutes)
- US China trade deficit [Statistica.com US China trade deficit](#) (10 minutes)
- Video presentation [YouTube Tutor2u video Marshall Lerner and the J curve](#) (10 minutes)

## Specification reference and content

### 4.2.6.4 Exchange rate systems

- How exchange rates are determined in freely floating exchange rate systems.
- How governments can intervene to influence the exchange rate.
- The advantages and disadvantages of fixed and floating exchange rate systems.
- Advantages and disadvantages for a country of joining a currency union, e.g. the eurozone.

## Learning outcomes

- This section builds on prior learning.
- Understand how exchange rates are determined, and the advantages and disadvantages of different exchange rate systems.
- Analyse and evaluate the advantages and disadvantages for a country joining a currency union.
- Use demand and supply diagrams to illustrate how exchange rates are determined.

## Suggested timing

5 hours

## Possible teaching and learning activities

- Recap Year 1 learning.
- Research trends in the value of the £ against the US\$ and/or other currencies over time and using their knowledge of events students identify causes of changes.
- Opportunity to link back to the market mechanism and demand and supply analysis, illustrate the causes of changes diagrammatically.
- Illustrate the link between the exchange rate and the BOP current account position, students use diagrams and theory to link the market for a currency to the (simplistic) impact on exports and imports, and the current account position, and identify a pattern.
- Provide students with a list of advantages and disadvantages of different exchange rate systems and students identify which they relate to, opportunity to develop analysis and evaluation further.
- Debate the pros and cons of joining a currency union.
- Topic-specific multiple-choice questions.

## Resources

- The advantages and disadvantages of exchange rate systems video [EconplusDal Fixed v floating exchange rates video](#) (12 minutes)
- Exchange rates presentation [Tutor2u presentation Exchange rates](#) (10 minutes)
- House of Commons Library exchange rate article [Commons Library Exchange rate: key economic indicator](#) (10 minutes)
- Times article [The Times Money Mentor How does a fall in the pound affect my money?](#) (10 minutes).

## Specification reference and content

### 4.2.6.5 Economic growth and development

- The difference between growth and development.
- The main characteristics of less-developed economies.
- The main indicators of development, including the Human Development Index (HDI).
- Factors that affect growth and development, such as: investment, education and training.
- Barriers to growth and development, such as: corruption, institutional factors, poor infrastructure, inadequate human capital, lack of property rights.
- Policies that might be adopted to promote economic growth and development.
- The role of aid and trade in promoting growth and development.

## Learning outcomes

- Understand the difference between growth and development, and explain the main indicators of development, including an awareness of the HDI.
- Be able to explain the characteristics of less-developed economies.
- Understand the factors that help achieve growth and development, and those that are barriers to growth and development.
- Analyse and evaluate policies that are used to promote growth and development, including the roles of aid and trade.

## Suggested timing

7 hours

## Possible teaching and learning activities

- Use photos/images of scenes from different countries at various stages of development, for example, Ethiopia or French Guiana, and ask students to consider the characteristics of those countries.
- Consider ways in which growth and development may be promoted.
- Consider barriers to growth and development.
- Research recent events to find evidence of growth and development, and factors that hinder growth and development.
- Research different types of aid.
- Time permitting, carry out more in-depth research into a less-developed country. There is no expectation students will do this, if required, country information and data will be provided in the extracts of context questions.
- Interpret various indicators of growth and development, such as HDI, over time, and make comparisons of progress between different countries. This is an opportunity to include quantitative analysis. Data could be converted to index number form for example.
- Topic-specific multiple-choice questions.

## Resources

- Presentation slides [Tutor2u Aid and development presentation](#) (25 minutes)
- Simple quote poster to stimulate discussion on how to promote development [Pinterest 'Give a man a fish...' poster](#)

## LEVEL SUBJECT – SPEC CODE – TITLE SCHEME OF WORK

- Microfinance and development video [YouTube tutor2u microfinance and development video](#) (8.5 minutes)
  - Global development video [YouTube Journeyman Pictures Development video](#) (10 minutes)
  - Landlocked Ethiopia article [BBC article Ethiopia and Somaliland](#) (5 minutes)
  - Article: Economic Review. Vol. 30. Nov. 2013. Growth and development in developing countries (15 minutes)
  - Article: Economics Today. Vol. 20. March 2014. Is the UK's aid programme working as intended? (15 minutes)
  - FT article [FT discussion article Child mortality and development](#) (10 minutes)
- Economic Review, Volume 41, February 2024 Development economics article [The natural resource curse](#) (10 minutes)