STRIVE

FOR A

9

GCSE Economics Exam Preparation Pack

ECONOMICS REVISION HELP

Paper 1 – Introduction to Economics	
Time	**90 Mins**
Marks	**80 Marks (1 min per mark)**
Section A :	➔ 20 MCQ
Section B : Case Study 1	➔ 2 mark, 2 mark & 6 mark ➔ 2 mark, 2 mark & 6 mark
Section B : Case Study 2	➔ 2 mark, 2 mark & 6 mark ➔ 2 mark, 2 mark & 6 mark
Section B : Case Study 3	➔ 2 mark, 2 mark & 6 mark ➔ 2 mark, 2 mark & 6 mark

Paper 2 – National and International Economics	
Time	**90 Mins**
Marks	**80 Marks (1 min per mark)**
Section A :	➔ 20 MCQ
Section B : Case Study 1	➔ 2 mark, 2 mark & 6 mark ➔ 2 mark, 2 mark & 6 mark
Section B : Case Study 2	➔ 2 mark, 2 mark & 6 mark ➔ 2 mark, 2 mark & 6 mark
Section B : Case Study 3	➔ 2 mark, 2 mark & 6 mark ➔ 2 mark, 2 mark & 6 mark

How to focus your revision:

- Practice past exam paper questions and assess using the mark schemes – papers on SMHW
- Legacy papers (old spec) can be found here (useful to revise from but the structure of the questions won't be the same) https://www.ocr.org.uk/qualifications/gcse/economics-j320-from-2012/
- Practice MCQs – pack given
- Use the revision guide to learn the content – pack given – also on SMHW
- Attend intervention Thursday mornings at 8.15am
- Use youtube: Paj Holden and Econplusdal explain things very clearly
- Use the specification/checklist to ensure you have covered everything
- Chose Economics at Easter Revision
- Use your book and Other useful revision websites: www.tutor2u.net, www.economicsonline.co.uk , https://www.economicshelp.org/

- Test, test, test yourself!

Multiple Choice Question	2 Mark - State
• Read questions and potential answers • Eliminate the wrong answers • Annotate definitions, diagrams & formulas, calculations • Decide on correct answer	• These can often be one worded answers e.g. state two reasons, state two types etc. • They do not require a detailed explanation
2 Mark - Define	**2 Mark - Explanation**
• Write accurate definition • Provide an example wherever possible as this will show to examiner you fully understand the economic concept	• This requires more detail than definition. • Explain PED Vs Define PED ➔ Define = Provide definition ➔ Explain = Definition & examples & some reference to inelastic & elastic

6 Mark – Evaluate reasons/factors		
Intro	Knowledge (A01)	• Provide definition if key term is used
Reason 1	Knowledge (A01)	• State Reason/factor
	Application (A02)	• Use case study & statistics to support your reason/impact/factor suggested
	Analysis (A03)	• Show causes and effect – BECAUSE… WHICH MEANS THAT… THEREFORE… LEADING TO • Draw diagram if applicable
Repeat for Reason 2		
Evaluation (A04)	• The extent to which these are the factors • What does it depend on • What is the most important factor and why? • Why might this not be a reason? In what circumstance?	

*Alternatively, you can evaluate throughout the question. For each reason, explain what it depends on.

<table>
<tr><th colspan="3">6 Mark – Evaluate the impacts</th></tr>
<tr><td>Intro</td><td>Knowledge (A01)</td><td>• Provide definition if key term is used</td></tr>
<tr><td rowspan="3">Positive impact</td><td>Knowledge (A01)</td><td>• State impact</td></tr>
<tr><td>Application (A02)</td><td>• Use case study to support answer</td></tr>
<tr><td>Analysis (A03)</td><td>• This is a positive impact because.. which means that.. therefore.. leading to…
• Draw diagram if applicable</td></tr>
<tr><td colspan="3">*Repeat for Impact 2*

To show balance, consider a negative impact.</td></tr>
<tr><td>Evaluation (A04)</td><td colspan="2">• Do the pros outweigh the cons?
• Why?
• What is your deciding factor?
• Why might the positive impacts NOT occur?
• Could the negative impacts be overcome in the LR?</td></tr>
</table>

*Evaluation can be completed throughout. But judgement must be made.

Hot Tips

What will I do if I have no time to complete the long questions?

1. State Pro
2. State Con
3. CONCLUDE (See below)

Conclusion can you gain you up to 3/4 marks if completed well

How do I write a conclusion?

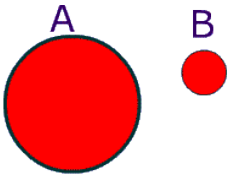
1. **Agree with statement**: Yes, effective/Yes, pros outweigh cons
2. **HIDO**: What does your point depend on?
3. **Recognise the problem:**
   Option 1**:** There is a problem however it is not significant because…
   Option 2**:** There is a problem however the government can resolve this by doing XYZ

Magnitude as an evaluation point

- Magnitude can often be used as an evaluation point.

Example; It depends on the extent of the competition/monopoly power, the extent of the increase, the extent of the decrease.

Sample Ans: If interest rates decrease by 0.01%, government will see little change in AD and therefore GDP. However if interest rates decrease by 10%, government will see a significant change in AD and therefore GDP. If confidence is high.



Other HIDO points that can be used throughout Paper 1 and Paper 2 depending on question

1. Elasticity
2. Consumer and Business Confidence
3. Brexit and uncertainty
4. SR vs LR effects
5. Who are the winners and who are the losers?

Arrows

- Struggling with time? Use both arrows and words.

What do I need to know for my GCSEs?

1. Introduction to Economics

1.1 Main Economic Groups and Factors of Production

	Learned	Revised
I can explain the role of the main economic groups: consumers, producers and the government.		
I can explain the factors of production; Land, Labour, Capital and Enterprise		
I can explain how these FOP are combined.		

1.2 The basic economic problem

	Learned	Revised
I can explain the basic economic problem		
I can explain how resources are allocated – what, whom and how goods are produced		
I can define opportunity cost		
Evaluate the costs and benefits of economic choices, including the impact on economic, social and environmental sustainability.		

2. The role of markets and money

2.1 The role of markets

	Learned	Revised
I can explain what is meant by a market		
I can explain the features of the primary, secondary and tertiary sectors		
I can explain the difference the production of goods and services		
I can explain the difference between factor and product markets		
I can evaluate the pros and cons of specialisation for producers		
I can evaluate the pros and cons of specialisation for workers		
I can evaluate the pros and cons of specialisation for regions		
I can evaluate the pros and cons of specialisation for countries		

2.2 Demand

	Learned	Revised
I can explain what is meant by a demand		
I can draw a demand curve using data		
I can draw shifts and movements along the demand curve		
I can analyse the consequences to consumers for changes in demand curve		
I can explain PED		
I can draw different PED curves		
I can evaluate the importance of PED for consumers		
I can evaluate the importance of PED for producers		

2.3 Supply

	Learned	Revised
I can explain what is meant by a supply		
I can draw a supply curve using data		
I can draw shifts and movements along the supply curve		
I can analyse the consequences to consumers for changes in supply curve		
I can explain PES		
I can draw different PES curves		
I can evaluate the importance of PES for consumers		
I can evaluate the importance of PES for producers		

2.4 Price

	Learned	Revised
I can explain price as a reflection of worth and its role in determining an efficient distribution of resources		
I can explain what is meant by equilibrium price and quantity		
I can draw and analyse the interaction of demand and supply		
I can explain the role of markets in the determination of price and the allocation of resources		
I can analyse how the market forces of demand and supply affect equilibrium price and quantity		

2.5 Competition

	Learned	Revised
I can explain competition between producers in a market economy		
I can analyse how competition affects price		
I can evaluate the economic impact of competition on producers and consumers		
I can explain the meaning of monopoly and oligopoly and how they differ from competitive markets		

2.6 Production

	Learned	Revised
I can explain the role of producers, including individuals, firms and the government		
I can evaluate the importance of production and productivity for the economy		
I can calculate total cost, average cost, total revenue, average revenue, profit and loss		
I can explain total cost, average cost, total revenue, average revenue, profit and loss		
I can evaluate the importance of cost, revenue, profit and loss for producers, including how costs and revenues affect profit and supply		
I can explain what is meant by economies of scale		

2.7 The labour market

	Learned	Revised
I can explain the role and operation of the labour market, including the interaction between workers and employers		
I can analyse the determination of wages through supply and demand		
I can explain factors affecting the supply of labour		
I can explain factors affecting the demand of labour		
I can explain gross and net pay, including deductions through income tax, national insurance and pension contributions		
I can calculate gross and net pay		

2.8 The role of money and financial markets

	Learned	Revised
I can explain money as a medium of exchange		
I can explain the role of the financial sector for the economy, including financial institutions such as banks, building societies and insurance companies		
I can evaluate the importance of the financial sector for consumers, producers and government		
I can evaluate the importance of the financial sector for consumers, producers and government		
I can calculate the effect on savings and borrowings of changes in the rate of interest		

3. Economic objectives and the role of government

3.1 Economic growth

	Learned	Revised
I can explain what is meant by economic growth		
I can economic growth		
I can explain how economic growth is measured with reference to Gross Domestic Product (GDP) and GDP per capita		
I can analyse recent and historical GDP data		
I can analyse the determinants of economic growth, including investment, changes in technology, size of workforce, education and training, availability of natural resources and government policies		
I can evaluate the costs and benefits of economic growth		

3.2 Low unemployment

	Learned	Revised
I can explain what is meant by employment and unemployment		
I can explain how unemployment is measured using the Claimant Count		
I can calculate the unemployment rate		
I can analyse recent and historical unemployment figures		
I can explain the types of unemployment, including cyclical, frictional, seasonal and structural unemployment		
I can evaluate the causes and consequences of unemployment for individuals, regions and the government		

3.3 Fair distribution of income

	Learned	Revised
I can explain what is meant by the distribution of income, including different types of income and the difference between income and wealth		
I can calculate income and wealth		
I can evaluate the causes of differences in the distribution of income and wealth and the consequences for an economy		

3.4 Price stability

	Learned	Revised
I can explain what is meant by price stability and inflation		
I can explain the difference between nominal and real values		
I can explain how inflation is measured using the Consumer Price Index (CPI)		
I can calculate the effect of inflation on prices		
I can analyse recent and historical inflation figures		
I can evaluate the effect of inflation on consumers		
I can evaluate the effect of inflation on producers		
I can evaluate the effect of inflation on savers		
I can evaluate the effect of inflation on government		

3.5 Fiscal Policy

	Learned	Revised
Explain purposes of government spending and sources of government revenue, including direct taxes and indirect taxes		
Explain what is meant by a balanced government budget, budget surplus and budget deficit		
Explain what is meant by fiscal policy and how it can be used to achieve economic objectives		
Calculate and analyse how taxes and government spending can affect markets as well as the overall economy		
Evaluate the costs, including opportunity cost, and the benefits of fiscal policy on the economy to achieve economic objectives		
Evaluate economic consequences of measures to redistribute income and wealth, including progressive taxes		

3.6 Monetary Policy

	Learned	Revised
Explain what is meant by monetary policy and how it can be used to achieve economic objectives		
Analyse how monetary policy can affect growth, employment and price stability		
Evaluate the effects of monetary policy on consumer spending		
Evaluate the effects of monetary policy on borrowing		
Evaluate the effects of monetary policy on saving		
Evaluate the effects of monetary policy on investment		

3.7 Supply Side Policy

	Learned	Revised
Explain what is meant by supply side policy and how it can be used to achieve economic objectives		
Evaluate the costs, including opportunity cost, and the benefits of supply side policies for the economy		

3.8 Limitations in markets

	Learned	Revised
Explain what is meant by positive and negative externalities		
Explain government policies to correct positive and negative externalities, including taxation and subsidies, state provision, legislation and regulation and information provision		
Evaluate the use and impact of government policies to correct positive and negative externalities		
Evaluate the costs, including opportunity cost, and the benefits of government policies to correct positive and negative externalities		

4. International trade and the global economy

4.1 Importance of international trade

	Learned	Revised
Explain why countries import and export goods and services and the benefits of this for consumers and producers		
Explain free trade agreements including the European Union		

4.2 Balance of payments

	Learned	Revised
Explain the balance of payments on current account		
Explain the meaning of a balanced current account, a current account surplus and current account deficit		
Calculate deficits and surpluses		
Analyse recent and historical data on exports and imports		
Evaluate the importance of the balance of payments on current account to the UK economy		
Evaluate the causes of surpluses and deficits of the balance of payments on current account		

4.3 Exchange rates

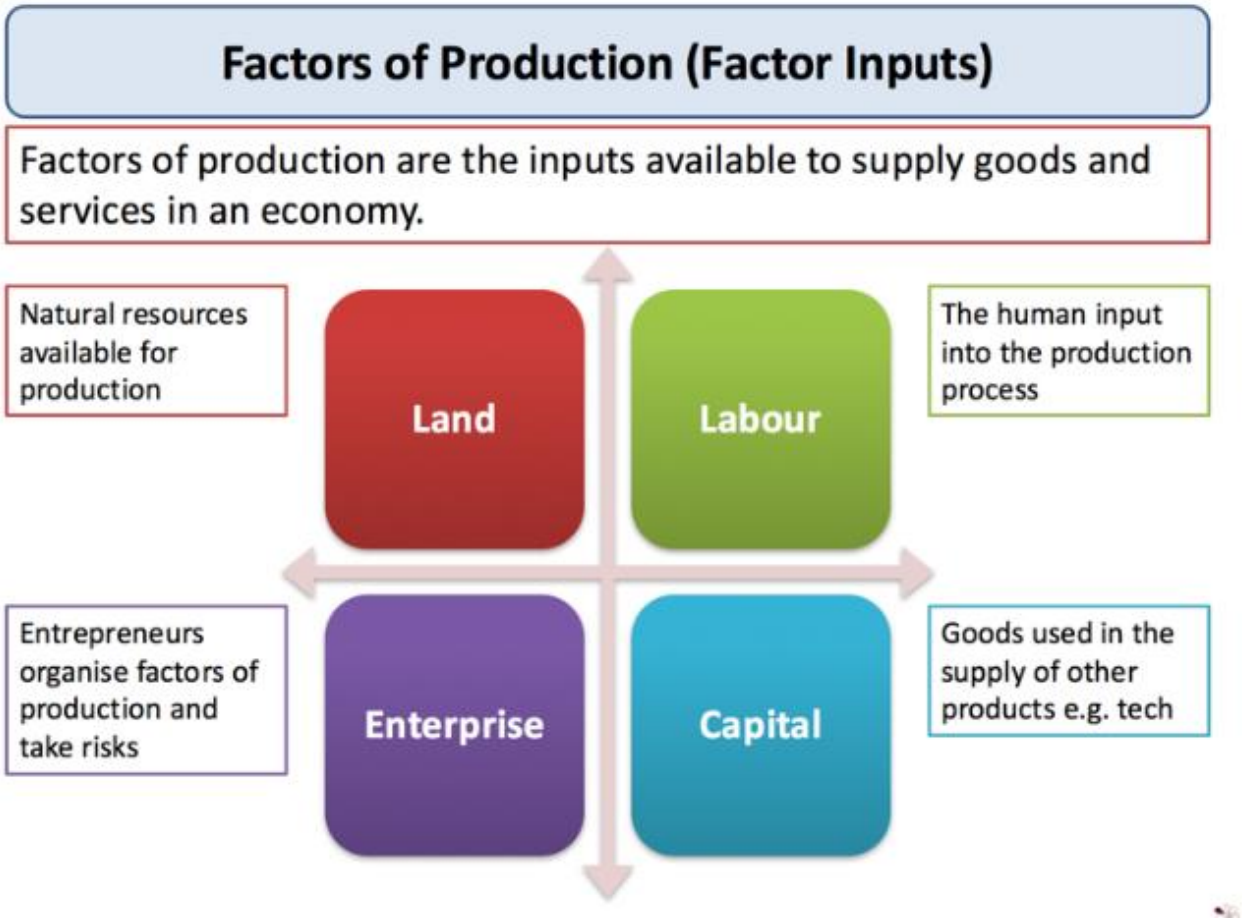
	Learned	Revised
Draw and analyse how exchange rates are determined through the interaction of supply and demand		
Calculate currency conversion		
Analyse recent and historical exchange rate data		
Evaluate the effect of changes in the exchange rate on consumers and producers		

4.4 Globalisation

	Learned	Revised
Explain globalisation, including its driving factors		
Explain how development is measured, including GDP per capita, life expectancy, access to health care, technology and education		
Evaluate the costs and benefits of globalisation to producers, workers and consumers in developed countries, including the impact on economic, social and environmental sustainability		
Evaluate the costs and benefits of globalisation to producers, workers and consumers in less developed countries, including the impact on economic, social and environmental sustainability.		

1.1 Main Economic Groups and Factors of Production

Factors of Production



➔ LAND

Land includes all natural physical resources – e.g. fertile farm land, the benefits from a temperate climate or the harnessing of wind power and solar power and other forms of renewable energy.

➔ LABOUR

Labour is the human input into production e.g. the supply of workers available and their productivity

➔ CAPITAL

Capital goods are used to produce other consumer goods and services in the future

➔ ENTREPRENEURSHIP:

An entrepreneur is an individual who supplies products to a market to make a profit

1.2 The Basic Economic Problem

Economic Problem

→ ECONOMIC PROBLEM: There are limited resources and unlimited wants.

→ The fundamental economic problem is the issue of scarcity – but unlimited wants. Therefore, an underlying feature of economics is concerned with dealing how to allocate resources in society to make the most efficient and fair use of resources.

→ Therefore economics is concerned with:

- What to produce?
- How to produce?
- For whom to produce?

→ OPPORTUNITY COST: It measures the cost of any choice in terms of the next best alternative foregone.

➔ Examples of opportunity cost: The cost of war. If the government spends $870bn on a war, it is $870bn they cannot spend on education, health care or cutting taxes / reducing the budget deficit.

When considering the impact of XYZ, always consider the Economic, Social and Environmental Sustainability to maximise marks.

➔ ECONOMICS SUSTAINABILITY – The best use of resources in order to create responsible development

➔ SOCIAL SUSTAINABILITY – the impact of development or growth that promotes an improvement in quality for all, now and in future.

➔ ENVIRONMENTAL SUSTAINABILITY –The impact of development/growth where effect on environment is small and possible to manage for now & future. Consider renewable and non-renewable resources!

IMPACT OF ECONOMICS CHOICES e.g CROSSRAIL ON SUSTAINABILITY

→ *ECONOMIC SUSTAINABILITY*: Crossrail for example will create jobs for those in construction, and for businesses along the route. Reduces government spending on unemployment and government receive more taxes.

→ *SOCIAL SUSTAINABILITY*: Quality of life improved as less traffic congestion. Better connection to different areas. However, green areas may be removed.

→ *ENVIRONMENT SUSTAINABILITY*: Cross rail should see a reduction in car use and improve air pollution.

2.1 The Role of the Market

→ A MARKET: A way of bringing together buyers and sellers to buy and sell goods and services

SECTORS OF INDUSTY

➔ The primary sector involves the extraction of raw materials and natural resources. Examples of this are farming and mining, as well as the extraction of oil and gas.

→The secondary sector turns these raw materials into products. ...

→ The tertiary sector is also known as the service sector.

→ PRODUCT MARKET: The marketplace in which a final good or service is bought and sold

→ FACTOR MARKET: It refers to arrangement for buying and selling of factors of production.

SPECIALISATION

→ **SPECIALISATION**: The process by which individuals, firms and regions and whole economies concentrate on producing those products that they are best at producing.

The Effects of Specialisation on Firm

			
Higher output :	Increase specialisation → Increases productivity → Higher output per worker → Increases output	Diseconomies of Scale	Increase Output → More FOP required including workers → More coordination, control and communication required → Difficult to manage and AC rises
Economies of Scale	Increase output → Enable firms to benefit from EOS → Reduces AC (Average Cost) → Reduce Price →	Dependency	Production of goods and services depends on all parts working well. Problems such as a technical failure or strike ca

	Increases competitiveness in domestic market and abroad		lead to the whole process stopping.

The Effects of Specialisation on workers

			
Increase Standard of Living (SOL)	Increase in earning s→ Workers can buy more goods to satisfy not only their needs, but also their wants.	Boredom	Doing the same job can be demotivating
Increase Skill	Increase specialisation → Workers become more skilful and knowledgable → Higher earnings	Deskilling	Workers can lose the skills of other types of work and are less able to respond to changes in demand

The Effects of Specialisation on Regions

			
Creates jobs for residents	Development of an industry in a particular region helps the residents of that area to find jobs near their homes	Resource exhaustion	If raw materials are no longer available then those employed in that industry will become unemployed e.g. North East → Steel
Efficient use of resources	A region could specialise in a particular industry due to availability of resource so it will be easier to use that resource efficiently	Rise of fall in demand	If demand falls due to changes in taste and fashion then the industry will collapse or shrink; leading to resource wastage.

The Effects of Specialisation on Countries

			
Economies of Scale and efficiency	Countries will specialise in what they do best → Increase efficiency → EOS → Increases countries output (Higher GDP)	Over Dependence	Countries can over specialise and become dependent on one or a very small number of products. If world demand changes then these industries and the countries' economies can collapse.

More Jobs	Increased ouput → More investment → More job creation	Negative externalities	Output may be increased → Over exploitation of resources → Unsustainable → Serious environmental damage

2.2 Demand

→ DEMAND: It is the quantity of a good or service that consumers are willing and able to buy at a given price in a given time period

FACTORS AFFECTING THE DEMAND OF GOODS AND SERVICES

PASIFIC

Population

Advertising

Substitutes

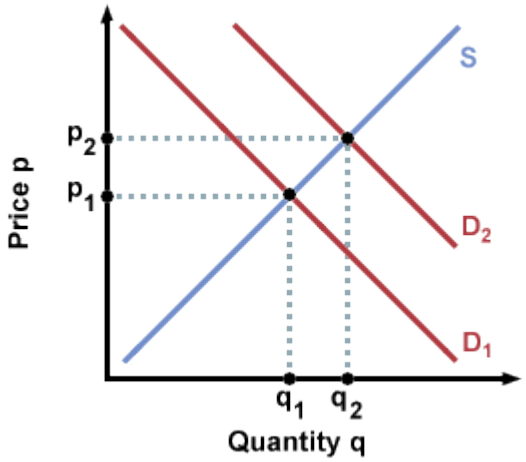
Income (Disposable)

Fashion and Taste

Interest Rates

Complements

E.g. An increase income will lead to an increase in demand for Coca Cola



PASIFIC – These factors which cause a *SHIFT* in demand.

PRICE – Causes a *MOVEMENT* along the demand curve.

PRICE NEVER CAUSES A SHIFT IN DEMAND

→**PRICE ELASTICITY OF DEMAND**: Price elasticity of demand measures the responsiveness of quantity demanded for a product to a change in price.

FACTORS AFFECTING THE PED OF GOODS AND SERIVCES

Price elasticity of demand (SPLAT)

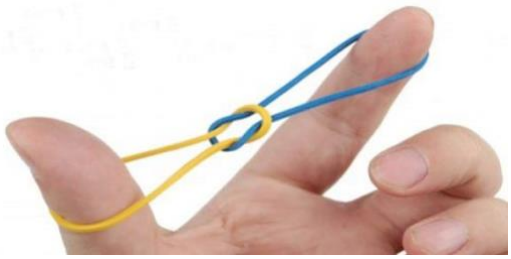
Substitutes

Percentage of income

Luxury or necessity

Addiction

Time



→The number of close substitutes for a good – the more close substitutes in the market, the more elastic is demand because consumers can easily switch their demand if the price of one product changes relative to others.

→The degree of necessity or whether the good is a luxury – goods and services deemed by consumers to be necessities tend to have an inelastic demand whereas luxuries tend to have a more elastic demand.

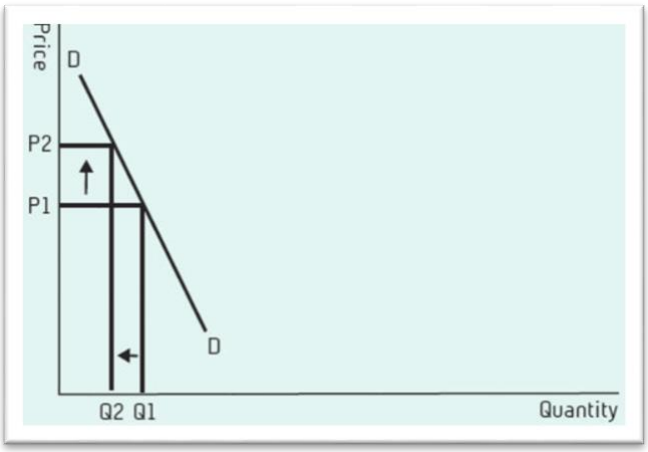
→The % of a consumer's income allocated to spending on the good – goods and services that take up a high proportion of a household's income will tend to have a more elastic demand than products where large price changes makes little or no difference to someone's ability to purchase the product.

→Whether the good is subject to habitual consumption – when this occurs, the consumer becomes less sensitive to the price of the good in question because their default position is to buy the same products at regular intervals.

→The time period allowed following a price change – demand tends to be more price elastic, the longer that we allow consumers to respond to a price change

RELATIVELY INELASTIC DEMAND

- Goods show a small response in their quantity demanded as a result of a change to their price.
- A increase in price by 10% leads to a less than proportionate (i.e. less than 10%) change in demand.



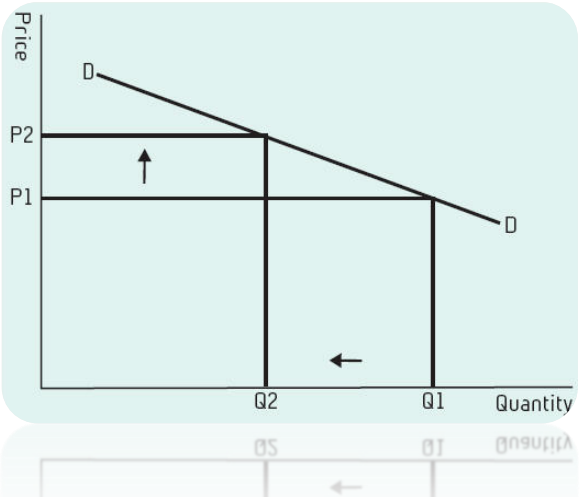
- PED = >0 but <1
  → Examples: Petrol, Tobacco, Alcohol

- TO INCREASE REVENUE → P ↑

- TO INCREASE PROFITS → P ↑

RELATIVELY ELASTIC DEMAND

- Goods that show a significant response to their quantity demanded as a result to a change in their price.
- An increase in price by 10% leads to a more than proportionate (i.e. less than 10%) change in demand.



- **TO INCREASE REVENUE ↓ P**

↓

- **TO INCREASE PROFIT** **P** → *As much as possible without going below cost of production.*

PED > 1	ELASTIC e.g. If price increases by 10% demand will fall LESS than 10%. The demand will change LESS than PROPORTIONATE to the change in price.
PED < 1	INELASTIC e.g. If price increases by 10% demand will fall MORE than 10%. The demand will change MORE than PROPORTIONATE to the change in price.
PED =1	UNITARY e.g. If price increases by 10% demand will fall by 10%

HOW PED EFFECTS CONSUMERS

AFFECT CONSUMERS BECAUSE…

- ➔ Government can impose high levels of tax on inelastic goods → Higher prices for consumers
- ➔ People who travel at peak times are willing to pay more → Likely to be exploited

HIDO:

Elasticity can change for consumers depending on time of year. Ice-cream inelastic during summer months, elastic during winter months etc.

IMPORTANCE OF PED FOR PRODUCERS

IMPORTANT BECAUSE…

- ➔ Producers can calculate the effect of a price change on quantity demanded.
- ➔ Once PED is worked out – they can maximise revenue by either increasing/decreasing demand

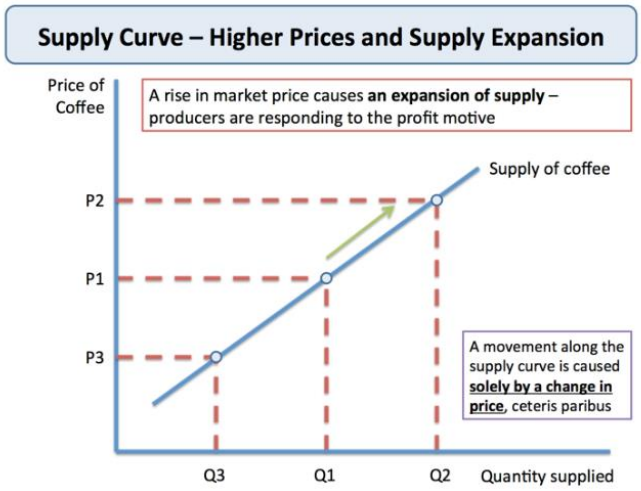
- ➔ If PED < 1, firm will increase price as demand will fall LESS than proportionate to the change in price
- ➔ If PED > 1, firm will decrease price as demand will rise MORE than proportionate to the change in price

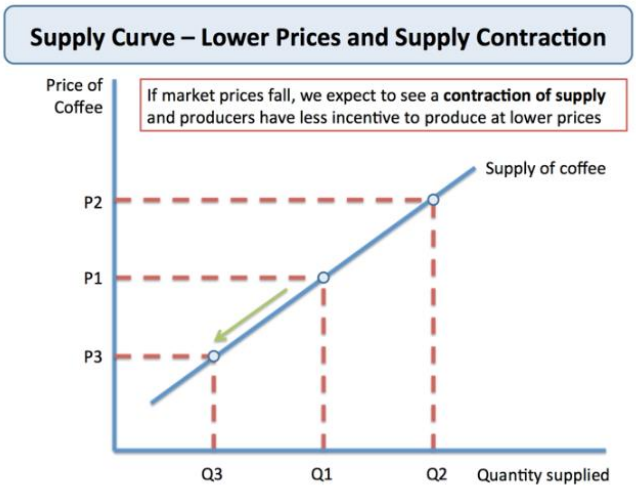
HIDO:

Difficult to calculate for firms. PED varies depending on time of year, new entries to market etc.

2.3 Supply

➔SUPPLY: Supply is the quantity of a product that a producer is willing and able to supply onto the market at a given price in a given time period





FACTORS AFFECTING THE SUPPLY OF GOODS AND SERIVCES

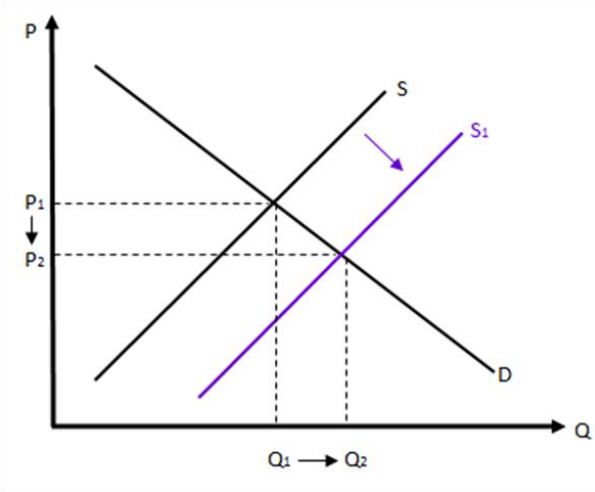
PINTSWC

Productivity

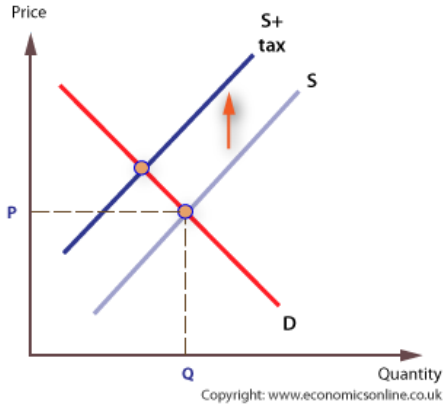
Indirect taxes
Number of firms
Technology
Subsidies
Weather
Costs of production

→SUBSIDY : A sum of money granted by the state or a public body to help an industry or business keep the price of a commodity or service low.

E.g. Government gives subsidy to firms producing electric cars



e.g. Government imposes indirect tax on cars that release X amount of Carbon



→**PRICE ELASTICITY OF SUPPLY**: Price elasticity of supply measures the responsiveness of quantity supplied for a product to a change in price.

FACTORS AFFECTING THE PES OF GOODS AND SERIVCES

→Spare production capacity: If there is plenty of spare capacity then a business can increase output without a rise in costs and supply will be elastic in response to a change in demand. The supply of goods and services is most elastic during a recession, when there is plenty of spare labour and capital resources.

→Stocks of finished products and components: If stocks of raw materials and finished products are at a high level then a firm is able to respond to a change in demand - supply will be elastic. Conversely when stocks are low, dwindling supplies force prices higher because of scarcity

→The ease and cost of factor substitution/mobility: If both capital and labour are occupationally mobile then the elasticity of supply for a product is higher than if capital and labour cannot easily be switched. E.g. a printing press which can switch easily between printing magazines and greetings cards. Or falling prices of cocoa encourage farmers to switch into rubber production

→Time period and production speed: Supply is more price elastic the longer the time period that a firm is allowed to adjust its production levels. In some agricultural markets the momentary supply is fixed and is determined mainly by planting decisions made months before, and also climatic conditions, which affect the production yield. In contrast the supply of milk is price elastic because of a short time span from cows producing milk and products reaching the market place.

HOW PES EFFECTS CONSUMERS

AFFECT CONSUMERS BECAUSE…

- ➔ If PES is inelastic, consumers will usually pay a much higher price if they want more of it.
- ➔ Some cases, PES is perfectly inelastic (Stadium) so even paying a higher price will not guarantee a seat.

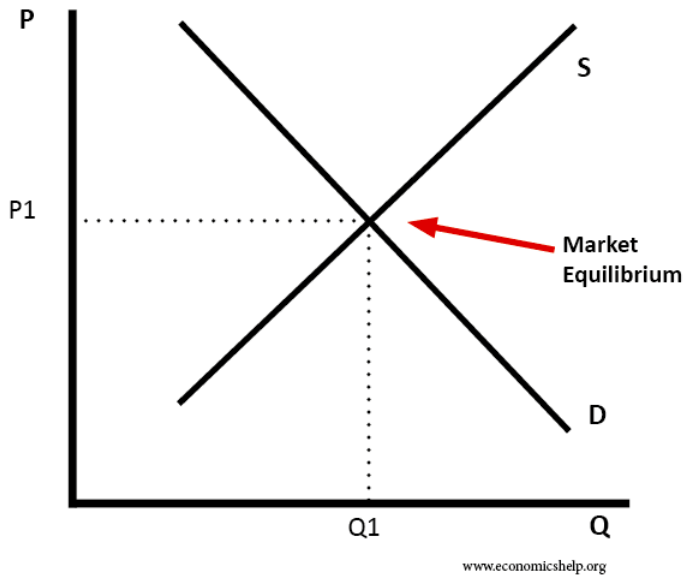
IMPORTANCE OF PES FOR PRODUCERS

IMPORTANT BECAUSE…

- ➔ Producers would like an elastic PES. Therefore, if price rises, firms can respond by supplying more.
- ➔ They can increase their PES by updating their technology, creating spare capacity, training staff to be more flexible.

2.4 Price

➔ **PRICE**: Indicates the worth of a good/service



- → Market Clearing Price
- → Market Equilibrium
- → Market Forces
- → Invisible Hand – Adam Smith
- → Demand = Supply
- → Allocating resources efficiently

ROLE OF PRICE IN DETERMINING AN EFFICIENT DISTRIBUTION OF RESOURCES

➔ **EFFICIENCY: The optimal production and distribution of scarce resources.**

THERE ARE THREE IMPORTANT FUNCTIONS OF PRICE

1. SIGNALLING: Prices change to signal where resources are needed. If prices rise, it signals that more resources are required.
2. TRANSMISSION OF PREFERENCES: Higher prices will encourage owners to supply more
3. RATIONING: Price help ration scarce resources. If prices rise, only those willing and able to pay the price are allocated the resources

2.5 Competition

➔ COMPETITION – Where different firms are trying to sell a similar product to a consumer.

EFFECTS OF COMPETITION ON CONSUMERS AND PRODUCERS

	Consumers	High competition → Firms compete on price, quality and innovation → Increase SOL
	Consumers	Advertising can be used as method of persuasion. Customers encouraged to buy products they do not need e.g. cigarettes
	Producer	Forces firms to improve their efficiency to try drive down costs. No waste of scarce resources. More efficiency → More output → More demand → Greater profits
	Producer	Some firms, if not competitive enough will be forced out of the market

Eval: Depends on

→ Level of competition.

→ The barriers to entry

→ Objectives of firm

➔ MONOPOLY: A sole producer of seller of a good or service.

➔ OLIGOPOLY: An oligopoly is a market dominated by a few large firms. Small firms may survive by supplying market niches but most of the industry's output is supplied by a few large firms. E.g. Supermarket Industry

2.6 Production

TYPES OF PRODUCERS

- ➔ **Individuals e.g. Child minders**
- ➔ **Firms e.g. Car production, restaurant**
- ➔ **Government e.g. NHS**

REVENUE/COSTS/PROFIT

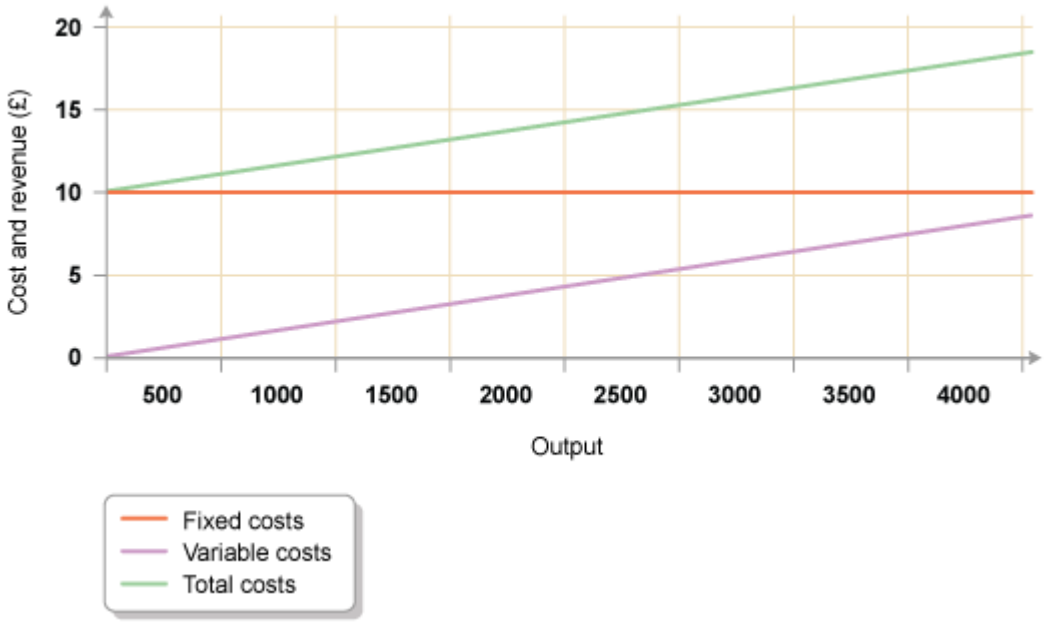
- ➔ REVENUE: It is the income earned by a business over a period of time.
    - Revenue = price x quantity.

For example, the total revenue raised by selling 2,000 items priced £30 each is 2,000 x £30 = £60,000.

Tip: Revenue is sometimes called **sales**, **sales revenue**, **total revenue** or **turnover**.

- ➔ FIXED COSTS: These are costs that do not vary with output e.g. rent
- ➔ VARIABLE COSTS: These are costs that do vary with output e.g. raw materials
- ➔ TOTAL COST: Fixed Cost + Total Variable Cost
- ➔ PROFIT: Total Revenue – Total Cost

TOP TIP: TO FIND AVERAGE FC/VC/TC just divide by number of units



Importance of Production

- ➔ An increase in employment, unless greater productivity causes it
- ➔ An increase in profits for firms
- ➔ Larger Economies of scale
- ➔ Increase in market share

➔ A rise in living standards

Importance of Productivity

➔ Lower average cost and increasing economies of scale
➔ Greater profits – Allows for more innovation, investment in equipment, R&D

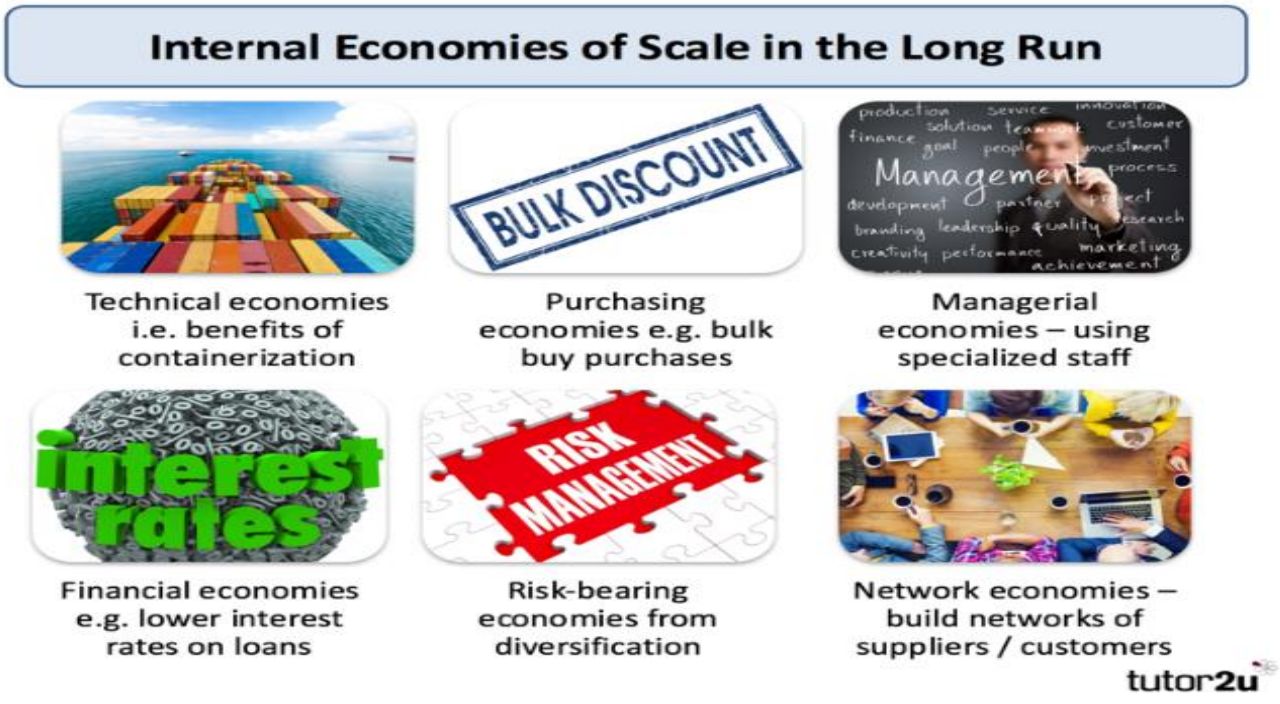
Problems with greater productivity?

➔ If a firm increases productivity by using capital and it leads to greater unemployment
➔ Leads to greater competitiveness abroad – Countries may retaliate.

How can producers increase productivity?

➔ Workers specialising
➔ Invest in new technology and machinery
➔ Improve skills of workers through training.

➔ ECONOMIES OF SCALE: This arises when a firm grows in size (Increases output) and average cost per unit falls.



Examples of EOS:

- **TECHNICAL ECONOMIES OF SCALE**: Large-scale businesses can afford to invest in expensive and specialist capital machinery. For example, a supermarket chain such as Tesco or Sainsbury's can invest in technology that improves stock control. This will lead to lower AC.
- **PURCHASING ECONOMIES OF SCALE** :Larger firms can negotiate better deals with suppliers, reducing their average cost per unit.
- **MARKETING ECONOMIES OF SCALE:** A large firm can spread its advertising and marketing budget over a large output and it can purchase its inputs in bulk at negotiated discounted prices if it has sufficient negotiation power in the market. Spreading the cost of advertising over a larger number of units, lower AC.
- **MANAGERIAL ECONOMIES OF SCALE :** This is a form of division of labour. Large-scale manufacturers employ specialists to supervise production systems, manage marketing systems and oversee human resources.
- **FINANCIAL ECONOMIES OF SCALE**: Larger firms are usually rated by the financial markets to be more 'credit worthy' and have access to credit facilities, with favourable rates of borrowing. In contrast, smaller firms often face higher rates of interest on overdrafts and loans. Businesses quoted on the stock market can normally raise fresh money (i.e. extra financial capital) more cheaply through the issue of shares. They are also likely to pay a lower rate of interest on new company bonds issued through the capital markets.

External EOS

- EXTERNAL ECONOMIES OF SCALE: This occur within an industry. Examples of external economies of scale include.

Example:

•Development of research and development facilities in local universities that several businesses in an area can benefit from

•Spending by a local authority on improving the transport network for a local town or city

•Relocation of component suppliers and other support businesses close to the main centre of manufacturing are also an external cost saving

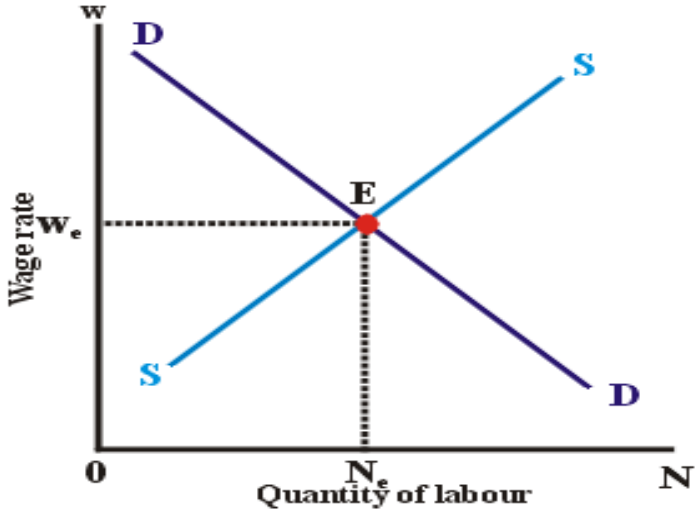
2.7 The Labour Market

→ LABOUR MARKET : Where workers sell their labour and employers buy the labour.

Labour Market Equilibrium : Wages are set through demand and supply.

→**Supply of labour** – Individuals supplying their labour in a specific labour market. E.g. Miss Yates supplies her labour in the Education Market

→**Demand of Labour** – Employers demanding workers in a specific labour market. E.g. DMHS demanding teachers in the Education Market.



FACTORS AFFECTING THE DEMAND FOR WORKERS

Factor	Explanation
The state of the economy	If the economy has high GDP, the more labour is demanded as existing firms expand and new firms are entering the market
Wage Rates	Demand for Labour is downward sloping→Increase in Wage Rate → Decrease in Demand for Labour
Productivity of Labour	If productivity of Labour increases → Labour becomes more cost efficient than capital → Increase in demand for labour

FACTORS AFFECTING THE SUPPLY OF WORKERS

Factor	Explanation
Wage Rate	High Wages → More labour is likely to be supplied e.g. Higher the pay for economics teachers, the higher the supply of teachers.
Size of Working Population	This affected by migration, school leaving ages and retirement. The gradual rise in retirement age will mean that there are more people available for work.
Non Monetary Factors	These include working conditions, opportunities for promotion and job security.

How would PED and PES affect the Labour Market?

➔ GROSS PAY: The amount of money that an employee earns before deductions are made

Likely deductions from Gross Pay

- ➔ Income Tax
- ➔ National Insurance
- ➔ Net Pay
- ➔ Pension

➔ NET PAY: The amount of money that an employee is left with after deductions are made from gross income

Pay Slip Example:

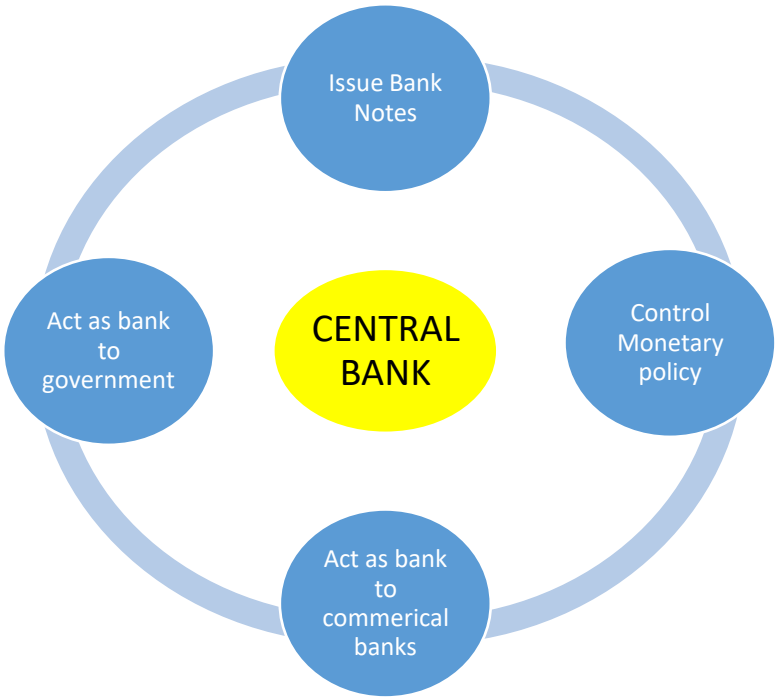
Gross Pay	£2000
Income Tax	£500
National Insurance	£250
Pension	£350
Net Pay	£900

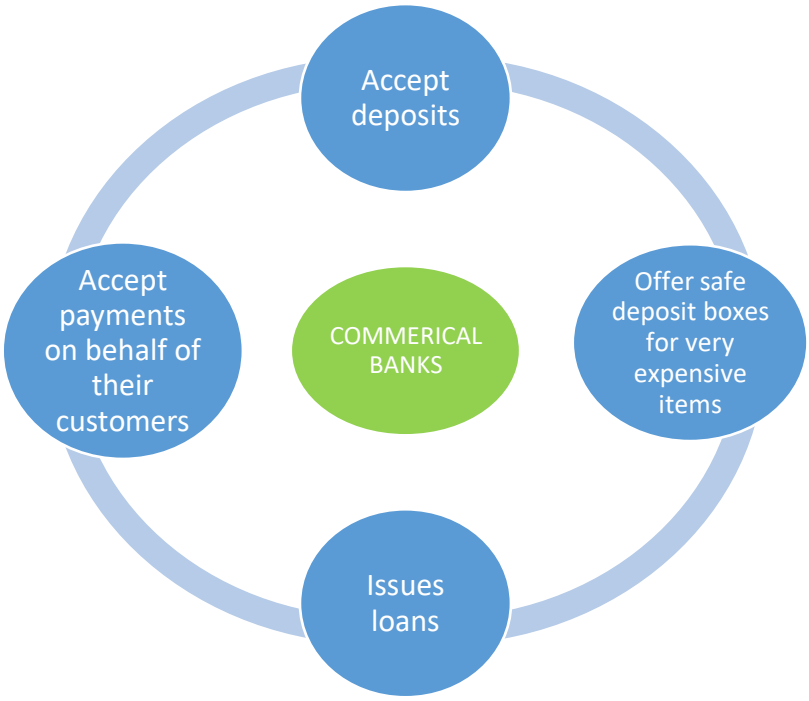
2.8 Role of Financial Markets

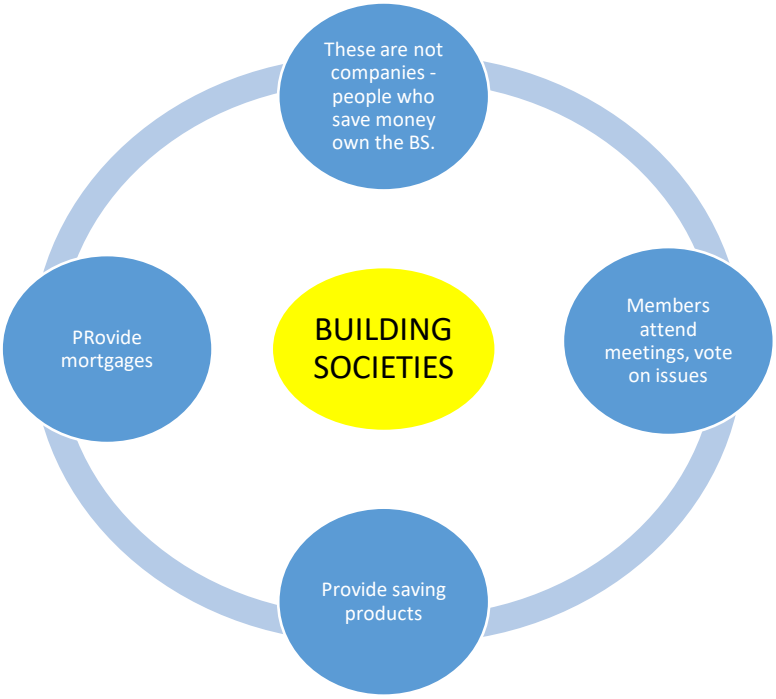
ROLE OF MONEY

- **Money:** Anything that is generally accepted as a means of exchange for goods and services.
- **Financial Sector:** Consists of financial organisations and their products and involves the flow of capital.

ROLE OF FINANIAL INSTITUTIONS







➔ Building Society: A mutual financial institution that is owned by its members. Its primary objectives are to receive deposits from tis members and to lend money to members to buy property.

Building societies differ from banks as banks tend to be listed on stock markets

➔ Insurance Companies: Financial institutions that guarantees compensation for specified loss, damage, illness or death in return for an agreed premium. Provide Life insurance i.e. a payout to family members if person deceased is insured. And General life insurance.

IMPORTANCE OF FINANCIAL SECTOR

➔ Consumers : Credit provision allows families to take out loans when necessary and buy houses without having saved the full amount
➔ Producers : They can borrow money from a variety of institutions enabling them to grow
➔ Government: Can borrow money from BOE

➔ Interest Rate: Cost of borrowing and the reward for saving

➔ High interest rate = High saving/ Low interest rate = High Borrowing

HIDO: Confidence, level of income, economic situation

3.1 Economic growth

→ ECONOMIC GROWTH: Growth in GDP (value of output) over time

→ GDP: The total value added of goods and services produced in the country in a year.

→ GDP PER CAPITA: GDP/population

DETERMINANTS OF ECONOMIC GROWTH

Determinant	Explanation
Investment	Spending on Capital Goods. Capital goods include business premises, machinery and equipment. More investment means that the economy has the ability to product G&S in the future
Changes in Technology	Technological progress means the quality of capital goods improves, and a given quantity of capital can now produce more output than before.
Education and Training	The affects the quality and quantity of the work done. The more literate, education and trained the workers are, the higher the output of the country is likely to be.
Productivity	This can be measured as the output per worker over a period of time. Higher productivity will encourage economic growth.
Size of Workforce	The economy can produce more if it has more of the FOP known as labour.
Government Policies	• Government invests in infrastructure → Attracts Foreign direct investment from abroad → Increase output in the country. • Government reduce tax →Encourages consumption → Increases output

THE EFFECTS OF ECONOMIC GROWTH (+VE & -VE)

	Reduce Budget Deficit	Increase in tax (VAT, Corporation and Income) and Reduction in spending on benefits.
	Environmental Issues	Production of G&S → More pollution of land, air, sea and fresh water.
	More Employment	More workers will be required to produce the extra output brought by economic growth.
	Inflation	In a period of high GDP, prices may rise. This happens when AD is rising but AS is rising at a slower rate than demand so leads to demand pull inflation

Eval: Cons can be resolved if government implement environment policies e.g. carbon tax, pollution permits. Inflation can be resolved if government invest in supply side polices also.

When considering the impact of high inflation/high growth/tax changes etc. considering the economic, social and environmental effects.

3.2 EMPLOYMENT

→ **EMPLOYMENT**: The use of labour in the economy to produce goods and services.
→ **UNEMPLOYMENT**: Occurs when workers are able and willing to work at a current wage rate but are unable to find a job

How is it measured?

The **Claimant Count** measure includes people who are eligible to claim the Job Seeker's Allowance (JSA). The data is seasonally adjusted to take into account predictable seasonal changes in the demand for labour.

Calculate the unemployment

Unemployment Rate = Number of unemployed/Workforce X100

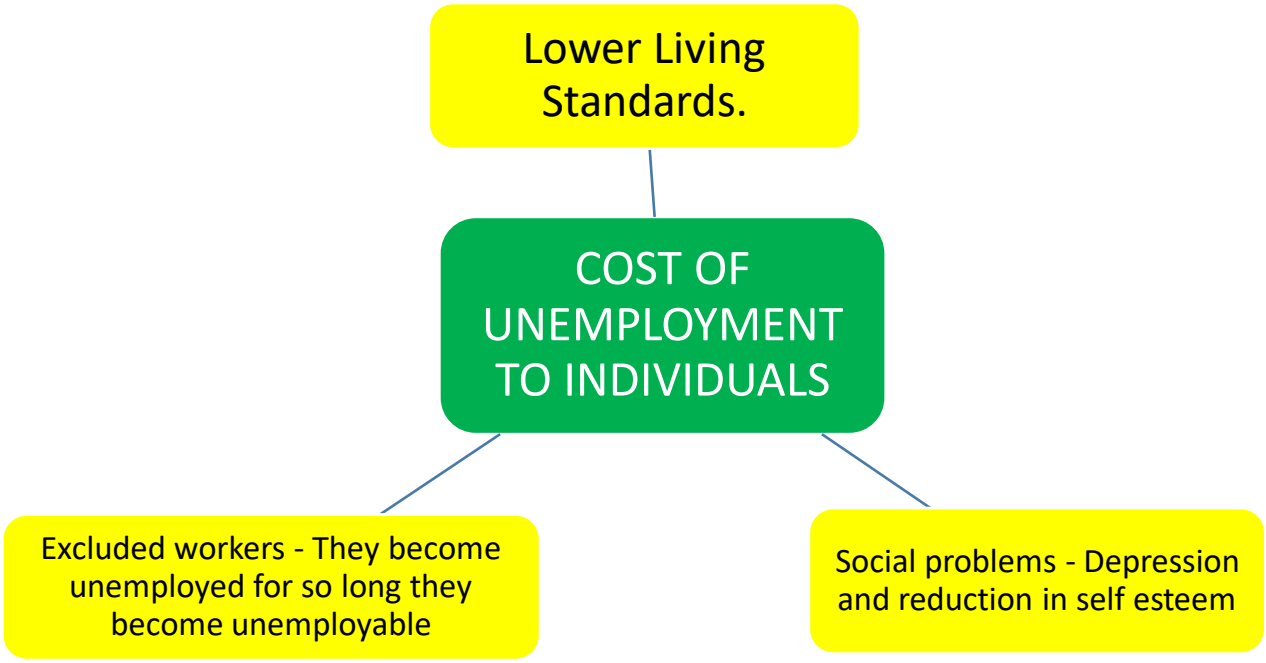
CAUSES OF UNEMPLOYMENT

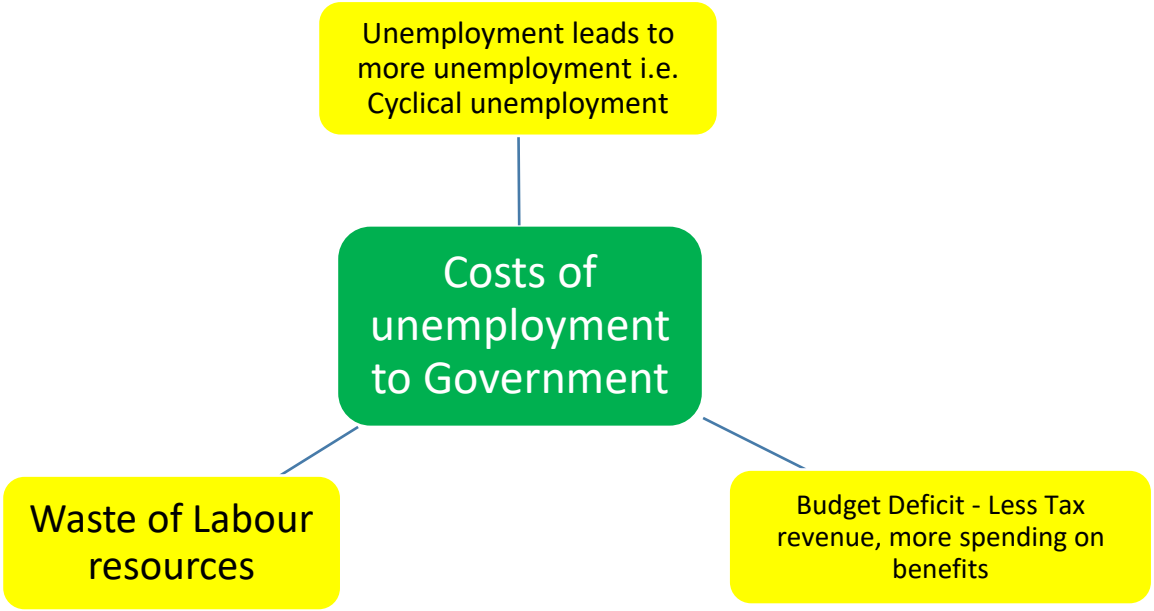
→ FRICTIONAL UNEMPLOYMENT: This is unemployment caused by the time people take to move between jobs, e.g. graduates or people changing jobs. There will always be some frictional unemployment in an economy because information isn't perfect and it takes time to find work.

→STRUCTURAL UNEMPLOYMENT: This occurs due to a mismatch of skills in the labour market it can be caused by a decline in an industry. The demand for products or some industries may permanently fall, so the industry contracts or closes entirely and leaves behind unemployed worked. This is a long term unemployment which can cause problems in the economy.

→CYCLICAL: Demand deficient unemployment occurs when the economy is below full capacity. For example, In a recession aggregate demand (AD) will fall leading to a decline in output and negative economic growth. With a fall in output, firms will employ fewer workers because they are producing fewer goods. Also, some firms will go out of business leading to large scale redundancies. In recessions, unemployment tends to rise rapidly as firms lay off workers.

→SEASONAL UNEMPLOYMENT : Seasonal unemployment exists because certain industries only produce or distribute their products at certain times of the year. Industries where seasonal unemployment is common include farming, tourism, and construction





Is there any benefits to unemployment?

- If there is a lot of unemployment it keeps **wage rate down**. A disadvantage to workers but firms cost of production will reduce.
- Lower Wage Rate → Lower COP → **More competitive abroad**
- **Frictional Unemployment** → Not a concern. Economy needs workers moving between jobs to fill jobs in expanding industries.

3.3 Fair Distribution of income

→ **DISTRIBUTION OF INCOME**: How incomes are shared out between individuals and households

→ **WEALTH**: The market value of all assets owned by a person, group or country

→ **INCOME**: The reward for the service provided by a factor of production, including labour.

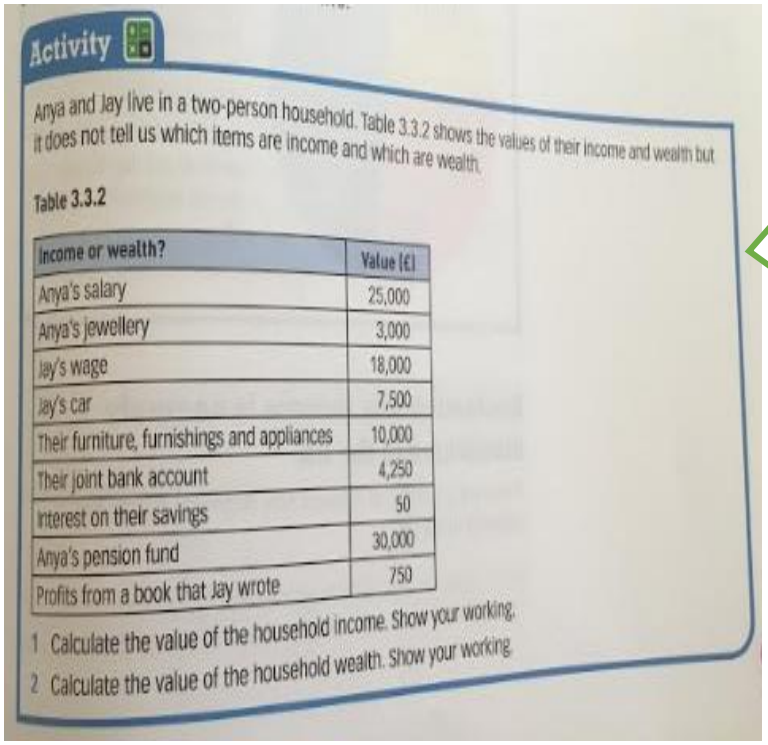
TYPES OF INCOME

Wages	Return for labour
Rent	Return for Land
Interest	Return for Capital
Profit	Return for Enterprise
State Benefits	Government payment for those who are unemployed.

What's the difference between income and wealth?

Income is a flow of over time. E.g. workers might receive a weekly income or monthly salary. Whereas wealth is a stock of assets measured during a point of time.

Calculate income and wealth



Activity

Anya and Jay live in a two-person household. Table 3.3.2 shows the values of their income and wealth but it does not tell us which items are income and which are wealth.

Table 3.3.2

Income or wealth?	Value (£)
Anya's salary	25,000
Anya's jewellery	3,000
Jay's wage	18,000
Jay's car	7,500
Their furniture, furnishings and appliances	10,000
Their joint bank account	4,250
Interest on their savings	50
Anya's pension fund	30,000
Profits from a book that Jay wrote	750

1 Calculate the value of the household income. Show your working.

2 Calculate the value of the household wealth. Show your working.

Income:

Salary - £25,000

Wage - £18000

Interest - £50

Profit - £750

Wealth

Jewellery - £3000

Car - £7500

Furniture - £10,000

Bank Account - £4250

Pension - £30000

CAUSES OF INCOME INEQUAILTY

Income earnings assets are distributed unevenly	Not all households have the same assets, hence make the same income from these. Some households receive little or no rent, interest or profit. Does yours? REMEMBER: Assets are not income they are part of the wealth and owners can generate income from these.
Differences in Wages	Wages are determined by demand and supply.. We found that when the demand is high for labour and supply of that labour is low, the wage rate tends to be high. On the other hand, when demand is low and supply is high, wage tends to be low. Additionally, some people are on NMW.
Reliance on benefits	Some households receive no income from wages, interest, rent or profits. These are the poorest households in the UK. They include pensioners who receive only a state pension, households that rely on other state benefits and those on disability related allowances. Unemployment can be considered a cause of unequal income distribution. Instead of earning income in the form of wages, unemployed workers have to reply on state benefits which are much lower than the average wage.
Age	The younger and older age groups have lower average income than those in the middle. Young adults have not had time to work their way up the pay scale while those in the older age groups have often retired from working.
Gender	The average income of females is lower than that of males. In the UK, there is equal pay for equal work by law, but still the average income of females is lower.

WHY WEALTH IS UNEVENY DISTRIBUTED IN THE UK

Inheritance	The richest 10% have 45% of all the wealth. This inequality can continue through in inheritance. The wealthy can pass down their assets through generations. Meanwhile the poor have no assets to pass on.
Savings	Saving can earn interest which can in turn be added to the savings and help to build up wealth. On the other hand, some people have no savings at all. Low income families can barely afford to buy necessities.
Purchase of Property	Some property can be used to gain income. This income can then be used to buy more property and build further wealth. Other property may be agricultural land and company shares. Many households own their home whereas others do not own their own home and have very little wealth.
Enterprise	Some people have built up wealth through their own enterprise. They have put an idea into practice and it has proved successful. This business may become successful and be worth millions of pounds in the future.

CONSEQUENCES OF DIFFERENCES IN WEALTH AND INCOME INEQUALITY

Poverty and Deprivation	In some countries there is absolute poverty (Earning less than $1.50 a day) where government can not afford to have a comprehensive system of social protection benefits. Relative poverty is where people earn an income 60% lower than the average income
Poor Housing	In some countries people live in mansions worth millions. Middle income familes afford to buy their own homes. Low income earners can afford to buy their own home. And some live in shanty towns.
Poor Health	There is a relationship between health and inequality. The poorest in society are more likely to suffer ill health and life expectancy on average is lower than the general population. Reasons include less healthy diet and lifestyle.
Inequality of opportunity	Often the poorest in society live in areas where the standard of services such as education is lower than the national average. Substandard education is likely to lead to further poverty.

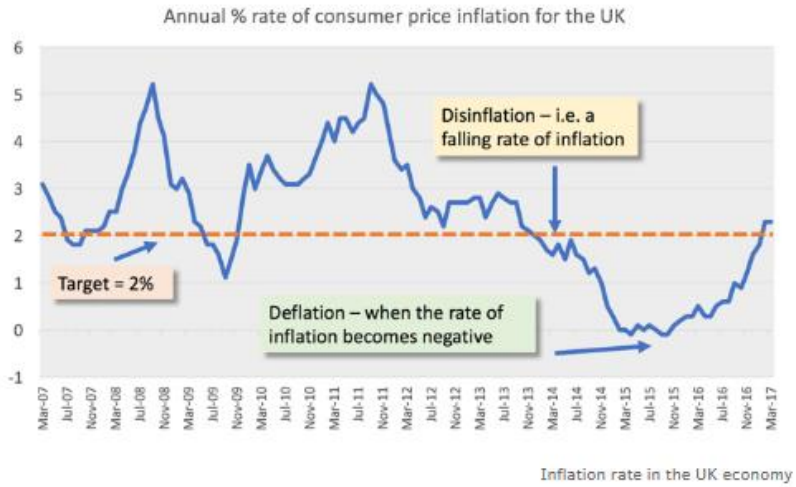
HIDO: The extent to which these consequences occur;

→Consequences differ in different countries - Compare UK to Developing countries.

3.4 Inflation

→RATE OF INFLATION: The percentage rise in the general price level of time

→PRICE STABILITY: When the general level of prices stays constant over time, or grows at an acceptable low rate

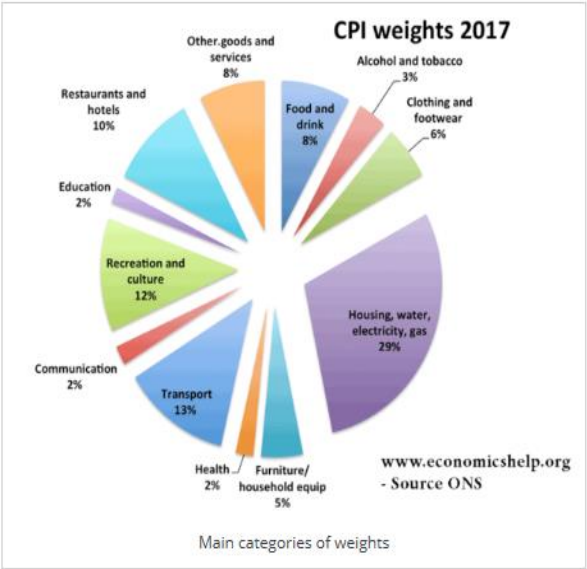


How is the rate of inflation measured?

→CONSUMER PRICE INDEX: Method used to calculate the rate of inflation

The aim is to measure how consumers' purchasing power is affected by rising prices. There are three main steps to measuring inflation

1. Give a weighting to the importance of different goods to the typical basket of goods for average family (650 items).
2. Measure the change in price
3. Convert into the index – multiplying the weight by the price change.
4. This basket of goods gives a relative importance to each different item. E.g. if gas and electricity prices increase by 10% this would have a higher weighting than an increase in the price of avocados



CAUSES OF INFLATION

➔ DEMAND-PULL INFLATION

- Demand pull inflation occurs when aggregate demand is growing at an unsustainable rate leading to **increased pressure on scarce resources** and a **positive output gap**
- When there is **excess demand**, producers can raise their prices and achieve bigger **profit margins**
- Demand-pull inflation becomes a threat when an economy has experienced a boom with GDP rising faster than Aggregate supply.
- Demand-pull inflation is likely when there is **full employment of resources** i.e. land, labour, capital and enterprise.

➔ COST PUSH INFLATION

Cost-push inflation occurs when firms respond to **rising costs** by increasing prices in order to **protect their profit margins**.

There are many reasons why costs might rise:

1. **Component costs:** e.g. an increase in the prices of raw materials and other components. This might be because of a rise in commodity prices such as oil, copper and agricultural products used in food processing.
2. **Rising labour costs** - caused by wage increases. Wage costs often rise when unemployment is low because skilled workers become scarce and this can drive pay levels higher.

Real Vs Nominal Value

➔ REAL VALUE: Takes into account inflation

➔ NOMINAL VALUE: Is the value of something in money terms

Example: If I earn 2% interest on my savings, however inflation is 5%, then the rate of interest is -3%. Therefore **real** value of my savings reduces. Remember, the nominal value of my savings remains the same.

CONSEQUENCES OF INFLATION ON THE CONSUMERS

Consequences	Explanation	Evaluation- The extent to which inflation will lead to this. What does it depend on?
Real incomes fall	If incomes remain the same, and inflation rises, REAL income falls → Incomes earners are unable to afford the same goods and services as before → Their cost of living has gone up, standard of living has fallen.	Fixed income earners will lose, as they will see no increase in their income in times of inflation. However some people have index linked incomes therefore their REAL income may not fall.
Shoe Leather costs	As prices change more consumers and firms spend more time shopping around. They are now less sure as to the prices in different parts of the market and will spend time looking to purchase goods	Depends on the rate of inflation. 1% Vs 20% will see different levels of shoe leather costs.
Debtors Win Savers Lose	Some consumers are debtors which mean they owe to others → As inflation rise, the nominal value of debt remains the same HOWEVER the real value of their debts falls.	When inflation is higher than interest rates debtors have 'negative **real** interest rates'.

CONSEQUENCES OF INFLATION ON THE PRODUCERS

Consequences	Explanation	Evaluation- The extent to which inflation will lead to this. What does it depend on?
Menu Costs	Firms adjust their price lists more often when there is inflation. For examples restaurants increasing the prices on their menus. Other examples are vending machines	Some firms will absorb the extra cost of production and not pass this onto consumer. Depends on the elasticity of the product.
Lack confidence – Unlikely to invest	High inflation → Reduces business confidence → Uncertain about future → Unlikely to invest	
How do banks feel?	Creditors (Banks) that are owed money lose → The loans they have paid out see a fall in its real value.	
Unemployment	Increase in inflation → UK less competitive abroad → Reduces demand → Reduces employment → Leads to cyclical Unemployment.	Depends on inflation rates in other countries

CONSEQUENCES OF INFLATION ON THE SAVERS

SAVERS	Inflation makes the purchasing power of money fall over time → Savings value will fall in REAL terms.	HIDO : The greater the rate of inflation, the more the savers lose

CONSEQUENCES OF INFLATION FOR THE GOVERNMENT

Consequences	Explanation	Evaluation- The extent to which inflation will lead to this. What does it depend on?
Government gains as a debtor	Government is a net borrower → It is a debtor → Real rates of interest are lower as a result of inflation (Sometimes even negative) → Reducing the amount of potential debt repayments	Government debt is still substantial – 85% of GDP
Government spends more on benefits	Sometimes social protection system (include state pension, job seeker allowance etc) are index linked → Increase in payments → Increase in expenditure for Government	Government may receive more tax revenue however to counteract this extra spending
Government need to combat inflation	Price stability is one of the main macro-economic objectives → Government will need to spend time controlling inflation	It is the main goal of BOE

3.5 Fiscal Policy

- ➔ Government Revenue – The source of finance for government spending
- ➔ Government Expenditure – The total amount of money spent by the government in a given period of time
- ➔ Direct Taxes – Tax on income or wealth e.g. income tax/corporation tax
- ➔ Indirect Taxes – A tax on spending often defined as a tax on goods and services e.g. VAT/Excise duties
- ➔ Budget Deficit – When government spending is greater than tax revenue
- ➔ Budget Surplus – When tax revenue is greater than government spending
- ➔ Fiscal Policy – A policy that uses government spending and taxation to affect the economy as a whole

How can government spending be used to achieve government objectives?

Employment & GDP	↑ spending on NHS/Roads/Education → ↑ employment → ↑ Consumption → ↑ AD → ↑ in GDP Further increase employment (Reduces Cyclical unemployment)
Inflation **CONFLICT OF OBJECTIVES**	If government increase spending → Higher AD (as per above) → Demand pull inflation UNLESS there is spare capacity However, ↓ spending will control inflation.
Balance of Payments **CONFLICT OF OBJECTIVES**	↑ in government spending → ↑ AD → Demand pull inflation → Decrease in competitiveness abroad → Decrease in exports ↑ in government spending → ↑ AD → ↑ in demand for imports Worsens Balance of Payments.

EVALUATION – What do the above effects depend on?

1. Time Lag – Takes 18 months to see effects in the economy
2. Confidence – Even if government boost spending and there is more employment, consumers may not spend extra income if there is a low confidence and interest rates are high.
3. How much government increase spending by

How can government taxation (reduction) be used to achieve government objectives

Employment & GDP	• Decrease in income tax → Increase in disposable income → Increase in AD → Increase in GDP → Increase in employment (reducing cyclical unemployment) • Decrease in income tax → Incentives people to work → Higher employment
Inflation **CONFLICT OF OBJECTIVES**	Lowering taxes will cause more inflation. Higher AD → Demand pull inflation **Note**: If government increases taxes → Lowers Disposable income → Lower AD → Lowers inflation
Balance of Payments **CONFLICT OF OBJECTIVES**	Lowering taxes will cause worsen BOP. Higher AD → Higher demand for imports Note: If government increases taxes → Lowers DI → Lowers AD → Lowers demand for imports → Healthier BOP

EVALUATION – What do the above effects depend on?

- ✓ Time Lag – Takes 18 months to see effects in the economy
- ✓ Confidence – Even if government does reduce taxes and there is more employment, consumers may not spend extra income if there is a low confidence and interest rates are high.
- ✓ Magnitude of interest rate change
- ✓ Conflict with other objectives
- ✓ Creates a budget deficit – Increases national debt

How does income tax affect Labour Market?

➔ High income tax is a disincentive to work. Workers gain more on benefits.

How do corporation taxes affect Producers?

CORPORATION TAX – Tax on firms profits.

The opposite can hold true

➔ If reduced, this will lead to more profits. Firms will reinvest in technology and expand their output. They may also hire new workers.

EVALUATING THE BENEFITS OF FISCAL POLICY

(Assuming government wishes to reduce taxes and increase spending to achieve economic growth and less unemployment)

	
Budget Deficit	Government deficit will be created as government receive less tax revenue and boost expenditure → Increases national debt → Responsibility of future tax payers to pay the deficit. Is this fair?
Worsen BOP	Lowering taxes and boosting spending encourages consumers to spend more on goods → Usually more imports (Unless tariff imposed) → Worsening BOP
Inflation	Lowering taxes and boosting spending drives AD → Demand pull inflation

OPPORTUNITY COST OF FISCAL POLICY

If they reduce income tax – higher corporation tax

If they increase spending on education – less spending on health

What measures does the government use to redistribute income and wealth?

➔ Income and wealth distribution – Government action, using mainly taxation and benefits, to reduce inequality of income and wealth

➔ Progressive Tax – A tax which takes a greater percentage of tax the higher the income. E.g Income tax

➔ Regressive Tax – A greater percentage of income from those who earn less, than from those with a higher income. E.g. VAT

3.6 Monetary Policy

➔ MONETARY POLICY: A policy that aims to control the total supply of money in the economy to try achieve the governments macroeconomic objectives, in particular price stability.

How does it achieve Monetary Policy help achieve objectives?

Objective	Interest Rates	Effect
Economic Growth	Reduce	Increase spending, output and employment
Low Unemployment	Reduce	Increase spending, output and employment
Price Stability	Increase	Reduces spending, so reduces AD and reduces demand pull inflation
Healthier BOP	Increase	Reduces spending including spending on imports.

Exemplary Chain of Analysis – How Monetary policy achieves more employment/GDP

↓ Interest Rates → ↓the cost of borrowing and ↓ reward for saving → ↑ Borrowing by consumers/firms →↓ saving → ↑consumption → ↑AD → ↑ GDP → ↓Cyclical unemployment

Note: Lowering interest rates also encourages businesses to take loans, invest i.e. expand production therefore leading to higher output and lowering unemployment.

Exemplary Chain of Analysis – How Monetary policy achieves lower inflation

↑ Interest Rates →↑the cost of borrowing and ↑ reward for saving → ↓ Borrowing by consumers/firms →↑ saving → ↓consumption → ↓AD → ↓ Demand pull inflation

Exemplary Chain of Analysis – How Monetary policy achieves a healthier BOP

↑ Interest Rates →↑the cost of borrowing and ↑ reward for saving → ↓ Borrowing by consumers/firms →↑ saving → ↓consumption → ↓AD → ↓ D for imports → Healthier BOP

EVALUATION:

Lowering Interest rates may not increase consumer spending. It depends on

- ✓ Confidence – If business and consumer confidence is low, regardless of low interest rates, they will be inclined to save their money instead of spend it. (Example – Financial Crisis 2008)
- ✓ Magnitude of Interest rate change – 1% vs 20%
- ✓ Mortgage type – If consumer is on a fixed mortgage, regardless of interest rates, consumer's discretionary income does not change.
- ✓ Interest rates already very low at 0.75%

3.7 SUPPLY SIDE POLICY

SUPPLY SIDE POLICY: This is a policy that increases the productive potential which is the ability of the economy to supply more goods and services.

➔ Improving the Quality/Quantity/Efficiency of country's Factors of Production
➔ QQE of FOP

Examples:

1. **Education:**
   ↑ QQ of Workforce → ↑ Skills → ↑ Ability to produce more G&S → ↑Output

2. **Reduce Income Tax:**
   ↓ Income Tax → ↑Incentive to work → ↑Employment (reduces voluntary unemployment)
   In addition, it incentives people already in jobs to take on further responsibilities as their additional income will be taxed less. This leaves jobs available for those with lesser skills.

3. **Reducing Benefits:**
   ↓ Benefits → ↑Incentive to work → ↑Employment (reduces voluntary unemployment)
   Note: Often benefits can be higher than the income received if unemployed went to work hence it can be preferable to remain on benefits. Reducing benefits will encourage unemployed to find job.

4. **Reduce Corporation Tax:**
   ↓ corporation tax → ↑Profits → ↑Investment (Product and Process innovation) → ↑ Supply → ↑GDP

5. **Development of Infrastructure e.g.** Buildings, roads, power supplies – HS2
   Improvement in Infrastructure → Vital for movement of goods → Increases output
   In addition, good infrastructure attracts FDI to UK, further more increasing output and GDP.

EVALUATING THE COSTS

1. **Time Lag**: SSP take a long time to be put into effect. Infrastructure takes years to build. Improving KS2 education will not affect GDP for some time.
2. **Large Opportunity Cost** – Extremely expensive e.g. HS2 costs £50billion. Money could be spent improving healthcare
3. **Equity issues** – Is it fair to cut benefits? Inequality rises.
4. **Unintended Consequences** e.g. decreasing income tax to incentive workers to work more. Some may choose to work less as they are receiving the same disposable income for less hours. (Lafer Curve)

STRIVE : WHY IS SUPPLY SIDE POLICIES BETTER THAN DEMAND SIDE POLICIES i.e. Monetary/Fiscal Policy

It combats inflation as SSP leads to higher productivity. Increase employment and GDP. More competitiveness leads to more sales abroad (exports), improving balance of payments.

NO CONFLICTS WITH OBJECTIVES – HOWEVER TIME LAG!

3.8 LIMITATION OF MARKETS

➔ EXTERNALITY: An effect of an economic activity on third party

➔ NEGATIVE EXTERNALITY: Harmful effect of an economic activity on third party, also known as external cost.

➔ POSTITIVE EXTERNALITY: Beneficial effect of an economic activity on third parties, also known as external benefit.

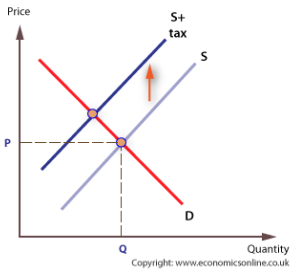
Demand and supply allocates resources according to the wishes of consumers. It can be a very efficient method, but not perfect. Examples of why not.

	Negative externalities of consumption	Smoking cigarettes has both private costs such as lung and breathing issues but also external costs (Negative externalities) such as passive smoking, damage to the environment.
	Positive externalities of consumption	The individual who pay to be vaccinated directly benefit because they don't catch that disease (Private benefit) but in addition there is an external benefit as other will never catch disease from those that are vaccinated.
	Positive externalities of production	These are the external benefits arising from production. When a firm puts lights and decorative trees in their window all passer-bys will benefit from the display.
	Negative externalities of production	A negative externality of production could be the pollution in the air or water. Along with this there is visual and noise pollution.

Note: The environment is considered a scarce resources. When markets fail to preserve this scarce resource it is considered a negative externality.

GOVERNMENT POLICY TO CORRECT POSITIVE AND NEGATIVE EXTERNALITIES

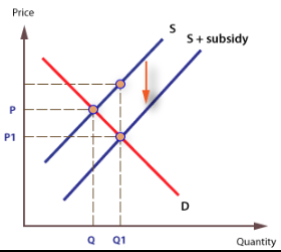
TAXATION

	Internalises the externality – The polluter pays	Taxes can reduce negative externalities e.g. Excise duties, green taxes etc. The tax pushes price up and reduces consumption. 
	Black Markets	Taxation can lead to unofficial markets. Smuggling is likely to take place. This is the case in the UK tobacco market. Government receive no tax revenue from black markets.
EVALUATION	PED	If the demand for the good, cigarettes for example, is inelastic, demand will fall less than proportionate to the increase in price.

Note: To encourage consumption of a good with positive externality government can lower taxation.

SUBSIDY

➔ SUBSIDY: This is an amount of money that the government gives directly to firms to encourage production & consumption.

	Encourages consumption and production	➔ Subsidy lowers price ➔ Increases Demand ➔ Diagram will get you marks 
	Opportunity cost	Money spent on subsidy could be spent on education or healthcare.
EVALUATION	PED	For the price to encourage consumption. The PED of the good will need to be elastic. i.e. a price fall will lead to a MORE THAN PROPORTIONATE increase in demand.

STATE PROVISION

➔ STATE PROVISION : Goods and services provided directly by the government

	Benefits society as a whole	Example NHS. The positive externalities linked to good healthcare are productive workforce and higher GDP. Without free healthcare some people (low income earners) may not be able to afford health services. This would negatively affect output as population would be less healthy. →Same can be applied to education
	Opportunity Cost	Every time government choose to spend in one area, there is an opportunity cost in that the money could have been spent elsewhere e.g. education
EVALUATION	Difficult for government to get QS accurate	Excess Demand for healthcare → Long waiting lists for hospitals.

LEGISLATION AND REGULATION

➔ Legislation – Laws to control the way people and organisations behave

➔ Regulation – Rules, directives or government orders to control the way people and organisations behave.

	Can eliminate or reduce negative externalities.	➔ Smoking Bans in public areas ➔ Ban harmful products e.g. handguns ➔ Lead in petrol banned Note; Use of seatbelts – Positive externalities
	Black Markets	Unofficial markets occur and government need to spend money policing such activity. This is an opportunity cost.
EVALUATION	Needs to be effective policing of law to be effective.	

INFORATION PROVISION

➔ Information Provision: The government provides information to encourage people (Especially consumers) and organisation to change their behaviour.

	Reduces consumption of harmful goods	Example: Education programme about effects of smoking. Cigarette packets now have display health warnings. Note: Information can encourages consumption of goods with positive externalities e.g. electric cars
	Opportunity Cost	Providing information is costly to government – this money could be spent elsewhere. Perhaps subsidising the healthy alternative? Subsidising Nicotine strips.
EVALUATION	PED	PED for habit forming goods is less than 1 (Inelastic). Information is less effective for these goods as people are addicted to these products.

4.1 THE IMPORTANCE OF INTERNATIONAL TRADE

➔ IMPORTS: Goods and services bought from abroad
➔ EXPORTS: Goods and services sold abroad
➔ INTERNATIONAL TRADE: The exchange of goods and services between countries

WHY DO COUNTRIES TRADE

Resources are scarce. Each country has a finite amount of resources. Countries produce goods/services which they are relatively more efficient at producing. They then trade with other countries to get a wider range of goods and services.

Benefits of Trade for Consumers

Lower Prices	Higher competition as domestic firms need to now compete globally. This drives down prices. Also, firms benefit from EOS → ↓AC →↓Prices
Innovative and better quality goods	Higher competition → Firms respond by increasing investment in R&D so that their G/S become more desirable.
Choice	More variety of goods for consumers for example consumers can buy Mangos in UK. These would not be available without trade.

Benefits of Trade for Producers

Access to Larger Market	Firms can now sell to larger market → Benefit from EOS → Lowers AC → Higher Profit Margins
Specialisation	Greater market allows firms to specialise →Less waste of resources → Increase productivity → Higher output
Higher Competition	Encourages more efficiency.

WHAT ARE THE FREE TRADE AGREEMENTS?

➔ **FREE TRADE AGREEMENT:** Free movement of goods and services between countries without any restrictions e.g EU

EU FREE TRADE AGREEMENT – KEY POINTS

→ Free movement of Goods and Services i.e. no taxes (tariffs) or quotas (Fixed quantities) imposed on goods traded between members.

➔ External Tariff imposed on all G/S imported in from countries outside of EU

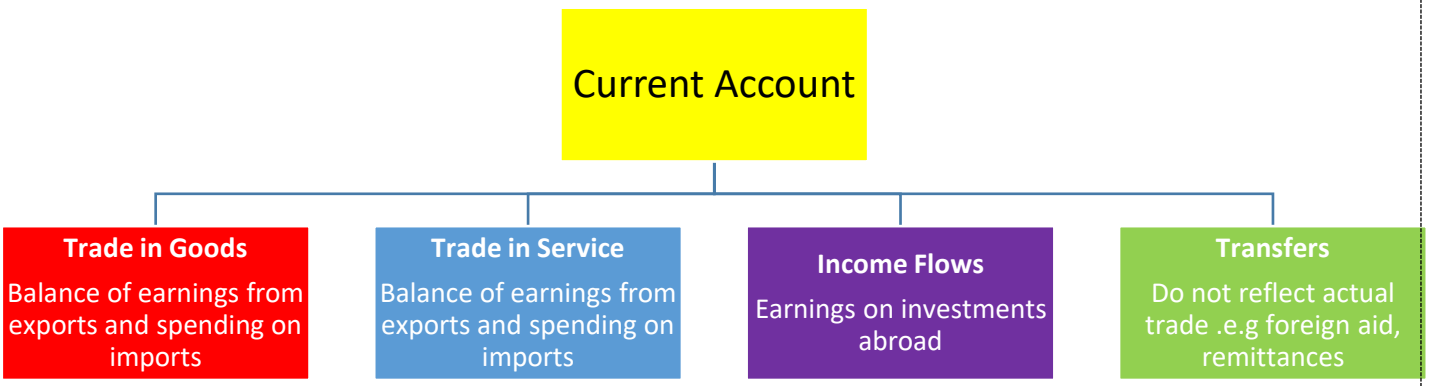
➔ Free Movement of Labour

➔ EU Laws for businesses

4.2 BALANCE OF PAYMENTS

➔ BALANCE OF PAYMENTS: The record of all financial transactions between one country and the rest of the world

➔ CURRENT ACCOUNT: The record of trade in goods and services, income flows and transfers between one country and the rest of the world.



➔ BALANCED CURRENT ACCOUNT: Where the sum of exports plus the inflow of income and transfers **is equal** to the sum of imports plus the outflow of income and transfers

➔ CURRENT ACCOUNT DEFICIT: Where the sum of exports plus the inflow of income and transfers **is less** than the sum of imports plus the outflow of income and transfers

➔ CURRENT ACCOUNT SURPLUS: Where the sum of exports plus the inflow of income and transfers **is greater** than the sum of imports plus the outflow of income and transfers

CALCULATING DEFICITS AND SURPLUSES

Trade in Goods	-£100bn
Trade in Services	+£29bn
Income Flows	+£20bn
Transfers	+£7bn
Current Account Balance	£44bn DEFICIT

CONCERNS OF CURRENT ACCOUNT DEFICIT

In general this means that value of imports are greater than the value of exports.

- ➔ May reflect falling demand for domestic goods as people are buying imports – Negative impact on GDP and employment
- ➔ Increases debt for country as extra money is being spent on imports
- ➔ If it is because of low productivity, therefore exports & domestic goods not competitive, this is concerning

HOWEVER,

- ➔ Maybe importing raw materials for production or capital goods to encourage more production
- ➔ If only small % of GDP – not concerning
- ➔ Decrease in demand for exports, decreases value of pound. In the LR, weak pound will increase competitiveness of exports.

CONCERNS OF CURRENT ACCOUNT SURPLUS

In general this means that value of imports are less than the value of exports.

- ➔ May reflect a rising demand for domestic goods as people are buying less imports – Positive impact on GDP and employment
- ➔ Decreases debt of a country because more money is flowing into the country than out.

HOWEVER,

- ➔ Overtime rises the value of exchange rate as there is a higher demand for exports. This will reduce the competitiveness of domestic firms abroad.

EVALUATION OF CURRENT ACCOUNT SURPLUS/DEFICIT CONCERNS

Depends on:

- ✓ Size of the deficit/surplus
- ✓ Duration of deficit/surplus

CAUSES OF CURRENT ACCOUNT SURPLUS

1. ↓ GDP → ↓Employment → ↓D for Imports → Domestic Firms struggling to sell at home compete abroad
   EVAL: Could be a global downturn, therefore domestic firms struggle to sell abroad

2. ↓Value of the £ → WPIDEC → ↓D for imports & ↑D for exports
   EVAL: The price of the good/service is not the only factor affecting the demand – Quality should also be considered

3. ↑ productivity → ↑Competitiveness for Exports
   EVAL: It's all relative. How productive are we globally? Perhaps still not as competitive as other nations.

Note: Use the opposite for Current account deficit points e.g. ↑ GPP etc.

4.3 EXCHANGE RATES

➔ EXCHANGE RATE: The price of one currency in terms of another currency.

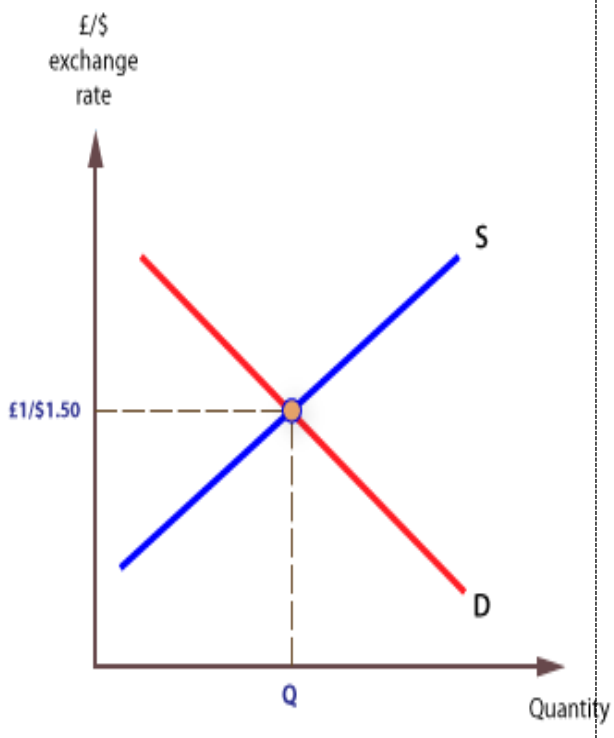
DETERMINATION OF EXCHANGE RATE

A rise in exchange rate:

➔ Price of currency increases in terms of another
➔ Currency strengthens
➔ Appreciation of the currency

How?

1. Increase in D of currency
2. Decrease in S of currency



A fall in exchange rate:

➔ Price of currency decreases in terms of another
➔ Currency weakens
➔ Depreciation of the currency

How?

3. Decrease in D of currency
4. Increase in S of currency

FACTORS AFFECTING DEMAND FOR POUND

1. **Speculation**: If speculators believe the value of a currency will rise in the future they will demand the currency now and make a profit.
2. **Interest Rates**: High interest rates → Higher reward for saving in UK accounts → Higher demand for currency.
3. **UK Exports competitive abroad** → If UK goods are desirable, higher demand for UK currency from abroad

FACTORS AFFECTING SUPPLY FOR POUND

1. **Speculation**: If speculators believe the value of a EURO will rise, speculators will see the pound → Increasing the S of Pound.

2. **Interest rates rise by ECB** → Encourages investors to sell pounds and buy euros.

EFFECTS OF RISE IN THE VALUE OF POUND ON CONSUMERS

Effect	Analysis	Evaluation
Imports Cheap	Domestic consumers willing and ABLE to buy more imports as they are more competitive → ↑SOL	Brand Loyalty – Support British made products
Increase tourism abroad	Domestic consumers may go overseas for holidays as their £ buys them more foreign currency	
Fall in inflation rate	Imports are cheaper reducing inflation	

EFFECTS OF RISE IN THE VALUE OF POUND ON PRODUCERS

Effect	Analysis	Evaluation
Imports Cheap	Benefits producers who import raw materials → ↓COP →↑Profits	
Exports Expensive	Exporters will see their G/S reduce competitiveness.	PED inelastic - ↑£ → ↓D will fall less than proportionate to the price change
Domestic producers in holiday market	Consumers travelling abroad as foreign currency is cheaper → ↓D for holidays within the UK.	Still maybe cheaper to holiday in UK than other parts of Europe example Norway

4.4 GLOBAILSATION

→GLOBALISATION: The expansion of world trade in goods and services together with capital flows, leading to greater international interdependence

DRIVERS OF GLOBALISATION

HOW IS DEVELOPMENT MEASURED

1. GDP PER CAPITA
2. LIFE EXPECTANCY
3. ACCESS TO HEALTHCARE
4. TECHNOLOGY
5. EDUCATION

IMPACTS OF GLOBALISATION ON **DEVELOPED** COUNTRIES

➔ **DEVELOPED COUNTRY** – A country with high GDP per capita and developed industry and service sector

PRODUCERS

			
Wider Markets to sell to	Wider markets → ↑ sales revenue →Firms also benefit from EOS →Both lead to higher profits.	**Possible decline in industry**	Less developed countries may have cost advantage with cheaper labour. e.g. Minimum wage in UK makes our farming more expensive than less developed countries.
Cheaper and more skilled labour force	Increase in overseas workers moving into the country → larger range of skills who are willing to work at lower wages	**Vulnerability to worldwide economy**	For e.g. if the incomes falling another country, producers in developed countries not able to export as much and may impact their business. "When America sneezes, UK catches a cold"
Cheaper wider range of resources	Obtain resources from anywhere in world → Increased competition for resources → Lower prices for producers and also access to resource they would not have in their own country		

WORKERS

			
Increase employment due to increased output	↑Output -> ↑demand for workers	**An increase in immigration – May face unemployment**	More immigration → Foreign workers may be willing to work for less → Reduction in demand for domestic workers.
Increase FDI – More jobs	Attracting new firms to country → Brings employment	**Decline in industry – Lose jobs**	Global competition → Closes industries that are not price competitive e.g

	HIDO: If they foreign countries bring their own workers		Steel industry → Loss of jobs
Increased Geographical Immobility	The opening up of markets → Workers from developed countries have opportunity to live and work abroad		

CONSUMERS

			
Wider range of goods	Lowering barriers of trade → Consumer research and buy wider range of products	**Less choice**	Global brands e.g. McDonalds has led to small local firms closing as they cannot compete
Lower prices & better quality	Global competition → Drives down prices and higher quality → Higher real incomes for consumers → Able to buy more with same level of income		

ECONOMIC, SOCIAL AND ENVIRONMENTAL SUSTAINABILITY

Economic Sustainability	➔ Decline in industries. Developed countries struggle to compete on price with less developed countries However, Developed are more focused on service, rather than production so therefore less developed countries cannot compete as effectively in this sector
Social Sustainability	➔ Lower priced goods for consumers contribute to an increase quality of good and higher quality of life. However, this should be balanced out with the negative impacts for society → Higher unemployment
Environmental Sustainability	In theory, specialisation in goods allows firms to be more efficient. However, in less developed countries, pollution is a significant problem and exploitation of resource.

IMPACTS OF GLOBALISATION ON **LESS DEVELOPED** COUNTRIES

➔ LESS DEVELOPED COUNTRY – A country with a developing economy that has lower GDP per capita, lower levels of industrialisation and weaker indicators of well being

PRODUCERS			
			
Wider markets to sell into	→Wider markets → ↑ sales revenue →Firms also benefit from EOS →Both lead to higher profits.	**Increased migration and loss of skilled workers**	Many skilled workers move to countries with higher wages→ Less productive workforce HIDO: Workers can send money home (Remittances)
Advances in technology	Sharing of scientific information and joint R&D initiatives may lead to reduced costs for producers in less developed countries	**Vulnerability to problem in the worldwide economy**	This is more significant problem for producers in less developed countries → Fewer resources to deal with external shocks e.g. global recession → Reduction in FDI
Increase foreign investment	FDI in less developed countries → Bring about new skills and improve infrastructure		

WORKERS

			
Increased employment due to increased output	↑Output -> ↑demand for workers	Increased use of machinery and unemployment	Moving from labour intensive primary sector markets to capital intensive secondary sector markets → Workers replaced by machinery
Increased employment due to increased investment	Attracting new firms to country → Brings employment **HIDO**: If they foreign countries bring their own workers	Increased gap between rich and poor	Increase revenue from trade → May not filter down to workers → spread between government owners and managers
Increase geographical mobility	The opening up of markets → Workers from developed countries have opportunity to live and work abroad	Poor working conditions	E.g. Many clothes manufacturers exploit workers in these countries → Poor working conditions

CONSUMERS

			
Wider range of goods	Lower barriers to trade → ↑Range of products incl. life saving medicines	**Rising Prices**	↑ consumers competing for same good → ↑Global prices HIDO: Particularly bad for consumers in less developed countries on lower income.
Better infrastructure as a result of investment	Consumers may benefit from some development linked to FDI e.g. better trains, roads, electricity etc.	**Poor quality of services due to migration**	Due to freer movement of labour loss of skilled workers → Health care, education suffers etc
Access to global brands	The availability of global brands to consumers in less developed countries may be seen as a positive consequence		

ECONOMIC, SOCIAL AND ENVIRONMENTAL SUSTAINABILITY	
Economic Sustainability	More international trade → ↑ Tax Revenue → ↓ unemployment → ↑output and economic growth However, tax avoidance is an issue with less developed countries as they do not have strict laws in place and many loopholes.
Social Sustainability	Consumers get better quality of life. ↑income levels → ↓poverty However, reduction in cultural diversity as global brands replace local brands
Environmental Sustainability	In theory, specialisation in goods allows firms to be more efficient. However, in less developed countries, pollution is a significant problem and exploitation of resources.

GLOSSARY

Factors of Production	The resources in an economy that can be used to make goods and services e.g. land, labour capital and enterprise. (CELL)
Labour	Labour is the **human input** into production e.g. the supply of workers available and their productivity
Land	Land includes all **natural physical resources** – e.g. fertile farm land
Capital	**Capital goods** are used to produce other consumer goods and services in the future
Enterprise	Regarded by some as a specialised form of labour input – Combines the other 3 factors of production
Scarce Resources	When there is an insufficient amount of something to satisfy all wants
Unlimited wants	The infinite desire for something
Economic Problem	How to best use limited resources to satisfy unlimited wants.
Opportunity Cost	The next best alternative foregone when making an economic decisions.
Economic Sustainability	The best use of resources in order to create responsible development or growth, now and into the future.
Social Sustainability	The impact of development or growth that promotes an improvement in quality of life, now and into the future.
Renewable resources	These resources can be replaced as long as they are not overused, for example forests.
Non Renewable Resources	These resources cannot be replaced once they are used, for example forests.
Market	A way of bringing together buyers and sellers to buy and sell goods and services
Primary Sector	The direct use of natural resources, such as the extraction of basic materials and goods from land and sea.
Secondary	All activities in an economy that are concerned with either manufacturing or construction
Tertiary	All activities in an economy that involved the idea of a service.
Specialisation	The process by which individuals, firms and regions and whole economies concentrate on producing those products that they are best at producing.
Demand	The willingness and ability to purchase a good or service at the given price in a given time period.
Subsidy	An Amount of money the government gives directly to firms to encourage production or consumption
PED	It shows the responsiveness of quantity demanded to a change in price of a product.

Inelastic Demand	When the % change in quantity demanded is LESS than the % change in price
Elastic Demand	When the % change in quantity demanded is GREATER than the % change in price
Supply	The ability and willingness of firms to provide goods and services at each price in a given time period
PES	The responsiveness of quantity supplied to a change in price of a product.
Elastic Supply	When the % change in quantity supplied is greater than the % change in price
Inelastic Supply	When the % change in quantity supplied is less than the % change in price
Price	The sum of money you have to pay for a good or service. It is determined by the interaction of supply and demand.
Equilibrium Price	Where quantity supplied exactly matches quantity demanded.
Allocation of resources	How scarce resources are distributed among producers and how scarce goods and services are allocated among consumers
Market Forces	Factors that determine price levels and the availability of goods and services in an economy without government intervention
Competition	Where different firms are trying to sell a similar product to a consumer
Market Economy	*An economic system where economic* decisions and the pricing of goods and services are guided solely by the aggregate interactions of a country's individual citizens and businesses.
Monopoly	A sole producer or seller of a good or service
Oligopoly	Where a small number of firms control the large majority of market share
Production	The total output of goods and services produced by a firm or an industry in a period of time
Productivity	Total Output/No of input (example no of worker/capital)
Total Cost	Total Variable Cost + Total Fixed Cost
Average Cost	Total Costs/No of units
Total Revenue	The total income from a firm from the sale of its goods/service. (Price X Quantity)
Average Revenue	Total Revenue/No of units
Profit	The amount of a money producer has left after all the costs have been paid i.e. Total revenue > Total Costs
Loss	Total Revenue is less than Total Costs
Economies of scale	As a firm grows in size, the average cost per unit falls.

Diseconomies of scale	The cost disadvantages that firms accrue due to increase in firm size, resulting in production of goods and services at increased average cost per unit
Labour Market	Where workers sell their labour and employers buy the labour.
Supply of Labour	The total number of people who are willing and able to supply their labour.
Gross Pay	The amount of money that an employee earns before deductions are made
Net Pay	The amount of money that an employee is left with after deductions are made from gross income
Income Tax	A tax levied directly on personal income
National Insurance	A contribution paid by workers and their employers towards the cost of state benefits
Money	Anything that is generally accepted as a means of exchange for goods and services.
Financial Sector	Consists of financial organisations and their products and involves the flow of capital.
Building Society	A mutual financial institution that is owned by its members. Its primary objectives are to receive deposits from tis members and to lend money to members to buy property.
Insurance Companies	Financial institutions that guarantees compensation for specified loss, damage, illness or death in return for an agreed premium. Provide Life insurance i.e. a payout to family members if person deceased is insured. And General life insurance.
Interest Rate	Cost of borrowing and the reward for saving
Economic Growth	Growth in GDP (value of ouput) over time
GDP	The total value added of goods and services produced in the country in a year.
GDP per capita	GDP/population
Boom	A period of high economic activity and high levels of employment
Recession	A period when the country's GDP fall for two or more consecutive quarters
Employment	The use of labour in the economy to produce goods and services.
Claimant Count	The method of measure unemployment according to the number of people who are claiming unemployment related benefits
Unemployment	Occurs when works are willing and able to work at current wage rates but unable to find employment
Cyclical	Unemployment caused by a lack of demand in the economy
Frictional	Unemployment caused by time lags when workers move between jobs
Structural	Unemployment caused by a permanent decline of an industry or industries

Seasonal	Unemployment caused by a fall in demand during a particular season
Inflation	A sustained rise in the general price level
Rate of Inflation	The percentage rise in the general price level of time
Price Stability	When the general level of prices stays constant over time, or grows at an acceptable low rate
Consumer Price Index	Method used to calculate the rate of inflation.
Real Value	Takes into account inflation
Nominal Value	Is the value of something in money terms
Demand Pull Inflation	Demand pull inflation occurs when aggregate demand is growing at an unsustainable rate leading to increased pressure on scarce resources and a positive output gap
Cost Push Inflation	Cost-push inflation occurs when firms respond to rising costs by increasing prices in order to protect their profit margins.
DISTRIBUTION OF INCOME	How incomes are shared out between individuals and households
WEALTH	The market value of all assets owned by a person, group or country
INCOME	The reward for the service provided by a factor of production, including labour.
Wages	Return for labour
Rent	Return for Land
Interest	Return for Capital
Profit	Return for Enterprise
State Benefits	Government payment for those who are unemployed.
Government Revenue	The source of finance for government spending
Government Expenditure	The total amount of money spent by the government in a given period of time
Direct Taxes	Tax on income or wealth e.g. income tax/corporation tax
Indirect Taxes	A tax on spending often defined as a tax on goods and services e.g. VAT/Excise duties
Budget Deficit	When government spending is greater than tax revenue
Budget Surplus	When tax revenue is greater than government spending
Fiscal Policy	A policy that uses government spending and taxation to affect the economy as a whole
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SUPPLY SIDE POLICY	This is a policy that increases the productive potential which is the ability of the economy to supply more goods and services.
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Legislation	Laws to control the way people and organisations behave
Regulation	Rules, directives or government orders to control the way people and organisations behave.
Information Provision	The government provides information to encourage people (Especially consumers) and organisation to change their behaviour.
IMPORTS	Goods and services bought from abroad
EXPORTS	Goods and services sold abroad
INTERNATIONAL TRADE	The exchange of goods and services between countries
FREE TRADE AGREEMENT	Free movement of goods and services between countries without any restrictions e.g EU
BALANCE OF PAYMENTS	The record of all financial transactions between one country and the rest of the world
CURRENT ACCOUNT	The record of trade in goods and services, income flows and transfers between one country and the rest of the world.
BALANCED CURRENT ACCOUNT	Where the sum of exports plus the inflow of income and transfers is equal to the sum of imports plus the outflow of income and transfers
CURRENT ACCOUNT DEFICIT	Where the sum of exports plus the inflow of income and transfers is less than the sum of imports plus the outflow of income and transfers
CURRENT ACCOUNT SURPLUS	Where the sum of exports plus the inflow of income and transfers is greater than the sum of imports plus the outflow of income and transfers
EXCHANGE RATE	The price of one currency in terms of another currency
GLOBALISATION	The expansion of world trade in goods and services together with capital flows, leading to greater international interdependence
DEVELOPED COUNTRY	A country with high GDP per capita and developed industry and service sector
LESS DEVELOPED COUNTRY	A country with a developing economy that has lower GDP per capita, lower levels of industrialisation and weaker indicators of well being