



UXBRIDGE  
HIGH SCHOOL



# Sixth Form Transition Pack

**ECONOMICS (A level)**

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# COURSE INTRODUCTION

Possibly without realising it you are already an active part of the global economic system: whether you are buying clothes that cost 50 percent more than their manufacturing cost, lamenting the price of petrol, paying more for flights at the weekends, not getting paid enough for your weekend job, employing someone else to do your homework, avoiding your taxes or wondering just why some people are far richer than you. Well, what better way to stay afloat, get ahead or help others than by studying economics?

Studying economics will help you understand why prices fluctuate, where your taxes go, how government legislation can push people to change their spending habits (or not), why some companies dominate their market, how global or societal changes like climate change and ageing can have an impact on a country's economy, why people fight for resources and why certain economies grow faster than others.

You will also learn how to analyse complex issues, create strategies, monitor the political climate, understand commercial incentives, problem solve, interpret statistics and data, explain your ideas clearly and be ready for any eventuality - all highly desirable and transferable skills.

Economics is an intellectually challenging subject that universities hold in high regard. The answers to these questions will provide an insight to the strategies of some of the most successful organisations in the world. A level business studies is not only a qualification; it's a handbook for anyone thinking of entering the complex world of commerce.

***"I knew that if I failed I wouldn't regret that, but I knew the one thing I might regret is not trying."***

***Jeff Bezos, founder of Amazon***

In the first year, you will be introduced to the basic economic problem of scarcity, unlimited wants, and how the market allocates scarce resources. You will consider the government's role in managing the economy and how it achieves the macroeconomic objectives of economic growth, reducing unemployment, and equality in the distribution of income.

In the second year, you learn about the economics of business behaviour. For example, you will study how firms make price and output decisions and how the behaviour of one firm is affected by the actions of another. You will also study global economics and consider issues such as trade, globalisation, and development. Furthermore, you will learn about the role of banks and financial markets in the global economy.

Throughout the course you will develop knowledge of the main economic trends over the past 25 years and be able to compare recent and historical economic events. You will also be introduced to different economic thinkers and look at how these thinkers have influenced economic policy and debate.

## **Expectations of you**

The economics A level course is the next step after successfully completing GCSEs. A levels are designed to build on your previous learning and knowledge and assist you in developing the necessary skills to complete the course. In order for you to excel at A-Level and achieve your targets, you need to acknowledge and agree to the following;

- Attendance = attainment. Attend all lessons, arrive on time and bring all the necessary equipment and resources. Do not book appointments during lesson hours.
- Work to the best of your ability in class and focus on the lesson
- Listen respectfully to the views of other students and consider how your own views are developing
- Complete all homework on time - this includes printing out resources
- Keep up-to-date with business in the news either online or via newspapers
- Complete all necessary research (as directed)
- Make sure you check your emails and are part of the relevant email groups for additional resources and tasks.
- Attempt all work. If you are unsure of what to do, of course you may ask questions, but you must develop greater independence
- Take advantage of any spare time to work develop your ideas or seek help on areas you're unsure of
- Keep to deadlines!

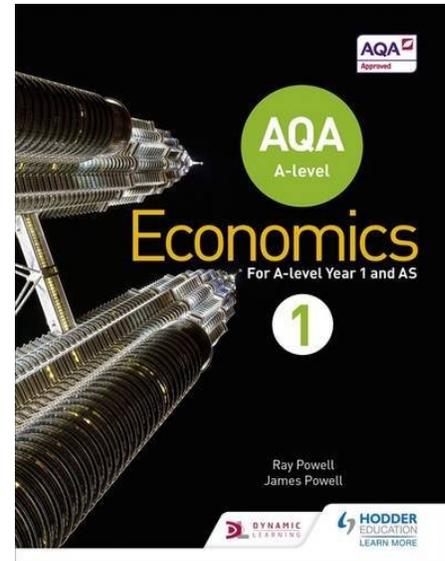
## Essential summer reading

There is an official textbook (covering the AS units) available for you to read ahead and develop an initial understanding of our topics.

We study for the AQA exam board qualification, use their website to see the specification.

<http://www.aqa.org.uk/subjects/economics/as-and-a-level/economics-7135-7136>

And you can look online at additional resources, especially here: [www.tutor2u.net/economics](http://www.tutor2u.net/economics)



## Essential summer viewing/listening

Check the BBC News website for breaking news under the 'business' tab once a week. Print off stories that link to specific areas of the course, read and annotate them, and add to your file at the relevant point.

Keeping up-to-date with current affairs is essential for Business Studies and we expect students to regularly read newspapers and magazines, and watch programmes like Newsnight and Question Time.

## Tasks to be completed

The following tasks are designed to develop your exam technique, highlight your current strengths in writing and developing an answer and provide you with an example of the types of questions you may be asked in an A-Level economics exam.

You can hand-write, or type up your answers. You should attempt to answer all of the questions; one is for four marks, one is for nine marks, and the last is for sixteen marks.

## Task One

*Read the first chapter from the Economics A-Level about Basic Economic Problem: Scarcity and Choice.*

The Economist's Dictionary of Economics defines economics as; "*The study of the production, distribution and consumption of wealth in human society*"

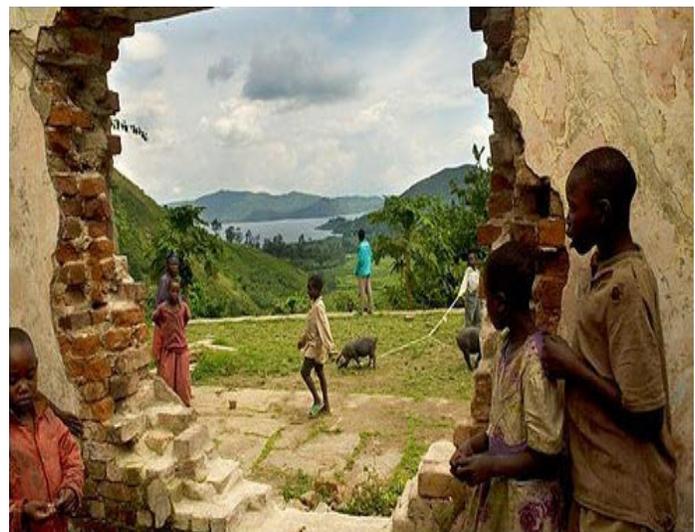
### The purpose of economic activity

It is often said that the central purpose of economic activity is the production of goods and services to satisfy our ever-changing needs and wants. The basic economic problem is about scarcity and choice. Every society has to decide:

**What goods and services to produce?** Does the economy use its resources to build more hospitals, roads, schools or luxury hotels? Do we make more iPhones and iPads or double-espressos? Does the National Health Service provide free IVF treatment for childless couples?

**How best to produce goods and services?** What is the best use of our scarce resources? Should school playing fields be sold off to provide more land for affordable housing? Should we subsidise the purchase of solar panels for roofs?

**Who is to receive goods and services?** Who will get expensive hospital treatment - and who not? Should there be a minimum wage? Or perhaps a living wage? What are the causes and consequences of poverty in societies across the globe?



## Scarcity

We are always uncovering of new wants and needs which producers attempt to supply by using factors of production. For a perspective on the achievements of countries in meeting people's basic needs, the Human Development Index produced by the United Nations is worth reading. The economist Amartya Sen (Winner of the 1998 Nobel Prize for Economics) has written extensively on this issue.

### Scarcity means we all have to make choices

Because of scarcity, choices must be made by consumers, businesses and governments. For example, over six million people travel into London each day and they make decisions about when to travel, whether to use the bus, the tube, to walk or cycle or work from home. Millions of decisions are taken, many of them are habitual - but somehow on most days, people get to work on time and they get home too in safety if not in comfort!

### Trade-offs and Choices

Making a choice made normally involves a trade-off - this means that choosing more of one thing can only be achieved by giving up something else in exchange.

1. Housing: Choices about whether to rent or buy a home - both decisions involve risk. People have to weigh up the costs and benefits of the decision.
2. Working: Do you work full-time or part-time? Is it worth your while studying for a degree? How have these choices been affected by the introduction of university tuition fees?
3. Transport and travel: The choice between using Euro-Tunnel, a low-cost ferry or an airline when travelling to Western Europe.

### Key Point: The Cost Benefit Principle

- In many decisions where people consider the costs and benefits of their actions - economists make use of the 'marginal' idea, for example what are the benefits of consuming a little extra of a product and what are the costs?



#### Objectives of Firms

The main economic objective of businesses in a market economy is most likely to be the maximisation of profits

- Rational decision-makers weigh the marginal benefit one receives from an option with its marginal cost, including the opportunity cost.
- This cost benefit principle well applied will get you a long way in economics!
- But keep in mind that behavioural economics questions the rationality of many of our decisions!

### Consumer Welfare and Rationality

What makes people happy? Why despite several decades of rising living standards, surveys of happiness suggest that people are not noticeably happier than previous generations?

Typically, we assume that, when making decisions people aim to maximise their welfare. They have a limited income and they allocate their money in a way that improves gives them the highest total satisfaction.

In reality consumers rarely behave in a well-informed and rational way. Often decisions are based on **incomplete information** which causes a loss of welfare not only for people themselves but which affect others and our society as a whole.

As consumers we have all made **poor choices** about which products to buy. Behavioural economics is an exciting strand of the subject that looks at whether we are rational in our everyday decisions. One of the best people to read is Dan Ariely (pictured).



### Behavioural economics

Behavioural Economics is the name given to the discipline that tries to mix insights from Psychology with Economics, and looks at economic problems through the eye of a “Human”, rather than an “Econ”. It uses insights from psychology to explain why people make apparently irrational decisions such as why people eat too much and do not save enough for retirement. An Econ is said to be infinitely rational and immensely intelligent, emotionless being who can do cost-benefit analyses at will, and is never (ever) wrong. The reality is often very different. Most of us are not infinitely rational, but rather face “bounded rationality”, with people adopting **rules of thumb** instead of calculating optimal solutions for every decision.

## Opportunity Cost

In economics, “there is no such thing as a free lunch!” Even if we are not asked to pay money for something, **scarce resources** are used up in production and there is an opportunity cost involved. Opportunity cost measures the cost of any choice in terms of the **next best alternative foregone**.

**Work-leisure choices:** The opportunity cost of deciding not to work an extra ten hours a week is the lost wages foregone. If you are being paid £7 per hour to work at the local supermarket, if you take a day off from work you might lose over £50 of income.

**Government spending priorities:** The opportunity cost of the government spending nearly £10 billion on investment in National Health Service might be that £10 billion less is available for spending on education or improvements to the transport network.

**Investing today for consumption tomorrow:** The opportunity cost of an economy investing resources in capital goods is the production of consumer goods given up for today.

**Making use of scarce farming land:** The opportunity cost of using farmland to grow wheat for bio-fuel means that there is less wheat available for food production causing food prices to rise and increasing the risks of food poverty and malnutrition for millions of the world’s most vulnerable people.

## Economic Systems

An economic system is a network of organisations used by a society to resolve the basic problem of what, how much, how and for whom to produce.

1. **Free market economy:** Where markets allocate resources through the **price mechanism**. An increase in demand raises price and encourages businesses to use more resources into the production of that good or service. The quantity of products consumed by people depends on their income and income itself depends on the market value of an individual’s work. In a free market economy there is a limited role for the government, indeed in a pure free market system, the government limits itself to protecting **property rights** of people and businesses using the legal system and protecting the value of money or the value of a currency.

2. **Planned or command economy:** In a planned or command system associated with a socialist or communist system, scarce resources are **owned by the government**. The state allocates resources, and sets production targets and growth rates according to its own view of people's wants. Market prices play little or no part in informing resource allocation decisions and queuing rations scarce goods.
3. **Mixed economy:** In a mixed economy, some resources are owned by the **public sector** (government) and some are owned by the **private sector**. The public (or state) sector typically supplies public, quasi-public and merit goods and intervenes in markets to correct perceived market failure. Nearly all economies in the world are mixed although that mix changes over time for example as some industries are privatised (sold to the private sector) or nationalised (taken back into state ownership).

## Task Two

Practice answering an A-Level Economics exam question.

**Extract C** (lines 15–17) states that 'Free school meals will help give every child the chance in life they deserve, building a stronger economy and a fairer society'.

Using the data in the extracts and your economic knowledge, assess whether the government should provide free school meals for all, some or no school children.

**[25 marks]**

### FREE SCHOOL MEALS

**Extract A:** Index of average household disposable income, and index of food prices, in the UK 2008 to 2012 (2008 = 100)

Year	Disposable income	Food prices
2008	100	100
2009	102	106
2010	105	109
2011	110	114
2012	108	118

Note: All figures are rounded

Source: Official statistics, October 2013

### Extract B: The rising cost of food

In recent years, food prices have risen faster than incomes, making it harder for many low-income families to buy food which forms a significant part of their total weekly spend. On average, 11.3% of household income was spent on food in 2011, up from 10.5% in 2007. However, for the poorest 20% of households, their spending on food rose from 15.2% to 16.6% in the same period. Record numbers of people are using 'food banks', where charities provide emergency food to those struggling to feed themselves and their families. 1 5

Food prices have been rising for a number of reasons, including climate change and population growth. A spokesperson for the Food Ethics Council charity recently called for food businesses and the Government to tackle the issue of making healthy food affordable, claiming that 'cheap food', which is often an inferior good, was causing problems for health and the environment. 10

Many low-income households are already buying so-called 'value' products, so can't switch to cheaper brands. They are also less likely to buy ethical products such as free-range eggs. Between 2007 and 2011, the poorest households have cut spending on fruit by 15% and vegetables by 12%, yet their spending on sweets rose by 5%. In 2011, 62% of adults in England were either obese or overweight, whilst 1 in 20 children has no fruit or vegetables in their diet. 15

The cost of treating illnesses caused by bad diet is £6 billion per year. Considerable amounts of food are wasted each year, much of which is not used in time, bread being the most wasted food. And although much more food waste is being recycled, some still ends up in scarce landfill waste sites. These externalities cannot be ignored. 20

### Extract C: There's no such thing as a free lunch

It has recently been announced that from September 2014, all infant school children in England will receive free school lunches. On average, this will save parents over £400 a year and maybe more, if it leads to them spending less on evening meals.	1
At present, free school meals are only available to those on low incomes but children do not receive them unless they are claimed. In a trial scheme, where all primary school children were given free lunches, the take-up rose from roughly 50% in both areas to 72% in one and 85% in the other.	5
Those in favour claim that children will receive 'proper food', with improvements in concentration and behaviour leading to better academic achievement and health. As well as the private benefits, there will be considerable external benefits. Some would argue that the scheme should be extended to all school children.	10
Critics argue that the £600 million a year will be subsidising children from well-off families and would be better spent on other areas or to directly support children from low-income families. And how will it be funded?	
When announcing the scheme, the Deputy Prime Minister, Nick Clegg stated: "Free school meals will help give every child the chance in life they deserve, building a stronger economy and a fairer society."	15

Source: News Reports, October 2013

### Help? Try this technique to answer "25-markers"

M - Make a point. Why should the government provide free school meals to all children?

E - Explain this point. Why would this be a good idea for the government to do?

E - Effects. What will the causes of this be on children and the wider society?

L - Use evidence from the case study to back your point up.

Repeat the MEEL paragraph at twice more, once for 'some' children and once for 'no' children

### Conclusion:

- Answer the question - Overall, who should the government provide free school meals to?
- Important reason - The most important reason for this is...
- Make a recommendation - What action(s) should the government take in order to do this?
- However, what does this depend on and why? However, this depends on...because...

## Task Three

Following you're a\* in A-Level economics, you have become the leader of one of the most powerful countries in the world! You have renamed the capital city Levittopia and have changed the nation's unit of currency to the Dubners (D).

You have been invited to speak at the G8 summit to tell the other world leaders about:

- 1) The state of our country and its economy
- 2) Your plan to establish your country as the world's dominant economic power.

Prepare a presentation and be ready to face questioning, defending your economic strategy or strategies to the other leaders of the G8.

To help you, we've broken

### Part One: The Country

My country is .....

#### Politics



- **Leadership:** Who is the leader of the country? How long have they been the leader for?
- **Government:** Which party is the ruling party? When were they elected?
- **Global Membership:** Which global groups are they members of? For example are they in the EU / UN / NATO / G20 / G8 / NAFTA...

#### Society



- **Population:** Are population levels increasing or decreasing? Is there any particular group of the population that is increasing or decreasing?
- **Employment:** What is the unemployment rate? Is it rising or declining?
- What is the birth rate or death rate?

#### Finance:



- **Economic Growth:** What is the GDP? Is it rising or declining?
- **Inflation:** What is inflation? Is it rising or declining?
- **Currency and Exchange rates:** What is the country's currency? How much is it worth? Have exchange rates being going up or down?

## Part One: The Country

### Environment



- **CO2 Emission:** How are CO2 emissions measured? Are they rising or declining?
- **Reducing Global Warming:** What are the government/businesses/population looking to do to prevent global warming?
- **Energy Policy:** What are the country's main sources of energy?

### Business



- **Imports and Exports:** What are the main products/services that are imported by the country? Balance of payments: Do they import or export more?
- **Largest Businesses/industries:** Who are the country's largest businesses? How much money have some of these businesses made? What industries is the country famous for?

### Tourism



- **Religion:** What are the main religions in the country?
- **Tourism:** What are the main reasons to visit the country? How much money is tourist industry estimated to be worth?
- **Culture:** What is the country famous for? Who's the country's most famous celebrities/sports people?

## Part Two: The Strategy

You must come up with a strategy for your country's government to make you an economic superpower. You must make reference to:

- GDP
- Unemployment
- Balance of payments
- Inflation
- Sustainability

**Useful Links:**

<http://www.youtube.com/watch?v=HqVmqcleSRE&list=PLp8BSCLLWBU CG1PmQrkcDJINJ65p0I5C6>

[http://www.youtube.com/watch?v=Uc6lcbNmJBc&list=PLSNjK\\_WfuG9FGCmNIOg5de93X51rs5pyQ](http://www.youtube.com/watch?v=Uc6lcbNmJBc&list=PLSNjK_WfuG9FGCmNIOg5de93X51rs5pyQ)

<http://www.aqa.org.uk/subjects/economics/as-and-a-level/economics-7135-7136>

<http://www.aqa.org.uk/subjects/economics/as-and-a-level/economics-7135-7136/assessment-resources>

<http://www.tutor2u.net/economics>

<http://www.tutor2u.net/economics/blog/economics-topic-study-notes>

<http://www.s-cool.co.uk/a-level/economics>

<http://www.economist.com/>

<http://www.bbc.co.uk/news/business/economy>

<https://www.theguardian.com/business/economics>