



Year 12 Syllabus in a nutshell

A Level ECONOMICS





Year 12 Syllabus in a nutshell – A Level Economics

During Year 12, students complete Themes 1 and 2 of the specification.

Theme 1: Introduction to Markets and market failure

Overview

This theme is one of two in this qualification that focuses on microeconomics. This theme introduces students to the microeconomic nature of economics, looking at economic problems and the ways economists think and work. Students will need to build upon the knowledge, skills and understanding developed from Theme 1 in Theme 3, making connections across these two microeconomic themes for Paper 1, and across Themes 1, 2, 3 and 4 in Paper 3.

Students will need to apply their knowledge and understanding to both familiar and unfamiliar contexts in the assessments and demonstrate an awareness of current economic events and policies.

Topic area		What students need to learn:
1.1 Nature of economics	1.1.1 Economics as a social science	a) Thinking like an economist: the process of developing models in economics, including the need to make assumptions b) The use of the <i>ceteris paribus</i> assumption in building models c) The inability in economics to make scientific experiments
	1.1.2 Positive and normative economic statements	a) Distinction between positive and normative economic statements b) The role of value judgements in influencing economic decision making and policy
	1.1.3 The economic problem	a) The problem of scarcity – where there are unlimited wants and finite resources b) The distinction between renewable and non-renewable resources c) The importance of opportunity costs to economic agents (consumers, producers and government)
	1.1.4 Production possibility frontiers	a) The use of production possibility frontiers to depict: <ul style="list-style-type: none"> • the maximum productive potential of an economy • opportunity cost (through marginal analysis) • economic growth or decline • efficient or inefficient allocation of resources • possible and unobtainable production b) The distinction between movements along and shifts in production possibility curves, considering the possible causes for such changes c) The distinction between capital and consumer goods



	1.1.5 Specialisation and the division of labour	<p>a) Specialisation and the division of labour: reference to Adam Smith</p> <p>b) The advantages and disadvantages of specialisation and the division of labour in organising production</p> <p>c) The advantages and disadvantages of specialising in the production of goods and services to trade</p> <p>d) The functions of money (as a medium of exchange, a measure of value, a store of value, a method of deferred payment)</p>
	1.1.6 Free market economies, mixed economy and command economy	<p>a) The distinction between free market, mixed and command economies: reference to Adam Smith, Friedrich Hayek and Karl Marx</p> <p>b) The advantages and disadvantages of a free market economy and a command economy</p> <p>c) The role of the state in a mixed economy</p>
1.2 How markets work	1.2.1 Rational decision making	<p>a) The underlying assumptions of rational economic decision making:</p> <ul style="list-style-type: none"> • consumers aim to maximise utility • firms aim to maximise profits
	1.2.2 Demand	<p>a) The distinction between movements along a demand curve and shifts of a demand curve</p> <p>b) The factors that may cause a shift in the demand curve (the conditions of demand)</p> <p>c) The concept of diminishing marginal utility and how this influences the shape of the demand curve</p>
	1.2.3 Price, income and cross elasticities of demand	<p>a) Understanding of price, income and cross elasticities of demand</p> <p>b) Use formulae to calculate price, income and cross elasticities of demand</p> <p>c) Interpret numerical values of</p> <ul style="list-style-type: none"> • price elasticity of demand: unitary elastic, perfectly and relatively elastic, and perfectly and relatively inelastic • income elasticity of demand: inferior, normal and luxury goods; relatively elastic and relatively inelastic • cross elasticity of demand: substitutes, complementary and unrelated goods <p>d) The factors influencing elasticities of demand</p> <p>e) The significance of elasticities of demand to firms and government in terms of:</p> <ul style="list-style-type: none"> • the imposition of indirect taxes and subsidies • changes in real income • changes in the prices of substitute and complementary goods <p>f) The relationship between price elasticity of demand and total revenue (including calculation)</p>
	1.2.4 Supply	<p>a) The distinction between movements along a supply curve and shifts of a supply curve</p> <p>b) The factors that may cause a shift in the supply curve (the conditions of supply)</p>



1.2 How markets Work (continued)	1.2.5 Elasticity of supply	a) Understanding of price elasticity of supply b) Use formula to calculate price elasticity of supply c) Interpret numerical values of price elasticity of supply: perfectly and relatively elastic, and perfectly and relatively inelastic d) Factors that influence price elasticity of supply e) The distinction between short run and long run in economics and its significance for elasticity of supply
	1.2.6 Price determination	a) Equilibrium price and quantity and how they are determined b) The use of supply and demand diagrams to depict excess supply and excess demand c) The operation of market forces to eliminate excess demand and excess supply d) The use of supply and demand diagrams to show how shifts in demand and supply curves cause the equilibrium price and quantity to change in real-world situations
	1.2.7 Price mechanism	a) Functions of the price mechanism to allocate resources: <ul style="list-style-type: none"> • rationing • incentive • signalling b) The price mechanism in the context of different types of markets, including local, national and global markets
	1.2.8 Consumer and producer surplus	a) The distinction between consumer and producer surplus b) The use of supply and demand diagrams to illustrate consumer and producer surplus c) How changes in supply and demand might affect consumer and producer surplus
	1.2.9 Indirect taxes and subsidies	a) Supply and demand analysis, elasticities, and: <ul style="list-style-type: none"> • the impact of indirect taxes on consumers, producers and government • the incidence of indirect taxes on consumers and producers • the impact of subsidies on consumers, producers and government • the area that represents the producer subsidy and consumer subsidy
	1.2.10 Alternative views of consumer behaviour	a) The reasons why consumers may not behave rationally: <ul style="list-style-type: none"> • consideration of the influence of other people's behaviour • the importance of habitual behaviour • consumer weakness at computation
	1.3 Market Failure	1.3.1 Types of market failure



	1.3.2 Externalities	<p>a) Distinction between private costs, external costs and social costs</p> <p>b) Distinction between private benefits, external benefits and social benefits</p> <p>c) Use of a diagram to illustrate:</p> <ul style="list-style-type: none"> • the external costs of production using marginal analysis • the distinction between market equilibrium and social optimum position • identification of welfare loss area <p>d) Use of a diagram to illustrate:</p> <ul style="list-style-type: none"> • the external benefits of consumption using marginal analysis • the distinction between market equilibrium and social optimum position • identification of welfare gain area <p>e) The impact on economic agents of externalities and government intervention in various markets</p>
	1.3.3 Public goods	<p>a) Distinction between public and private goods using the concepts of non-rivalry and non-excludability</p> <p>b) Why public goods may not be provided by the private sector: the free rider problem</p>
	1.3.4 Information gaps	<p>a) The distinction between symmetric and asymmetric information</p> <p>b) How imperfect market information may lead to a misallocation of resources</p>
1.4 Government intervention	1.4.1 Government intervention in markets	<p>a) Purpose of intervention with reference to market failure and using diagrams in various contexts:</p> <ul style="list-style-type: none"> • indirect taxation (<i>ad valorem</i> and specific) • subsidies • maximum and minimum prices <p>b) Other methods of government intervention:</p> <ul style="list-style-type: none"> • trade pollution permits • state provision of public goods • provision of information • regulation
	1.4.2 Government failure	<p>a) Understanding of government failure as intervention that results in a net welfare loss</p> <p>b) Causes of government failure:</p> <ul style="list-style-type: none"> • distortion of price signals • unintended consequences • excessive administrative costs • information gaps <p>c) Government failure in various markets</p>



Theme 2: The UK economy – performance and policies

Overview

This theme is one of two in this qualification that focuses on macroeconomics. This theme introduces the key measures of economic performance and the main instruments of economic policy primarily in a UK context.

Students will need to build upon the knowledge, skills and understanding developed from Theme 2 in Theme 4, making connections across these two macroeconomic themes for Paper 2, and across Themes 1, 2, 3 and 4 in Paper 3.

Students will need to apply their knowledge and understanding to both familiar and unfamiliar contexts in the assessments and demonstrate an awareness of current economic events and policies.

Subject content	What students need to learn:	
2.1 Measures of economic performance	2.1.1 Economic growth	a) Rates of change of real Gross Domestic Product (GDP) as a measure of economic growth b) Distinction between: <ul style="list-style-type: none"> • real and nominal • total and per capita • value and volume c) Other national income measures: <ul style="list-style-type: none"> • Gross National Income (GNI) d) Comparison of rates of growth between countries and over time e) Understanding of Purchasing Power Parities (PPPs) and the use of PPP-adjusted figures in international comparisons f) The limitations of using GDP to compare living standards between countries and over time g) National happiness: <ul style="list-style-type: none"> • UK national wellbeing • The relationship between real incomes and subjective happiness
	2.1.2 Inflation	a) Understanding of: <ul style="list-style-type: none"> • inflation • deflation • disinflation b) The process of calculating the rate of inflation in the UK using the Consumer Prices Index (CPI) c) The limitations of CPI in measuring the rate of inflation d) The Retail Prices Index (RPI) as an alternative measure of the rate of inflation e) Causes of inflation: <ul style="list-style-type: none"> • demand pull • cost push • growth of the money supply



		f) The effects of inflation on consumers, firms, the government and workers
2.1 Measures of economic performance (continued)	2.1.3 Employment and unemployment	a) Measures of unemployment: <ul style="list-style-type: none"> • the claimant count • the International Labour Organisation (ILO) and the UK Labour Force Survey b) The distinction between unemployment and under-employment c) The significance of changes in the rates of: <ul style="list-style-type: none"> • employment • unemployment • inactivity d) The causes of unemployment: <ul style="list-style-type: none"> • structural unemployment • frictional unemployment • seasonal unemployment • demand deficiency and cyclical unemployment • real wage inflexibility e) The significance of migration and skills for employment and unemployment f) The effects of unemployment on consumers, firms, workers, the government and society
	2.1.4 Balance of payments	a) Components of the balance of payments, with particular reference to the current account, and the balance of trade in goods and services b) Current account deficits and surpluses c) The relationship between current account imbalances and other macroeconomic objectives d) The interconnectedness of economies through international trade



2.2 Aggregate Demand	2.2.1 The characteristics of AD	a) Components of AD: $C+I+G+(X-M)$ b) The relative importance of the components of AD c) The AD curve d) The distinction between a movement along, and a shift of, the AD curve
	2.2.2 Consumption (C)	a) Disposable income and its influence on consumer spending b) An understanding of the relationship between savings and consumption c) Other influences on consumer spending: <ul style="list-style-type: none"> • interest rates • consumer confidence • wealth effects
	2.2.3 Investment (I)	a) Distinction between gross and net investment Influences on b) investment: <ul style="list-style-type: none"> • the rate of economic growth • business expectations and confidence • Keynes and 'animal spirits' • demand for exports • interest rates • access to credit • the influence of government and regulations
	2.2.4 Government expenditure (G)	a) The main influences on government expenditure: <ul style="list-style-type: none"> • the trade cycle • fiscal policy
	2.2.5 Net trade (X-M)	a) The main influences on the (net) trade balance: <ul style="list-style-type: none"> • real income • exchange rates • state of the world economy • degree of protectionism • non-price factors
2.3 Aggregate Supply (AS)	2.3.1 The characteristics of AS	a) The AS curve b) The distinction between movement along, and a shift of, the AS curve c) The relationship between short-run AS and long-run AS
	2.3.2 Short-run AS	a) Factors influencing short-run AS: <ul style="list-style-type: none"> • changes in costs of raw materials and energy • changes in exchange rates • changes in tax rates



	2.3.3 Long-run AS	<p>a) Different shapes of the long-run AS curve:</p> <ul style="list-style-type: none"> • Keynesian • classical <p>b) Factors influencing long-run AS:</p> <ul style="list-style-type: none"> • technological advances • changes in relative productivity • changes in education and skills • changes in government regulations • demographic changes and migration • competition policy
2.4 National Income	2.4.1 National income	<p>a) The circular flow of income</p> <p>b) The distinction between income and wealth</p>
	2.4.2 Injections and withdrawals	a) The impact of injections into, and withdrawals from, the circular flow of income
	2.4.3 Equilibrium levels of real national output	<p>a) The concept of equilibrium real national output</p> <p>b) The use of AD/AS diagrams to show how shifts in AD or AS cause changes in the equilibrium price level and real national output</p>
	2.4.4 The multiplier	<p>a) The multiplier ratio</p> <p>b) The multiplier process</p> <p>c) Effects of the multiplier on the economy</p> <p>d) Understanding of marginal propensities and their effects on the multiplier:</p> <ul style="list-style-type: none"> • the marginal propensity to consume (MPC) • the marginal propensity to save (MPS) • the marginal propensity to tax (MPT) • the marginal propensity to import (MPM) <p>e) Calculations of the multiplier using the formulae $1/(1-MPC)$ and $1/MPW$, where $MPW=MPS+MPT+MPM$</p> <p>f) The significance of the multiplier for shifts in AD</p>
2.5 Economic Growth	2.5.1 Causes of growth	<p>a) Factors which could cause economic growth</p> <p>b) The distinction between actual and potential growth</p> <p>c) The importance of international trade for (export-led) economic growth</p>
	2.5.2 Output gaps	<p>a) Distinction between actual growth rates and long-term trends in growth rates</p> <p>b) Understanding of positive and negative output gaps and the difficulties of measurement</p> <p>c) Use of an AD/AS diagram to illustrate an output gap (level of spare capacity) in an economy</p>



	2.5.3 Trade (business) cycle	<ul style="list-style-type: none"> a) Understanding of the trade (business) cycle b) Characteristics of a boom c) Characteristics of a recession
	2.5.4 The impact of economic growth	<ul style="list-style-type: none"> a) The benefits and costs of economic growth and the impact on: <ul style="list-style-type: none"> • consumers • firms • the government • current and future living standards
2.6 Macro-economic objectives and policies	2.6.1 Possible macro-economic objectives	<ul style="list-style-type: none"> a) Economic growth b) Low unemployment c) Low and stable rate of inflation d) Balance of payments equilibrium on current account e) Balanced government budget f) Protection of the environment g) Greater income equality
	2.6.2 Demand-side policies	<ul style="list-style-type: none"> a) Distinction between monetary and fiscal policy b) Monetary policy instruments: <ul style="list-style-type: none"> • interest rates • asset purchases to increase the money supply (quantitative easing) c) Fiscal policy instruments: <ul style="list-style-type: none"> • government spending and taxation d) Distinction between government budget (fiscal) deficit and surplus e) Distinction between, and examples of, direct and indirect taxation f) Use of AD/AS diagrams to illustrate demand-side policies g) The role of the Bank of England: <ul style="list-style-type: none"> • the role and operation of the Bank of England's Monetary Policy Committee h) Awareness of demand-side policies in the Great Depression and the Global Financial Crisis of 2008 <ul style="list-style-type: none"> • different interpretations • policy responses in the US and UK i) Strengths and weaknesses of demand-side policies
	2.6.3 Supply-side policies	<ul style="list-style-type: none"> a) Distinction between market-based and interventionist methods b) Market-based and interventionist policies: <ul style="list-style-type: none"> • to increase incentives • to promote competition • to reform the labour market • to improve skills and quality of the labour force • to improve infrastructure c) Use of AD/AS diagrams to illustrate supply-side policies d) Strengths and weaknesses of supply-side policies



	2.6.4 Conflicts and trade- offs between objectives and policies	a) Potential conflicts and trade-offs between the macroeconomic objectives b) Short-run Phillips curve c) Potential policy conflicts and trade-offs
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