

Preparation for A-level Economics in September 2020

This transition document will provide you with a brief outline of the course structure and a reading list of books and other resources. It also contains a couple of activities to introduce you to some of the basic elements of the course.

You may wish to use the resources listed in this document before and throughout the course to improve your wider understanding.

Economics is a challenging, technical and theoretical subject, and to be successful in terms of applying your knowledge to interesting problems in the real world, you will need to have a thorough grasp of the theory covered at A-level. The more you can place economic theory in real world scenarios, the better you will be able to analyse and evaluate ideas and give yourself the chance of attaining your target grade. You will also personally get more out of the course if you have a good understanding of prevailing economic climate in the UK, across Europe and in a global context. This pack gives you some ideas of how you can keep up to date.

Basic course overview: You will study the AQA Economics 2015 course over two years which is assessed in the summer of your second year by three external examinations. The basic overview of the course content can be seen below:

A-level

Subject content

Individuals, firms, markets and market failure

- 1 [Economic methodology and the economic problem](#)
- 2 [Individual economic decision making](#)
- 3 [Price determination in a competitive market](#)
- 4 [Production, costs and revenue](#)
- 5 [Perfect competition, imperfectly competitive markets and monopoly](#)
- 6 [The labour market](#)
- 7 [The distribution of income and wealth: poverty and inequality](#)
- 8 [The market mechanism, market failure and government intervention in markets](#)

The national and international economy

- 9 [The measurement of macroeconomic performance](#)
- 10 [How the macroeconomy works : the circular flow of income, AD/AS analysis, and related concepts](#)
- 11 [Economic performance](#)
- 12 [Financial markets and monetary policy](#)
- 13 [Fiscal policy and supply-side policies](#)
- 14 [The international economy](#)

Assessments

Paper 1: Markets and market failure
What's assessed Content 1–8 above
Assessed <ul style="list-style-type: none">• written exam: 2 hours• 80 marks• 33.3% of A-level
Questions

- Section A: data response questions requiring written answers, choice of one from two contexts worth 40 marks
- Section B: essay questions requiring written answers, choice of one from three worth 40 marks



Paper 2: National and international economy
What's assessed Content 9–14 above
Assessed <ul style="list-style-type: none"> • written exam 2 hours • 80 marks • 33.3% of A-level
Questions <ul style="list-style-type: none"> • Section A: data response questions requiring written answers, choice of one from two contexts worth 40 marks • Section B: essay questions requiring written answers, choice of one from three worth 40 marks



Paper 3: Economic principles and issues
What's assessed All content 1–14 above
Assessed <ul style="list-style-type: none"> • written exam: 2 hours • 80 marks • 33.3% of A-level
Questions <ul style="list-style-type: none"> • Section A: multiple choice questions worth 30 marks • Section B: case study questions requiring written answers, worth 50 marks

Paper 3: All the questions on Paper 3 are compulsory

Begin to engage with the subject of Economics in a variety of contexts

It is important to understand why you want to study Economics A-level.

As most students have never studied this subject prior to A-level, it is very important to start thinking about how economics is relevant to our lives. The resources list in this document will help.

Economics is a social science which attempts to explain how we organise the world's scarce resources to satisfy society's needs and wants. You are unlikely to be interested in this as an academic subject, unless you are already interested in current affairs. You must watch the news (for example, <https://www.bbc.co.uk/news/business> and BBC Newsnight BBC2) and read the business section of a quality newspaper. You don't have to watch the whole news programme every day. Record the news and Newsnight and then single out the parts you're interested in.

You should be interested in answering questions such as:

Why do prices rise / fall?

What is the economic problem? What is opportunity cost? Give examples.

Why do we get paid more if we have A-levels or a degree?

Why are footballers and pop stars paid more than nurses?

Should we be concerned or pleased about Brexit?

What causes a country's economy to grow? Is economic growth sustainable?

Why is there unemployment? Why can inflation be a problem?

Why should we worry about UK's persistent trade deficit?

How can we use behavioural nudges to improve economic outcomes?

Why do 'rational' people play the lottery?

What does the Bank of England do to tackle inflation?

What is market failure and how can this be alleviated?

What is globalisation? How do countries compete?

Is income and wealth inequality a problem?

What caused the 2008/9 global economic crisis? What is its impact?

There are free on-line lessons available for the transition to A-level Economics on the tutor2u website:

<https://www.tutor2u.net/economics/collections/head-start-for-alevel-economics-transition-resource-year-11-students>

Summer activities

Task 1: Microeconomics

Read the following notes covering some of the key concepts relating to the beginning of the course. There will be a short test covering these topics in the first week of term.

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 bags of crisps? 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 and 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!

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.

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.

Assumptions in Economics

What are assumptions in economics?

- Assumptions are initial conditions made before a micro or macroeconomic analysis is built.
- Sometimes assumptions are used for simplification
- Assumptions can be used to isolate the effects of a change in one variable on another

- Many assumptions are criticised for being unrealistic

What is the ceteris paribus assumption?

To simplify analysis, economists isolate the relationship between two variables by assuming ceteris paribus – i.e. all other influencing factors are held constant

For example - when considering the demand for a product such as electric vehicles, we might focus on the effects of changes in the price of the product itself, whilst isolating the impact of changes in factors such as real incomes of consumers, interest rates on loans to finance a car purchase and many other variables.

Why not do some research into the approach taken by Behavioural economists?

In October 2017, Professor Richard Thaler was awarded the Nobel Prize in Economics for placing "psychologically realistic assumptions into...economic decision-making"

Reasons why economists use assumptions in their economic models:

1. Helps to simplify analysis – helps to make the complex less daunting
2. Assumptions highlight the problem under investigation
3. Help economists to use maths in quantifying effects

Positive and Normative Economic Statements

What are positive statements?

Positive statements are **objective statements** that can be tested, amended or rejected by referring to the available **evidence**. Positive economics deals with **objective explanation** and the testing and rejection of theories. For example:

- A fall in incomes will lead to a rise in demand for own-label supermarket foods
- If the government raises the tax on beer, this will lead to a fall in profits of the brewers.
- The rising price of crude oil on world markets will lead to an increase in cycling to work
- A reduction in income tax will improve the incentives of the unemployed to find work.
- A rise in average temperatures will increase the demand for sun screen products.
- Higher interest rates will reduce house prices
- Cut-price alcohol has increased the demand for alcohol among teenagers
- A car scrappage scheme will lead to fall in the price of second hand cars

What are Normative Statements?

A **value judgement** is a subjective statement of opinion rather than a fact that can be tested by looking at the available evidence

Normative statements are **subjective statements** – i.e. they carry **value judgments**. For example:

- Pollution is the most serious economic problem

- Unemployment is more harmful than inflation
- The congestion charge for drivers of [petrol-guzzling cars](#) should increase to £25
- The government should [increase the minimum wage](#) to £7 per hour to reduce poverty.
- The government is right to introduce a [ban on smoking in public places](#).
- The retirement age should be raised to 70 to combat the effects of our ageing population.
- Resources are best allocated by allowing the market mechanism to work freely
- The government should enforce minimum prices for beers and lagers sold in supermarkets and off-licences in a bid to control alcohol consumption

Focusing on the evidence is called adopting an **empirical approach** – evidence-based work is becoming more and more important in shaping different government policies and how much funding to give to each.

Most economic decisions and policy are influenced by value judgements, which vary from person to person, resulting in fierce debate between competing political parties.

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).

Finite and Renewable Resources

Most resources are finite, and we cannot produce an unlimited number of different goods and services.

By supplying more for an ever-growing and richer population we are destroying the **natural resources** of the planet.

Our **ecological footprint** affects the **sustainability** of economies and has huge implications for future living standards. Environmental pressure groups such as Friends of the Earth and Greenpeace seek to highlight the permanent damage to the stock of **natural resources** and the dangers from rapid development and the effects of global warming.

The Worldwide Fund for Nature has claimed that the natural world is being degraded "at a rate unprecedented in human history" and has warned that if demand continues at the current rate, two planets will be needed to meet global demand by 2050. Resources are being consumed faster than the planet can replace them

One issue is the threat posed by the shortage of water as the world's demand for household and commercial use continues to grow each year. Experts predict that half the world's population will be affected by **water shortages** in just 20 years' time. During the 20th century the world population increased fourfold, but the amount of freshwater that it used increased nine times over. Already 2.8 billion people live in areas of high **water stress**. For more on this issue visit the World Health Organisation's [special web site on water scarcity](#).

At the heart of **improving resource sustainability** is the idea of **de-coupling** – trying to increase the efficiency with which resources are used and breaking the link between increasing demands and damaging resource depletion.

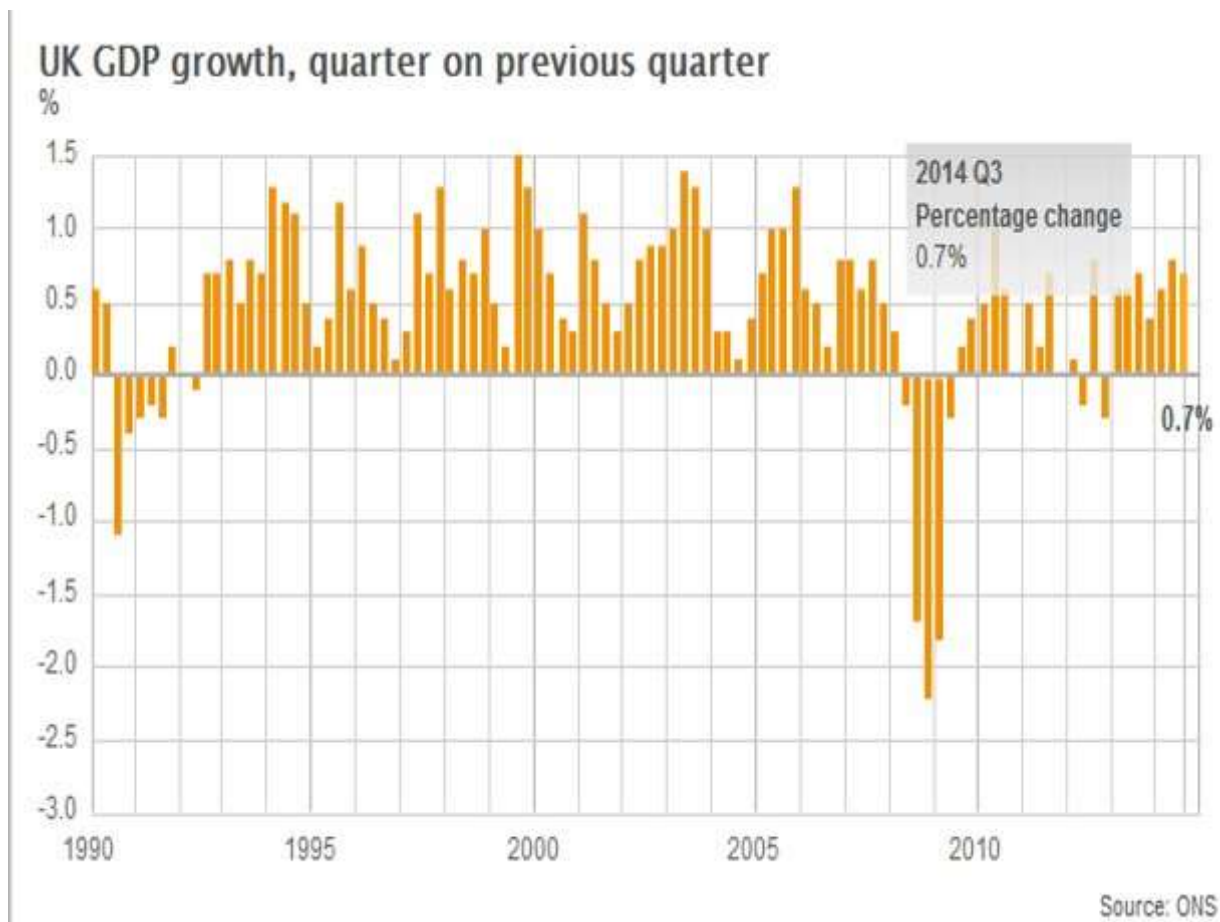
Renewable resources are commodities such as solar energy, oxygen, biomass, fish stocks or forestry that is inexhaustible or replaceable over time *providing that the rate of extraction of the resource is less than the natural rate at which the resource renews itself. (This is important!)*

This is a key issue in environmental economics, for example the over-extraction of fish stocks, and the global risks of permanent water shortages resulting

Finite resources cannot be renewed. For example, with plastics, crude oil, coal, natural gas and other items produced from fossil fuels, no mechanisms exist at present to replenish them.

Task 2: Macroeconomics – GDP, the economic cycle and unemployment

Read through the information below and answer the questions at the end. You will need to do some research beyond the information we have provided.



GDP & Recession All countries experience regular ups and downs in the growth of output, jobs, income and spending.

Gross domestic product (GDP) is a measure of a country's economic activity, including all the services and goods produced in a year. It is based on a huge survey of businesses and government departments compiled by the Office for National Statistics

An economy is generally considered to be in recession if GDP falls (contracts) for two consecutive quarters i.e. 6 months. A recession means a fall in the level of real national output i.e. a period when growth is negative, leading to a contraction in employment, people's incomes and firm's profits.

In 2014 the UK's economy was in recovery and grew by 2.6% in 2014, the fastest pace since 2007 and up from 1.7% in 2013. For 2015 as a whole, GDP growth was down to 2.2%. The last quarter of 2015 saw GDP growth of only 0.5%, a three-year low. This was after the 2008/09 global recession which saw the UK economy contract seeing the worst negative periods of GDP growth since 1979.

A recovery occurs when real GDP picks up from the trough reached at the low point of the recession. The state of business confidence plays a key role here. Any recovery might be subdued if businesses anticipate that it will be temporary or weak in scale.

A recovery might follow a deliberate attempt by the government to stimulate demand. In the UK we have seen:

1. Cuts in interest rates – the policy interest rate fell to 0.5% in the Autumn of 2008 and they have stayed low ever since. The Bank of England's Official Base Rate (the rate it charges commercial banks) is now at an all-time low of 0.1%

2. A rise in government borrowing

3. A policy of quantitative easing (QE) by the Bank of England to pump more money into the banking system in a bid to increase the supply of loans – now worth more than £375 billion.

However, GDP growth doesn't tell the whole story.

There are lots of things the statistics might not take into account:

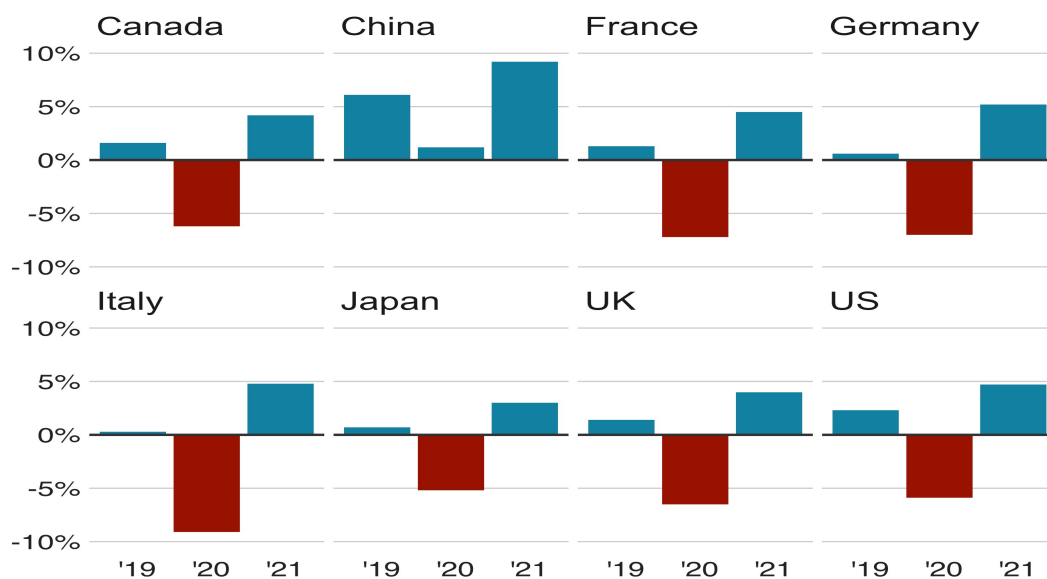
- **Hidden economy:** Unpaid work isn't captured in official figures, such as caring for an elderly relative
- **Inequality:** GDP growth doesn't tell us how income is split across a population. A rising GDP could result from the richest segment of society getting richer, rather than everyone becoming better off. The study of inequality (a form of market failure is a very important part of Year 2).

Plus, GDP is only one way to think about a country's development.

Just because GDP is increasing, it doesn't mean that a citizen's standard of living is improving. For example, in times of war, GDP will often increase because more money is being spent.

Many advanced economies are expected to enter recession this year

National annual GDP



Source: International Monetary Fund

BBC

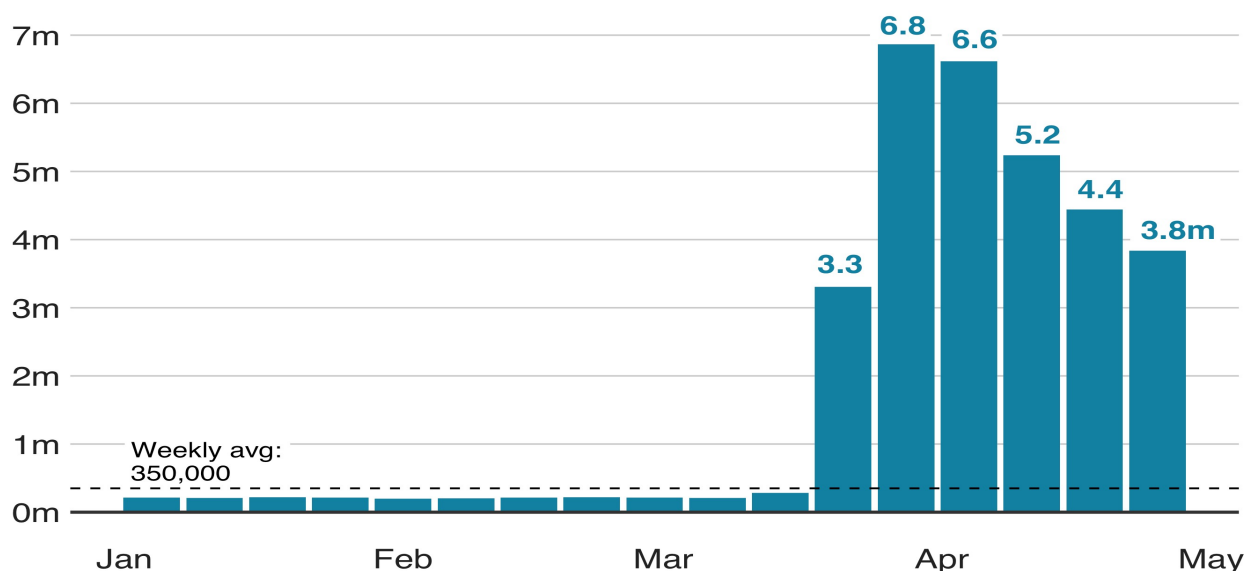
Unemployment A few months after the start of the recession in 2008, unemployment started to rise sharply. When the global financial crisis hit, the unemployment rate was a little over 5% or 1.6 million. Towards the end of 2009, with the UK coming out of its severest recession since the 1950s, it was almost a million higher at 2.5 million, or 8%. Unemployment peaked at almost 2.7 million at the end of 2011, its

highest level for 17 years. Unemployment fell by 102,000 to 1.86 million in the three months to the end of January 2015, according to the latest Office for National Statistics (ONS) figures.

The number of people claiming Jobseeker's Allowance in February 2019 fell by 31,000 to 791,200, its lowest level since 2008. Before the Coronavirus pandemic, the employment rate stood at 76.6%, the highest rate of people in work since the ONS began keeping records in 1971. A person is classed as unemployed if not only out of work, but also actively looking for work and available to start work within a fortnight.

More than 30m people in the US have filed for unemployment benefits in last six weeks

Weekly total of new unemployment claims in 2020



Source: US Bureau of Labor Statistics, 30 April 2020, 14:00 GMT

BBC

In the United States, the number of people filing for unemployment hit a record high, signalling an end to a decade of expansion for one of the world's largest economies.

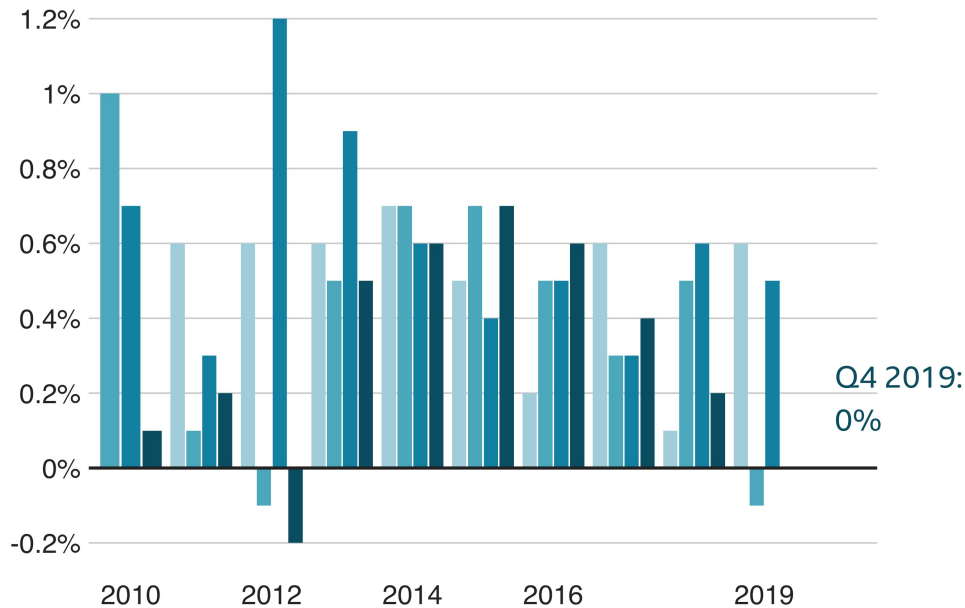
Close to one million people in the United Kingdom also applied for benefits in just two weeks at the end of March. The surge in universal credit applications followed government measures to limit the spread of the virus, including closing pubs, restaurants and non-essential shops.

UK economy saw zero growth at the end of 2019 (11 February 2020).

The UK economy saw no growth in the final three months of 2019, as manufacturing contracted for the third quarter in a row and the service sector slowed around the time of the election. The Office for National Statistics (ONS) said the car industry had seen a particularly weak quarter. The ONS figures also showed the economy grew by 1.4% in 2019, marginally higher than the 1.3% rate in 2018. Recent surveys have suggested that the economy has picked up in the new year.

UK economy sees 0% growth in Q4 2019

GDP, % change on previous quarter



Source: Office for National Statistics

BBC

Now that the global economy has been hit by the impact of the coronavirus pandemic, the UK's economy is on track for its deepest downturn "in living memory", according to a closely watched survey, as businesses suffer from the lockdown.

The survey from IHS Markit/CIPS found the UK's dominant services sector contracted at a record pace last month. Around 79% of services, such as cafes and hairdressers, reported a fall in business activity amid mass shutdowns in response to the coronavirus.

IHS Markit said UK GDP could fall at a quarterly rate of 7%.

Tim Moore, economics director at IHS Markit, said the data "highlights that the downturn in the UK economy during the second quarter of 2020 will be far deeper and more widespread than anything seen in living memory".

"The April survey reading is consistent with the economy falling at a quarterly rate of approximately 7%, but we expect the actual decline in GDP could be even greater, in part because the PMI excludes the vast majority of the self-employed and the retail sector."

However, the governor of the Bank of England, Andrew Bailey believes that the bounce back from the crisis could be quite fast.

Questions: (You will need to use the internet for research and write down your answers.)

If you can't answer all sections do not worry! Have a go at all the questions if you can.

1) What is GDP? (Useful link: <https://www.bbc.co.uk/news/business-13200758>)

- 2) What is business confidence? How is it measured?
- 3) Explain three impacts of a recession or a slowing UK economy? Consider firms, workers & consumers.
- 5) What can the UK government do to help the economy recover from an economic downturn (recession)? Think about measures taken to deal with the economic impact of the coronavirus and the role of the Bank of England in setting the Official Bank Rate.
- 6). Do you think the economy will recover quickly from the impact of the current coronavirus pandemic?

Reading List & Recommendations

Books, newspapers, magazines and online

Books

Light introduction to economics:

The Undercover Economist: Tim Harford - Introduces some basic economic concepts into real life scenarios.

Freakonomics: Steven Levitt - The economics of drug dealing, sumo wrestling and estate agents, amongst other things.

The Soulful Science: What Economists Really Do & Why It Matters – Diane Coyle

Behavioural Economics Saved My Dog: Life Advice for the Imperfect Human – Dan Arieli

Some more challenging respected economics books which will enhance your knowledge in different areas of the course, and you could write about in a university reference. These are good to stretch yourself and give a more critical analysis of a wide range of economics-related issues.

1. Economics: The User's Guide (Ha Joon-Chang) 2. The Spirit Level: Why Equality is Better for Everyone (Richard Wilkinson & Kate Pickett) 3. Nudge: Improving Decisions About Health, Wealth and Happiness (Cass R Sunstein & Richard H Thaler) 4. Misbehaving: The Making of Behavioural Economics (Richard H Thaler) 5. 23 Things They Don't Tell You About Capitalism (Ha Joon-Chang) 6. The Big Short: Inside the Doomsday Machine (Michael Lewis) 7. Adapt: Why Success Always Starts with Failure (Tim Harford) 8. The Great Divide (Joseph Stiglitz) 9. How to Lie with Statistics (Darrell Huff) 10. Fooled By Randomness (Nassim Nicholas Taleb) 11. Fool's Gold (Gillian Tett) 12. What Money Can't Buy: The Moral Limits of Markets (Michael Sandel). 13. Keynes – Return of the Master (Robert Skidelsky) 14. The Truth about Markets (John Kay) 15. Profits over People (Noam Chomsky).

Online

We recommend you follow useful business/economic news providers such as the BBC, Tuto2U, The Independent, The Guardian, The Economist, SKY News etc. Others such as The Times, Telegraph and The Financial Times are very good but limit your access if you do not pay for subscription.

Other good sources to read:

Economics Review magazine – Students will be able to subscribe to this when they start at The Burgate

A good quality newspaper (Particularly the business and Economy section) such as; The Guardian, The Times, The Telegraph, The Independent or the I for a more concise read.

Recommended Television shows/videos to watch

A good news programme (e.g. Channel 4 news at 7pm, Newsnight on BBC2 at 10.30pm)

BBC Panorama – www.bbc.co.uk/programmes/b006t14n - The long running BBC current affairs programme, featuring interviews and investigative reports on a wide variety of subjects but often economics related. In the past there have been relevant episodes such as The Big Squeeze, How to Survive the Meltdown and The Truth about Supermarket Price Wars. These documentaries are often available for up to a year after broadcast.

Economics related documentaries e.g. Dispatches

Films/Documentaries:

The Big Short (2015)

RBS: Inside the Bank that Ran out of Money (2011)

Inside Job (2010)

Margin Call (2011)

Enron: The Smartest Guys in the Room (2007)

The Corporation (2004)

(Any documentary by Adam Curtis – try Bitter Lake)

Useful websites

<https://www.youtube.com/channel/UCQbBh9Jn2ljcSPZOiNKJu0g> Econplusdal - vital course videos explaining each topic

www.tutor2u.net – Tutor2u is an essential Economics resource for all students. It contains an excellent Blog with relevant news stories, exam advice and analysis of topical events. It also has various quizzes, revision notes and Power Points for free.

<https://www.economicshelp.org/> - Economicshelp - Resources for those looking to understand economics. Essays, e-books, blog posts and latest developments on the UK and global economy.

www.bbc.co.uk/news/business & <http://www.bbc.co.uk/news/business/economy> - Keep up to date with current events in the economic & business world through the BBC website Business & Economy news section. Very easy to read and many helpful articles to gain real examples of the theory learnt in class. Vital for success in A2.

<https://www.theguardian.com/business/economics> & <https://www.theguardian.com/uk/business> - The Guardian newspaper Business & Economics section. Slightly more in-depth look at business current events and still free to access on-line.

<http://www.independent.co.uk/topic/Economics> & www.independent.co.uk/news/business - The Independent newspaper Economics & Business section. Another great source for Economics stories and again still free on-line.

www.ft.com/

www.reuters.com

<http://whystudyeconomics.ac.uk/>

<https://www.youtube.com/watch?v=cmzXGgzWH7g>

<http://www.youtube.com/watch?v=iWgMGRHbytE&feature=related>

Listen

Demand and Supply – What are you waiting for?

<http://freakonomics.com/podcast/what-are-you-waiting-for/>

Income inequality

<http://freakonomics.com/podcast/earth-2-0-income-inequality/> Are the Rich Really Less Generous Than the Poor? <http://freakonomics.com/podcast/rich-less-generous-than-poor/>

How Trickle-Down Economics Works?

<https://www.stuffyoushouldknow.com/podcasts/how-trickle-down-economics-works.htm>

A true story of the gender pay gap

<http://freakonomics.com/podcast/the-true-story-of-the-gender-pay-gap-a-new-freakonomics-radio-podcast/>

Should we really behave like economist say we do?

<http://freakonomics.com/podcast/should-we-really-behave-like-economists-say-we-do-a-new-freakonomics-radio-podcast/>