

# Topic on a Page for IB Economics

Standard Level: Units 1-4

D Glover

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

*Both the summary and activity pages are provided in A3 and A4 format.*

# Teacher's Introduction

This resource covers all standard-level content of the IB Economics specification. It provides 17 A3 posters, together covering all the subtopics.

It is intended as a summary of the material and focuses on the main points rather than the detail, so all important areas are covered, without going into too much depth. The posters can be displayed on classroom walls, or given to students to learn with in lessons or at home. The resource can be used to help students to revise at the end of a topic, or before a test or an exam.

The resource consists of:

- 17 completed mind maps which provide solutions to the activity mind maps, labelled  to 
- 17 activity (partially complete) mind maps for students to complete, labelled  to 


Both sets of mind maps are provided in A3 and A4 formats.

Activity versions of the posters are also included, where some of the sections are blank, so that the students can test their knowledge by completing these. Answers for these activities are on the summary sheets.

Different styles and layouts are used to help to make the information interesting, and to help the students engage with the information in a productive way.

If teachers wished to add extra annotations to clarify or add further information, they could do this as well.

Some of the subtopics are linked, and it will be helpful for students to view the whole of each poster to help them to make connections between concepts. However, posters have clear-cut divisions between subtopics, and the teacher could choose to give students part of a poster, if they wish to focus on a particular subtopic.

The symbol  is used to denote quantitative skills.

*D Glover, January 2024*

# 1.1: What is economics?

These nine concepts will be a recurring theme in your study of economics. You will need to understand their relevance and evaluate their importance to strong economic performance.

- Scarcity
- Choice
- Efficiency
- Equity
- Well-being
- Sustainability
- Change
- Interdependence
- Intervention

**Economic resources**  
all things that help us produce goods and services.

**Labour** – Human workers.

**Economic resources come in four main categories:**

1. Land
2. Labour
3. Enterprise
4. Capital

Land refers to all those natural raw materials that are found on land or under sea.

**Enterprise** refers to the risk-taking attitude that is required for a person to be able to run a business.

**Capital** – Technology or machinery to facilitate in converting raw materials into finished products.

## Economics as a social science

**Microeconomics** →

Study of how resources are allocated by individuals.

**Macroeconomics** →

Study of how resources are allocated by governments and between economies.

Economics is a social science because it is a study of society and human behaviour.

**Main economic problem**

= scarcity because resources are limited while our wants are infinite.

## PPCs and the problem of choice

**Renewable resources** replenish quickly, e.g. sunlight.

**Non-renewable resources** do not replenish quickly, e.g. oil.

PPC shows the optimal combination of two types of goods when resources are scarce.

- Consumer goods are directly bought by households.
- Capital goods are used to make consumer goods.
- So more capital goods help produce more consumer goods.

**Scarcity** requires us to think about how resources are scarce, then how they can be made to be used to the benefit of future generations.

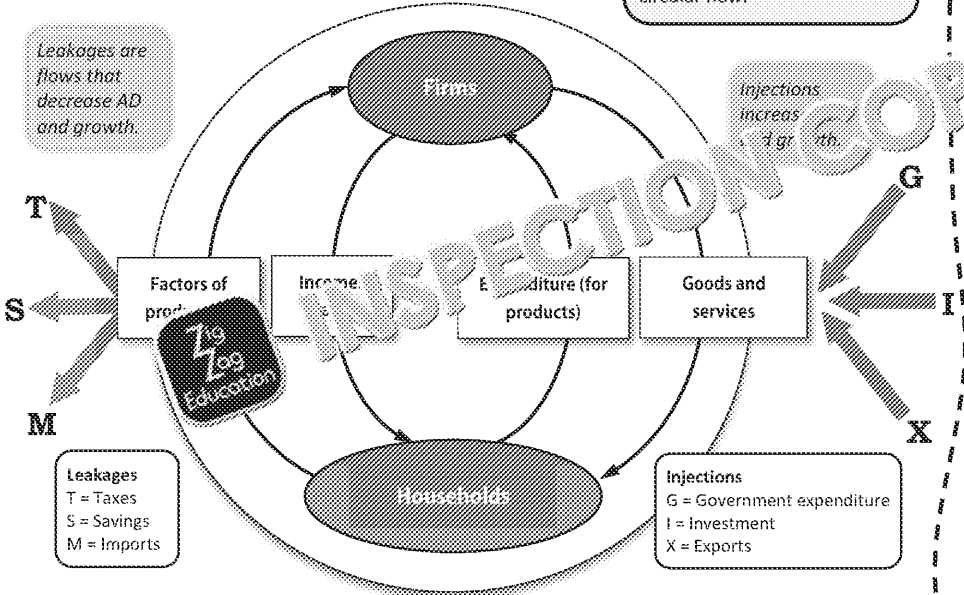
## Circular flow of income

The circular flow model visualises the way that income flows in, out and around the economy.

All economic actors are interconnected and play a role in injecting income into and leaking income from the circular flow.

Leakages are flows that decrease AD and growth.

**Leakages**  
T = Taxes  
S = Savings  
M = Imports



**Economic growth** creating products consumers want.

**Advantages:**

- Efficiency
- Competition

**Free market economy** where the economy is driven by the price mechanism.

**Disadvantages:**

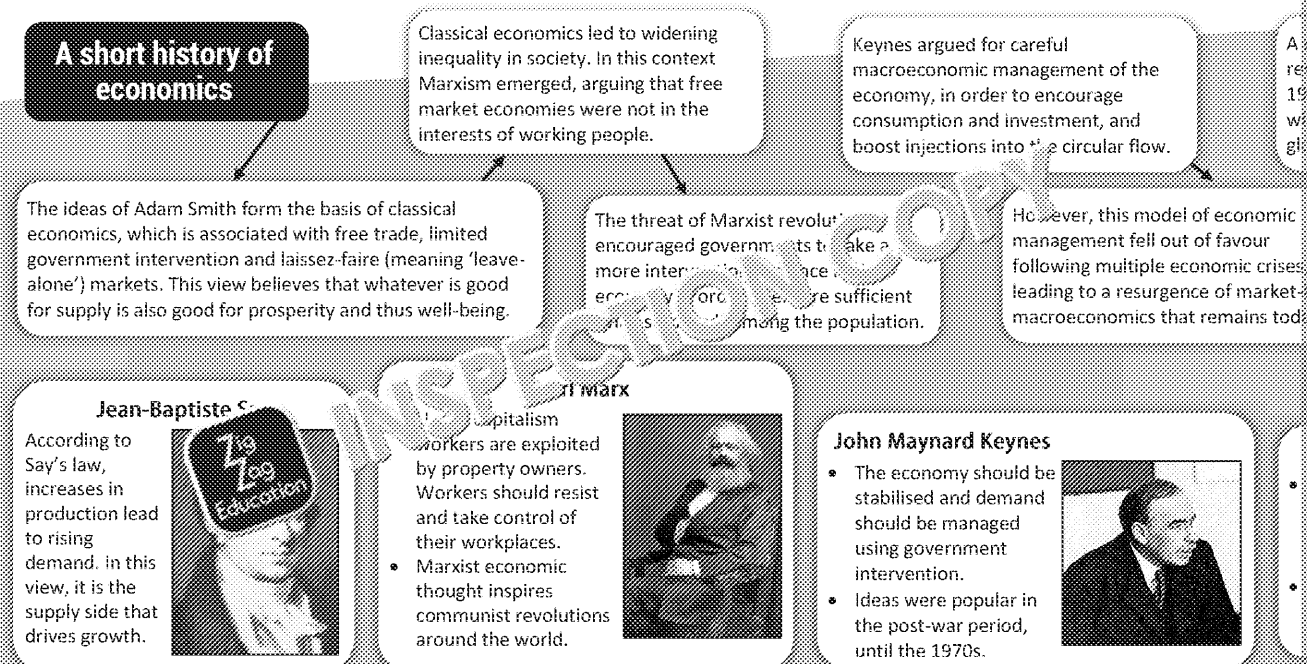
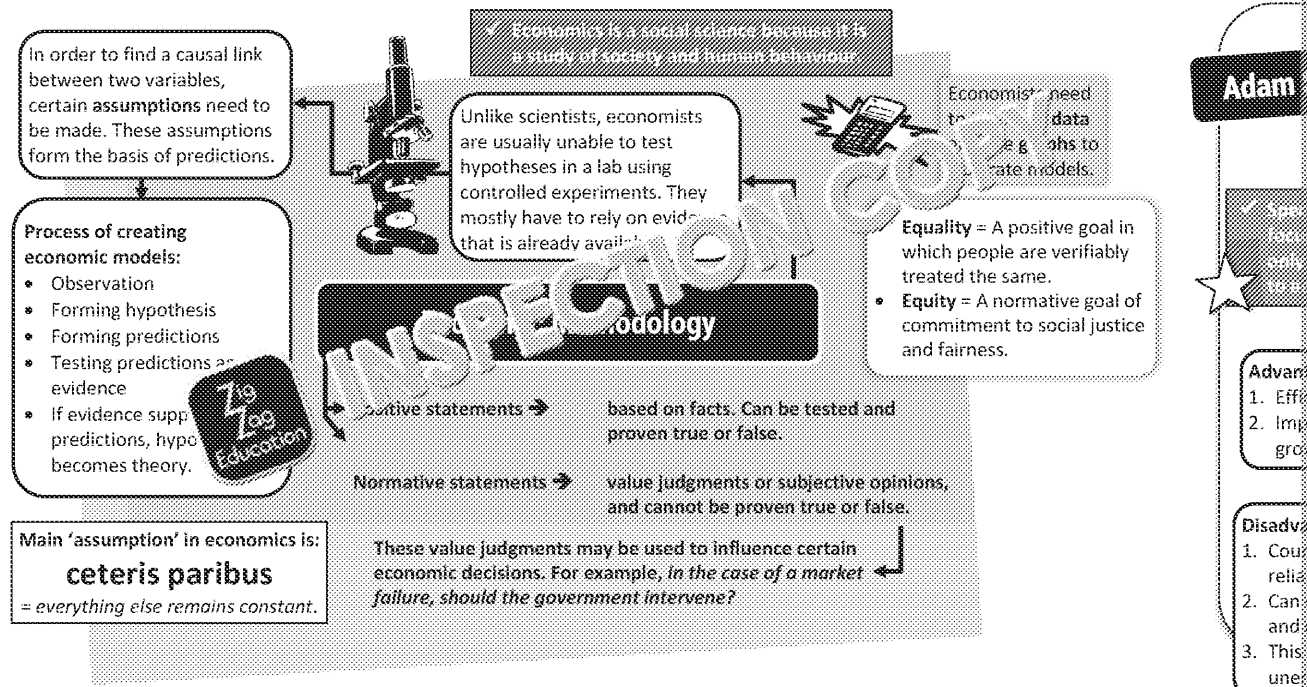
- Market failure
- No public goods
- Bad for the environment
- High inequality

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## 1.2: How do economists approach the world?



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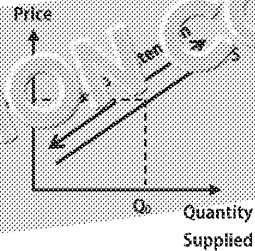
## 2.1-2.3: Supply, demand and market equilibrium

### Supply

✓ Supply is the amount of a good or service that a firm wants to and is able to sell at a certain price, in a given time period.

#### Movement along supply curve:

Changes in price lead to movements along supply curve. For example, if price rises, supply expands.



#### Shift in the supply curve results from:

- Subsidies provided by the government
- Indirect taxes imposed by the government
- Changes in the number of firms producing the good or service
- Changes in technology
- Changes in costs, such as wages
- Changes in the quantity of a factor of production

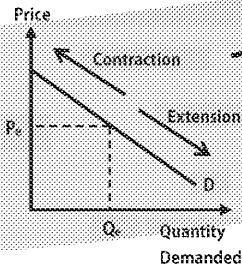
Remember this does not include changes in price variable.

### Demand

✓ Demand is the amount of goods and services that consumers want and can afford to buy at a given price over a given time period.

#### Movement along demand curve:

Changes in price lead to movements along a demand curve. For example, if price rises, demand contracts.



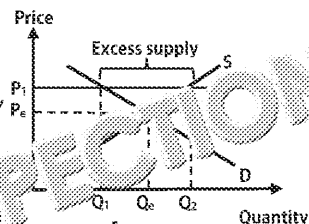
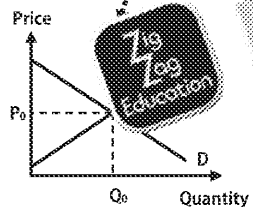
#### Shift in the demand curve result from:

- Population size
- Advertising
- Tastes and preferences
- Income changes
- Others: price of complement/substitute

Remember this does not include changes in price variable.

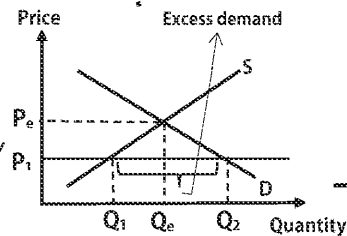
### Market equilibrium

The point where demand and supply meet gives us the equilibrium price and quantity.



To eliminate excess supply, consumers offer lower prices. This allows producers to increase supply. The supply expands and demand contracts until equilibrium is reached.

To eliminate excess supply, producers offer lower prices. Thus, demand rises and supply contracts until equilibrium is reached.



✓ Community welfare is maximised when the market is in equilibrium.

Allocative efficiency is reached when community welfare is maximised.

Market equilibrium is reached when the marginal benefit of a good equals the marginal cost of the good.

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## 2.5 & 2.6: Elasticities

### Price elasticity of demand

Measures the responsiveness of demand following a change in price

$$PED = \frac{\% \text{ change in quantity demanded of good A}}{\% \text{ change in price of good A}}$$

- PED > 1 means demand is relatively elastic.
- PED < 1 means demand is relatively inelastic.
- PED = 1 means demand has unit elasticity.
- PED = 0 means demand is perfectly inelastic.
- PED = infinity means demand is perfectly elastic.

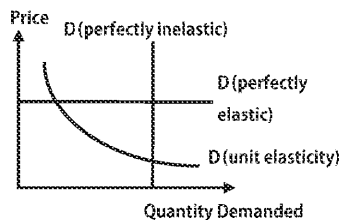
#### Factors that influence PED

- Time period
- Proportion of income spent
- Availability of substitutes
- Type of good

**Example:**  
Price of car increases,  
its demand decreases

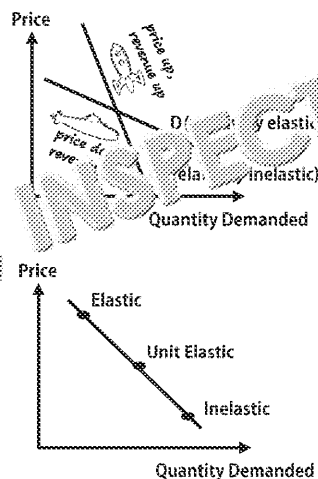
**Remember:** PED is always negative.

- This means that price and demand always move in the opposite direction.
- For ease we will refer to the absolute values, i.e. '-1' becomes '1' as we ignore the minus.



#### PED and total revenue:

- Total revenue = Price × Quantity
- Elastic demand → fall in price increases consumer spending by a larger proportion, thereby increasing total revenue.
- Inelastic demand → increase in price increases consumer spending by a smaller proportion, thereby increasing total revenue.
- Total revenue is maximised when demand is unit elastic.



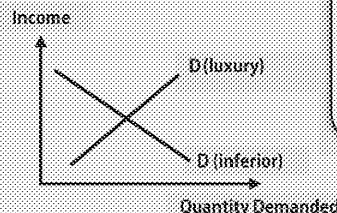
### Income elasticity of demand

Measures the responsiveness of demand following a change in income

$$YED = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in real income}}$$

- YED > 0 means demand is elastic/inelastic (i.e. change in income brings about a change in demand in the same direction). (**Normal good**)
- 0 < YED < 1 means demand is relatively inelastic. (**Necessity**)
- YED > 1 means demand is relatively elastic. (**Luxury good**)
- YED = 1 means demand has unit elasticity.
- YED < 0 means demand is elastic/inelastic. (**Inferior good**)

**Example:**  
Income increases,  
• demand for car increases (luxury)  
• demand for public transport decreases (inferior)



Real income decreases from £3,000 to £2,000 a month and the demand for Sainsbury's own brand bread increases from 500 loaves to 1,700 loaves a month.

- Calculate the YED.
- What type of good is this? **Inferior good**
- Is the good relatively elastic or inelastic? **Relatively elastic**

$$\% \text{ change in demand} = \frac{1700 - 500}{500} \times 100 = 240\%$$

$$\% \text{ change in income} = \frac{3000 - 2000}{2000} \times 100 = 50\%$$

$$YED = \frac{240}{50} = 4.8\%$$

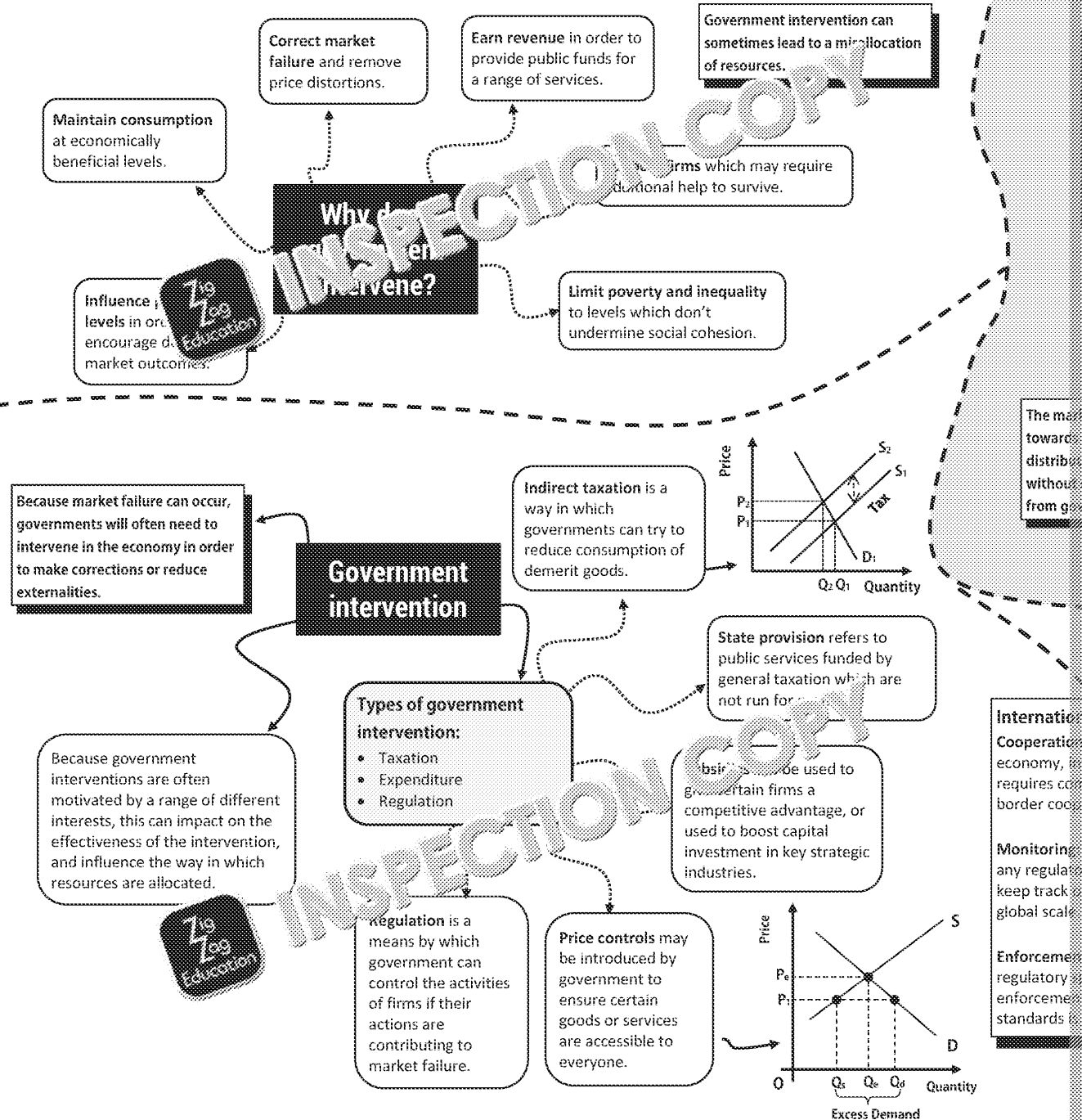
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## 2.7: Role of government in microeconomics



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## 2.8 & 2.9: Market failure, externalities and public goods

### Market failure

- ✓ Complete market failure refers to a situation where the price mechanism is unable to provide a good.
- ✓ Partial market failure refers to the misallocation of resources in a market.

#### Some abbreviations:

- Marginal private benefit (MPB)
- Marginal private cost (MPC)
- Marginal social benefit (MSB)
- Marginal social cost (MSC)

#### Main types of market failure are:

- Externalities
- Public goods
- Imperfect competition

#### Government responses to public goods

- **Direct provision:** The government may choose to control public goods themselves, in order to ensure equitable distribution to the population.
- **Contracting to private sector:** Alternatively, the government might outsource the running of public goods, under certain conditions that make competition more achievable.

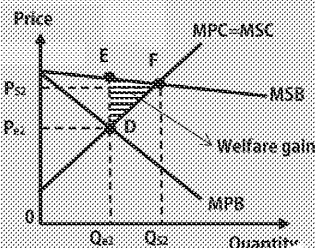
#### Property rights:

Property rights allows people to have ownership of something, e.g. a piece of land. As a result the resource is used efficiently. Conversely absence of property rights would lead to the misuse and overuse of a resource since no one owns it.

#### Costs:

- **Private cost** = personal cost to the producer (consumer) of making (buying) a product, e.g. cost of labour/raw materials needed for production.
- **External cost** = indirect cost to a third party of producing/consuming a product, e.g. pollution from power stations.
- **Social costs** = External costs + Private costs.

- ✓ Externalities refer to the good or bad consequences that occur following the consumption/production of goods and services.



- Zero external costs
- External benefits = DE units.
- Market equilibrium (MPC=MPB) at point D.
- Social optimum position (MSC=MSB) at point F.
- Social optimum position is different to market equilibrium.
- Hence, for marginal output ( $Q_{e2}$  and  $Q_{s2}$ ), MSB is greater than MSC.
- Good is under-priced and under produced in a free market.
- Welfare gain = area DEF

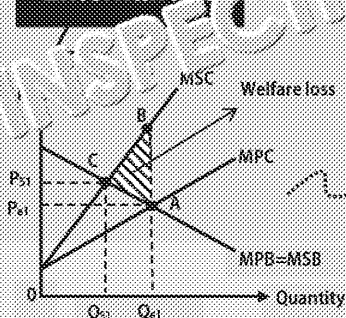
To what extent is the construction likely to be affected by market failure?

Demerit goods are those that are often due to information asymmetry.

#### Benefits:

- **Private benefit** = personal utility to the producer (consumer) of making (buying) a product, e.g. satisfaction from consuming a product.
- **External benefit** = benefit to a third party of producing/consuming a product, e.g. benefits of education to society.
- **Social benefits** = External benefits + Private benefits

### Externalities



- **Merit/demerit goods:** Goods that are either socially beneficial or socially harmful.
- **Merit goods:** Goods that are socially beneficial, e.g. education, healthcare.
- **Demerit goods:** Goods that are socially harmful, e.g. alcohol, drugs.
- **Market failure:** Occurs when the market equilibrium is not socially optimal.
- **Welfare loss:** The loss of social welfare due to market failure.
- **Welfare gain:** The gain in social welfare due to government intervention.

### Merit/demerit

Whether a good is considered to be a merit or a demerit good is a matter of value judgement.

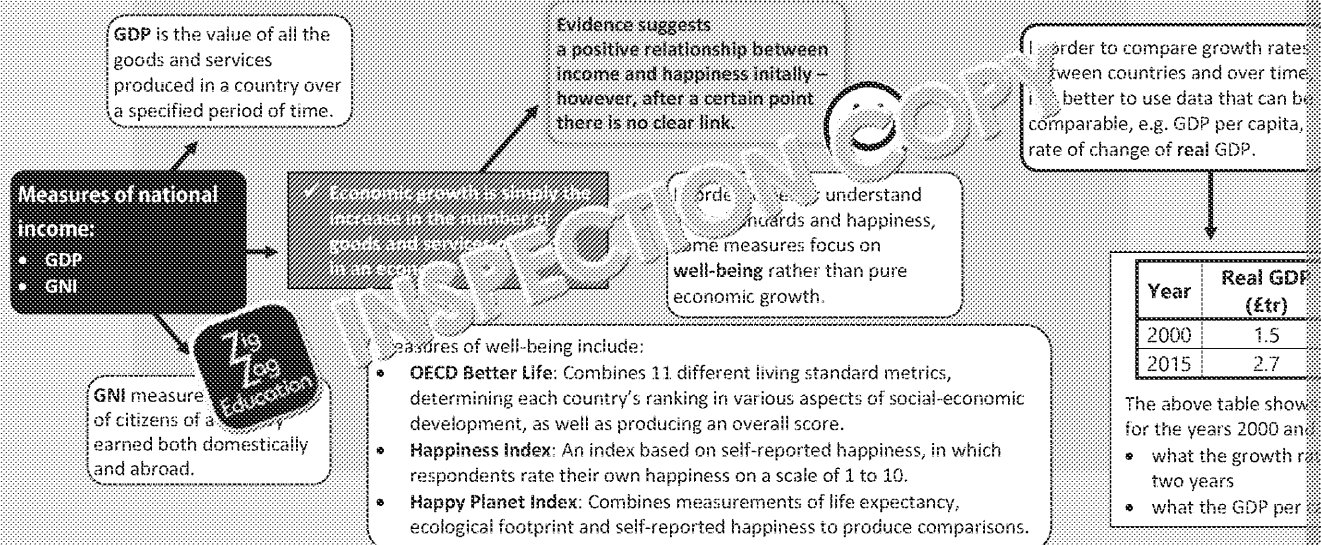
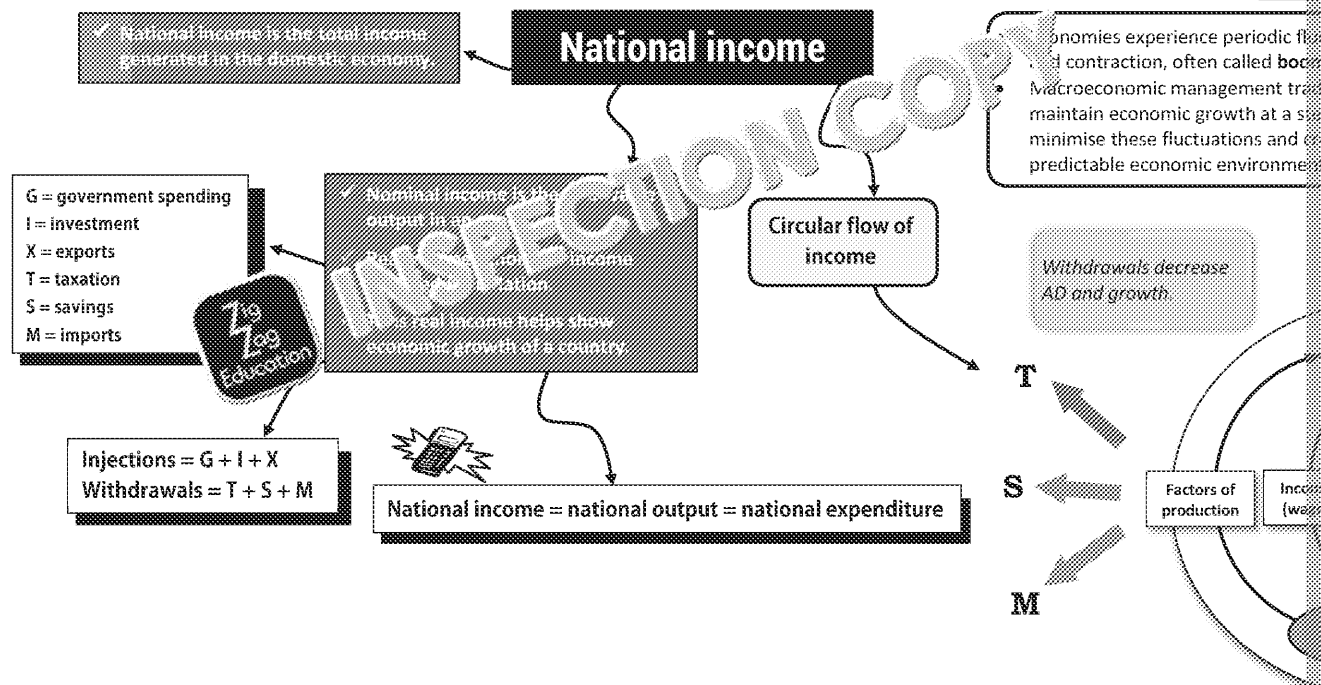
Merit goods are those that are often under-produced in a free market.

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### 3.1: Measuring economic activity



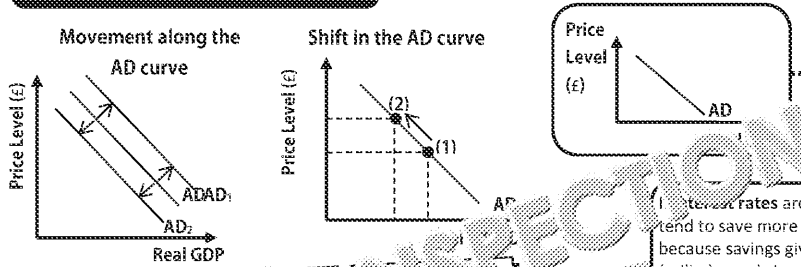
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## 3.2: Variations in economic activity

### Aggregate demand



AD curve is downward sloping because of:

- **Real balance effect** – as prices rise, fewer people are able to buy goods and services.
- **International competitiveness** – if domestic prices are high, exports appear more expensive, while imports appear less expensive. So net exports fall, reducing AD.
- **Interest rate effect** – as price levels rise, interest rates tend to increase. Higher interest rates reduce investment and consumption (because firms and households are more likely to save than spend), thereby reducing AD.

If interest rates are high, consumers tend to save more than they spend because savings give a higher reward (utility) – and vice versa.

**Consumer confidence** also determines the level of consumption. If the economy is doing well and confidence levels are high about the future, consumers are likely to increase consumption – and vice versa.

- **Disposable income** is income that is left after all taxes have been deducted.
- This determines the level of consumption.

**Wealth effects** also matter. If the price of a person's asset (e.g. house) goes up, the person is more likely to increase spending. This is related to the consumer confidence idea.

- Government spending is a part of **fiscal policy**.
- Fiscal policy is about making changes to government spending and/or taxation.
- A government can adopt either a contractionary or an expansionary fiscal policy.
- Contractionary policy is about increased taxation and lower spending.
- Expansionary policy is about lowering taxation and increasing spending.

- **G for government spending**
- Spending on welfare, health, education, etc.
- Forms about 25% of AD in the UK

- Government spending depends on the **trade cycle**.
- When the economy is doing poorly, unemployment rises. So the government has to spend more on welfare while the tax revenue it receives also falls.
- The opposite happens during an economic boom.

**State of the world economy:**

Recession is likely to affect a country's ability to export. In a recession, inflation lowers, so exports may increase. However, if there is a global recession, other countries may also be in recession, leading to more imports. Thus, total volumes of exports and imports may fall, applying for a national/global boom.

**Exchange rates:**

If the value of the pound increases (appreciation), the pound becomes more expensive. Thus, exports fall and imports rise, which reduces net exports, ceteris paribus. The opposite applies to depreciation.

**Degree of protectionism:**

A country can try to protect its exports by subsidizing them and/or taxing imports (tariffs). This is likely to increase net exports. However, if one country uses trade barriers, others are likely to follow suit. This will reduce net exports.

AD refers to the total demand for all the goods and services produced in an economy.

- **C for consumption**
- Total household spending
- Largest component of AD in the UK (about 60%)

If households decide to save more, their consumption will fall.

In 2021, total consumer spending in the UK was £1,892 billion.

In 2022, 44.7% of UK's GDP was used in the form of government spending.

In 2022, UK was a net importer, with a trade gap of £62 billion.

**X - M**

- **X for exports**
- Forms about 2% of AD in the UK

**Real incomes:**

As real incomes rise, demand for imports rises. This decreases net trade (X - M). In other words it increases a country's current account deficit.

**Non-price factors:**

The exchange rate does not affect the quality of traded goods, and changes to exports/imports as a result of exchange rates changes could be mitigated if domestic goods are particularly high-quality or unique.

- Marginal propensity to consume establishes how much extra is consumed following a rise in the disposable income.
- This tends to be higher for low-income families.

- **I for investment**
- Spending by firms on technology, infrastructure, etc.
- Forms about 15% of AD in the UK

- **Gross investment** refers to the total investment made in a period of time.
- **Net investment** = gross investment – depreciation of assets

**Influences on investment:**

- As the economy grows, more jobs are created and incomes rise. So to meet the increased demand, firms increase investment.
- Business confidence is high, so the prospect of investment is high in good economic conditions.
- High demand for exports encourages more investment to meet the demand.
- If interest rates are high, investment will be low because the cost of borrowing would be high.
- If credit is easily accessible, investment will be high.
- Tight government regulation is likely to limit investment, e.g. high taxes.

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### 3.3: Macroeconomic objectives

#### Effects of growth:

- Economic growth can improve living standards by creating jobs, raising incomes and improving consumer choice.
- Growth increases tax revenues for the government, enabling more spending.
- Growth can also help government to service existing debts more quickly.
- However, growth is not distributed evenly and can create income inequality.
- Growth can create environmental damage and be unsustainable in the long run.
- Growth creates inflationary pressures.

- Short-run growth** occurs when productivity from its existing resources improves.
- Long-run growth** occurs when a country's productive potential increases.

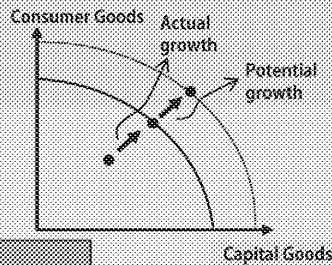
#### Causes of growth:

- Demand-side factors:** the components of AD can increase growth ( $C, I, G, X - M$ )

#### Supply-side factors:

- Technological advancement
- Education and skills
- Demographic changes and migration
- Government regulation

### Economic growth



- Actual economic growth** is real growth measured using GDP figures.
- Potential economic growth** is the overall capacity for growth in the economy. This may be higher than actual economic growth.

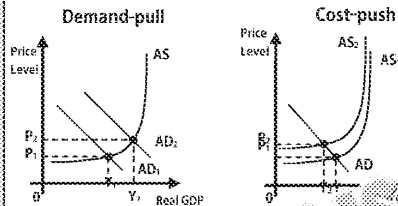
### Inflation

- Inflation = increase in prices
- Deflation = falling prices
- Disinflation = slowing rate of increase

Inflation is measured using the **Consumer Price Index (CPI)**. CPI uses prices of a 'basket' of everyday goods that are compared over time.

#### Causes of inflation:

- Demand pull** – demand pulls prices with it (i.e. a rise in demand pulls prices up).
- Cost push** – high costs of production push prices up.
- Growth in money supply** – increases demand for goods.



#### Limitations of CPI:

- Prices could change due to changes in quality.
- Temporary shocks can exaggerate inflation.
- A typical 'basket' of goods could be very different for different groups of consumers (e.g. students, pensioners).
- Price rise for certain goods may not be captured by CPI.

#### Causes of deflation:

- Falling aggregate demand, often associated with recessions.
- Falling costs of production, possibly due to low commodity prices, technological innovation or currency appreciation.
- Negative expectations: low consumer or business confidence.

#### Effects of deflation:

- Deferred consumption – people do not spend as prices fall.
- The real value of debt begins to increase.
- Creates uncertainty for firms and policymakers.
- Creates recessionary pressures, leading to bankruptcies and unemployment.

#### Effects of inflation:

- Creates uncertainty for consumers – may be unwilling to spend → AD falls.
- Loss of international competitiveness → exports fall.
- Savings are now worth less.
- People on fixed incomes will see purchasing power decline.
- Menu costs – firms need to update all prices.
- Shoe leather costs – consumers will have to spend more time and energy trying to find cheaper options.

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## 3.4: Inequality and poverty

**Inequality** = the difference in income, wealth and power between different groups in society.

**Inequity** = the idea that society is structured in an unfair way, which disadvantages certain groups.

### Causes of inequality:

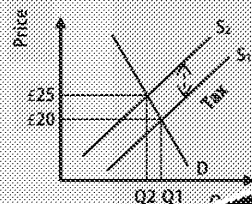
- Regressive tax system
- Weak trade unions
- Unfair pension scheme
- Lack of social security
- Level of education
- Employment/inheritance laws, etc.
- Globalisation and technological change
- Discrimination against certain groups
- Market-orientated policies

### Direct Taxation

- Direct taxation is often applied to any regular income that is received, such as wages, profits or rents.
- The most common example of direct taxation is income tax, which is deducted from people's wages.
- Other examples include corporation tax, National Insurance contributions, and a wealth tax.

### Indirect Taxation

- Indirect taxation is often applied to irregular forms of spending, and often consumption on demerit goods.
- The most common example of indirect taxation is value added tax (VAT), which is added on to most consumption.
- Other examples include duties on demerit goods such as alcohol and tobacco.



Indirect taxation results in a leftward shift of the supply curve.

**Marginal tax rates:** governments allocate different rates of tax to different levels of income. This means a higher rate of tax is paid on the income received over a certain threshold.

**Average tax rates:** average tax rates are simply the total amount of tax paid, divided by the total income earned.

**Absolute poverty** refers to a situation where a person is denied basic needs over a long period of time (e.g. food, shelter and clothing).

Measured by calculating the proportion of people living under some income threshold – around \$2 a day.

**Relative poverty** occurs when a person can meet basic needs but earns considerably less than the country's average person.

In Britain any person on less than 60% of the median income is considered to be in relative poverty.

**Wealth inequality** refers to the extent of the difference in the value of assets that people in a country own.

**Income inequality** is the extent of the difference in the amount people in a country earn.

**Wealth** = stock concept = asset, e.g. house  
**Income** = flow concept = liquid money

### Alleviating inequality and poverty with taxation

Taxation has a critical role to play in reducing inequality and poverty. Primarily, taxation acts as a means of income and wealth redistribution in society. It redirects resources away from wherever they are being accumulated, and towards wherever they are most needed. The effectiveness of taxation at reducing inequality and poverty is highly dependent on the kind of taxation system that is being implemented. Some taxation systems, such as marginal taxes, are better at reallocating resources than others, such as average taxes. The effectiveness of taxation also depends on how tax revenues are spent.

Income (£)	Rate (%)
0 – 10,000	0%
10,001 – 25,000	20%
25,001 – 40,000	40%
40,001 +	50%

Calculate the average tax rate on an income of £37,000

$$\frac{\text{total taxes paid}}{\text{total income}} \times 100$$

### Causes of changes in poverty:

- High growth → decreases absolute poverty, increases creation of jobs
- High growth → increases average income → increase in relative poverty
- More FDI → more jobs → decrease in poverty
- More trade → more jobs → decrease in poverty
- Increased income tax → reduce poverty

### Policies:

- Transfer payments are direct payments from government which can alleviate poverty.
- Government spending on public services can help to reduce inequality and poverty.
- Minimum wages reduce income inequality.
- Investment in education creates opportunities.
- Legislation banning discrimination.
- Policies which reduce discrimination.
- A universal basic income could provide a standard of living for all.

### Taxation

- **Progressive taxation** increases the tax rate on high earners more, reducing inequality.
- **Regressive taxation** decreases the tax rate on low earners, which can increase inequality.
- **Proportional and indirect taxation** can increase inequality if not used carefully.

Since 2022, the World Bank has set the global poverty line as an income of \$2.15 a day. Those earning less than this are regarded as living in absolute poverty.

### Difficulty measuring poverty

- It is hard to measure many aspects of poverty, such as a lack of opportunity.
- There is no universal agreement on what poverty means.
- Indices which rely on averages can overlook the impoverishment of some people.
- Getting accurate data on those living under poverty lines is difficult.
- Poverty can vary wildly in different contexts and locations.

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## 3.5 & 3.6: Demand-side policies

### Goals of fiscal policy

- A primary aim is to reduce the extent of fluctuations in the business cycle
- Reducing unemployment
- Maintaining economic stability
- Reducing inequality
- Maintaining financial equilibrium with other economies
- Low and stable inflation

### Strengths of fiscal policy

- Can be used in a countercyclical way to maintain stability in the economy during boom periods and alleviating recessionary periods.
- Particularly effective when it comes to an industrial structure that can be targeted at specific sectors of the economy to achieve specific results.
- Fiscal stimulus is often effective at boosting employment, living standards, etc.
- Fiscal measures are often effective at reducing inequality and lowering poverty.

### Weaknesses of fiscal policy

- Subsidies and tax breaks can often take a long time from initial investment – and the benefits can be undermined by political considerations.
- Fiscal interventions are costly and can substantially add to government debt.

Fiscal policy involves revenue through taxes or revenue from government assets, and engages in either current or capital expenditure. Where fiscal deficits arise, borrowing occurs.

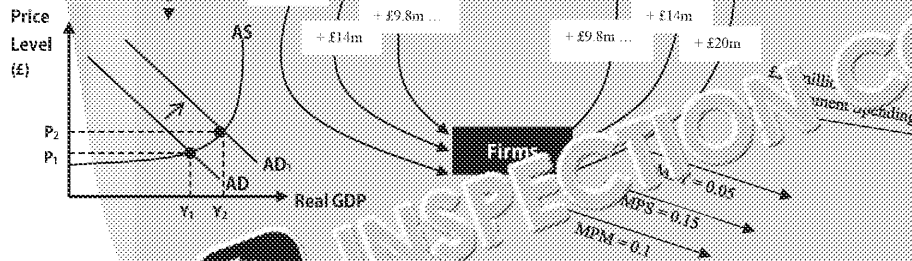
Macroeconomic policies designed to influence aggregate demand.

### Fiscal policy

Fiscal policy may be **expansionary**: designed to stimulate aggregate demand through spending and low taxation, or **contractionary**, seeking to lower aggregate demand through spending reductions and low taxation.

Fiscal policy refers to the use of taxes and government spending by the state to influence the economy.

### Effect of an expansionary fiscal/monetary policy



### Others goals of policy

- To maintain the money supply
- To ensure stability of the currency
- To monitor the financial system

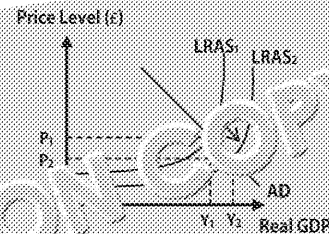
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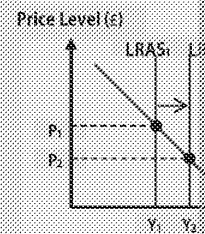
## 3.7: Supply-side policies



- On the demand side, government spending and tax reductions both increase aggregate demand.
- On the supply side, investment, R&D, incentives and improved human capital all result in increased efficiency and productivity which increases aggregate supply.



Effect of supply-side policies on Keynesian diagram



Effect of supply-side policies on a Classical diagram

**Supply-side improvements** refer to factors that increase the level of supply in the private sector, e.g. greater investment and productivity. Supply-side improvements may help to achieve supply side policies.

**Supply-side policies** are any policies that increase AS.

### Supply-side policies

#### Goals of supply-side policies

- Increase the productive capacity of the economy
- Incentivise technological innovation
- Improve international competitiveness
- Increase the efficiency of the market
- Improve labour and capital productivity
- Generate more market competition
- Boost employment by reducing the cost of labour

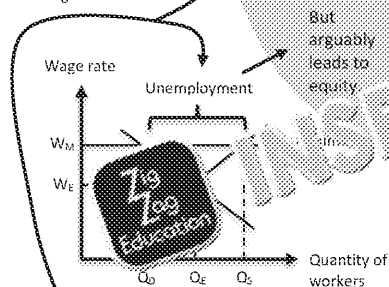
#### Strengths

- Can reduce inflation
- Create more jobs
- Lead to international competitiveness
- Can create longer-term basis for growth

#### Weaknesses

- Longer time to see results
- Large opportunity cost
- Slow and incomplete data collection can lead to incorrect decisions

- May also cause inflation.
- Local/foreign firms may relocate abroad (job losses).



Minimum wage is set above the equilibrium wage rate.

Minimum wage is imposed to avoid very low wages for workers.

**Improve infrastructure** = investment in transport links, communication networks and housing, etc. can help to increase AS, as it reduces costs of production.

- **Research and technology** = investment in R&D can make production more efficient, cheaper (in the long-run) and quicker.
- **Increase incentives** = raising minimum wages or providing perks can increase the supply of labour.
- **Increasing competition** = e.g. preventing monopolies will allow more firms to enter the market, increasing AS.
- **Reforming labour market** = e.g. abolishing the minimum wage or trade unions will allow firms to hire more workers.
- **Human capital** = providing vocational training and subsidising education can create more skilled workers.

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## 4.1–4.4: International trade

- The **World Trade Organisation (WTO)** promotes free trade by following a policy of **trade liberalisation**. It provides a platform for trade negotiation and settlement of any trade issues between member countries.
- Conflict between WTO and regional trade agreements can lead to trade diversion, which decreases trade elsewhere on the basis of comparative advantage.

**Trade blocs + WTO**

**Bilateral** – Preferential trade between two countries  
**Regional** – Preferential trade within a geographic area  
**Multilateral** – An international trade organisation

### Types of trade blocs:

- Free Trade Area** (these can be bilateral or regional)
  - Free movement of goods and services
  - Each member can set their own trade barriers for non-members
- Customs union**
  - Member countries have a joint trade policy for all non-members
- Common market**
  - Free movement of factor inputs

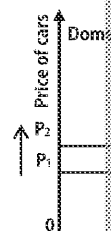
### Advantages and disadvantages of trading blocs

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>No transaction costs</li> <li>Greater market access and economies of scale should lower costs</li> <li>Stronger bargaining position in multilateral orgs.</li> <li>Attract FDI → good for economic growth</li> <li>International cooperation increases political stability</li> </ul>	<ul style="list-style-type: none"> <li>Trade diversion</li> <li>Loss of sovereignty</li> <li>Undermine multilateral arrangements (such as WTO)</li> </ul>

### Impacts of international trade:

Positive	Negative
<ul style="list-style-type: none"> <li>Increased consumer choice</li> <li>Lower prices for consumers</li> <li>Improved living standards</li> <li>Access to cheap factor inputs for businesses</li> <li>Firms can make higher profits due to access to a bigger market</li> <li>Encourages specialisation → increased efficiency</li> <li>Reduction in unemployment</li> </ul>	<ul style="list-style-type: none"> <li>Increased environmental degradation/pollution</li> <li>Increased international recession in or quickly</li> <li>Access to cheap labour → local unemployment</li> </ul>

- Tariff increase on the price of imports → lower demand
- Revenue for government (ABCD)
- Domestic consumer surplus increased by  $P_1P_2DE$
- Welfare loss (ADE + BCF)



**Trade protection**

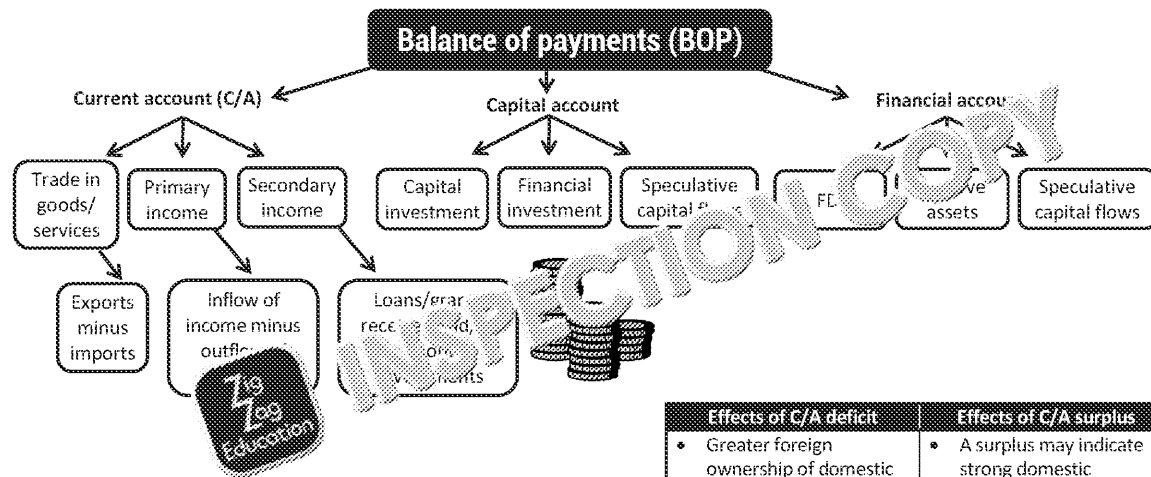
### Reasons for restrictions on free trade:

- Protecting local industries:
  - Infant industries are new industries that need time to mature out
  - Sunset industries are firms in decline but they may be useful
  - Countries need to be self-sufficient in industries such as defence and energy
- Preventing 'dumping' from very cheap imports
- Protecting jobs
- Diversification of underdeveloped economy
- Correcting current account deficit
- Avoiding unfair competition
- Retaliation against trade restrictions

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## 4.5 & 4.6: Exchange rates and Balance of payments



### Significance of trade imbalances:

- The accounts on the balance of payments are interdependent – all credits are matched by debits and all deficits by surpluses. For example, a deficit on the current account will be zeroed by borrowing on the financial account.
- As a negative trade balance increases, it becomes more and more difficult to finance. Hence, loans have to be taken out. This is because a negative current account implies a positive capital account.
- Government spending may fall significantly to repay those loans.
- Also, if exports outstrip imports, domestic consumers may be faced with limited choice.
- Trade imbalances also lead to massive currency fluctuations → affects global trade.

Effects of C/A deficit	Effects of C/A surplus
<ul style="list-style-type: none"> <li>Greater foreign ownership of domestic assets</li> <li>Excessive borrowing can be unsustainable and lead to downgraded credit ratings</li> <li>A large deficit may cause currency appreciation, pushing up inflation</li> <li>This in turn may increase interest rates, making borrowing harder</li> <li>Increases the national debt</li> </ul>	<ul style="list-style-type: none"> <li>A surplus may indicate strong domestic consumption and investment</li> <li>It may also indicate highly competitive exports</li> <li>Both of these can be expected to drive economic growth and reduce unemployment</li> <li>But they may also lead to higher inflation</li> <li>A current account surplus may indicate an undervalued currency, aiding export competitiveness</li> </ul>

Value of  
Value of

Forces of  
supply of  
value of

### Factors in

- Relative**  
If relative  
encourages  
higher  
increase
- Relative**  
If relative  
more ex  
→ E de
- Specul**  
If people  
they will  
higher  
depreci
- State of**  
Economic  
→ demand
- Demand**  
The ex  
domestic
- Remitt**  
Direct in
- Foreign**  
FDI can  
develop

**Growth and unemployment**  
ER depreciates → demand for exports rises → job creation → more consumer spending → more growth

**Living standards**  
ER depreciates → imports more expensive → living standards fall

**Growth and unemployment**  
ER depreciates → demand for exports rises → job creation → more consumer spending → more growth

### Impact of changes in the ER

**Inflation**  
ER depreciates → more expensive, and reliant on imports

**Foreign direct investment (FDI) flows**  
ER depreciates → appear cheaper →

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## 4.7: Sustainable development

✓ Sustainability is the ability to maintain a system over a long period of time – specifically to maintain the natural environment for future generations.

### Sustainable Development

✓ Development is the process of industrialisation and growth, with the standard is that it is sustainable.

✓ Sustainable development is a development that meets the needs of the present without damaging the environment for future generations.

✓ 17 goals set by United Nations General Assembly in 2015



#### Microgrids: Solar in Yemen

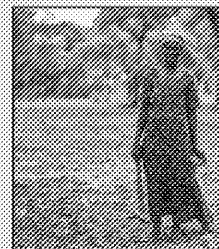


- Goal 5: Gender Equality
- Goal 8: Decent Work and Growth
- Goal 7: Affordable Clean Energy
- Goal 11: Sustainable Communities



- Yemen is one of the world's most impoverished countries. The country has been plunged into a humanitarian crisis due to a running civil war.
- Yemen's energy supply – produced from oil and gas – does not meet demand, meaning many live without a reliable source of energy to meet their daily needs.
- The Enhanced Rural Energy in Yemen (ERRY) project grants microgrids to rural women to help them start a business.
- Participants are provided with a mini solar farm sufficient to generate enough energy for a small neighbourhood, and trained in maintenance.
- They are then able to generate an income by selling energy to local households and businesses.
- In the areas where microgrids have been installed, unemployment and poverty have fallen drastically. Living costs have fallen due to a cheap and sustainable local source of energy. Prejudice against women has also reduced after local communities have seen them operate as trained solar engineers.

#### Regenerative Farming



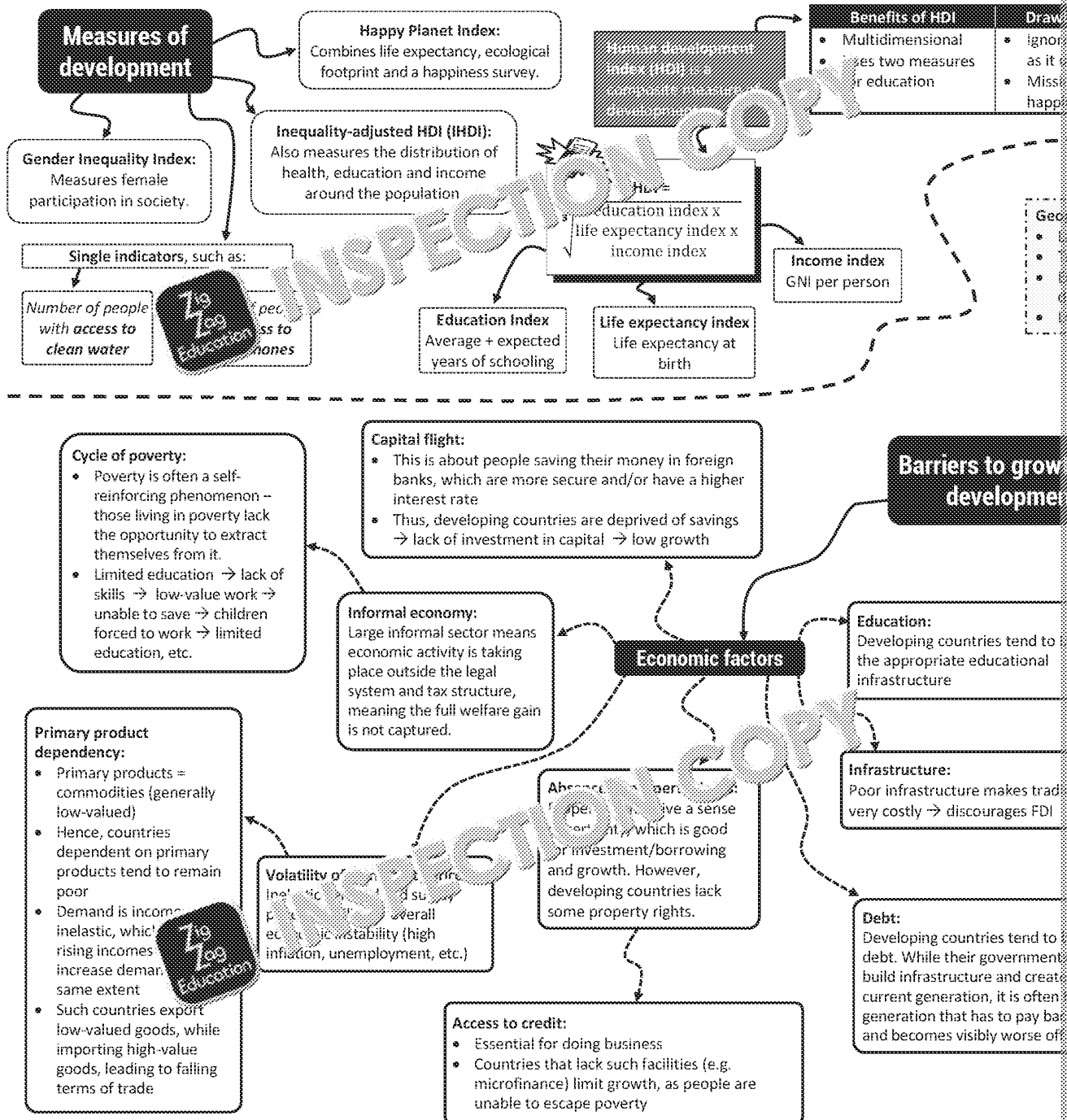
- Goal 2: Zero Hunger
- Goal 5: Gender Equality
- Goal 13: Climate Action
- Goal 15: Life On Land

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## 4.8 & 4.9: Development

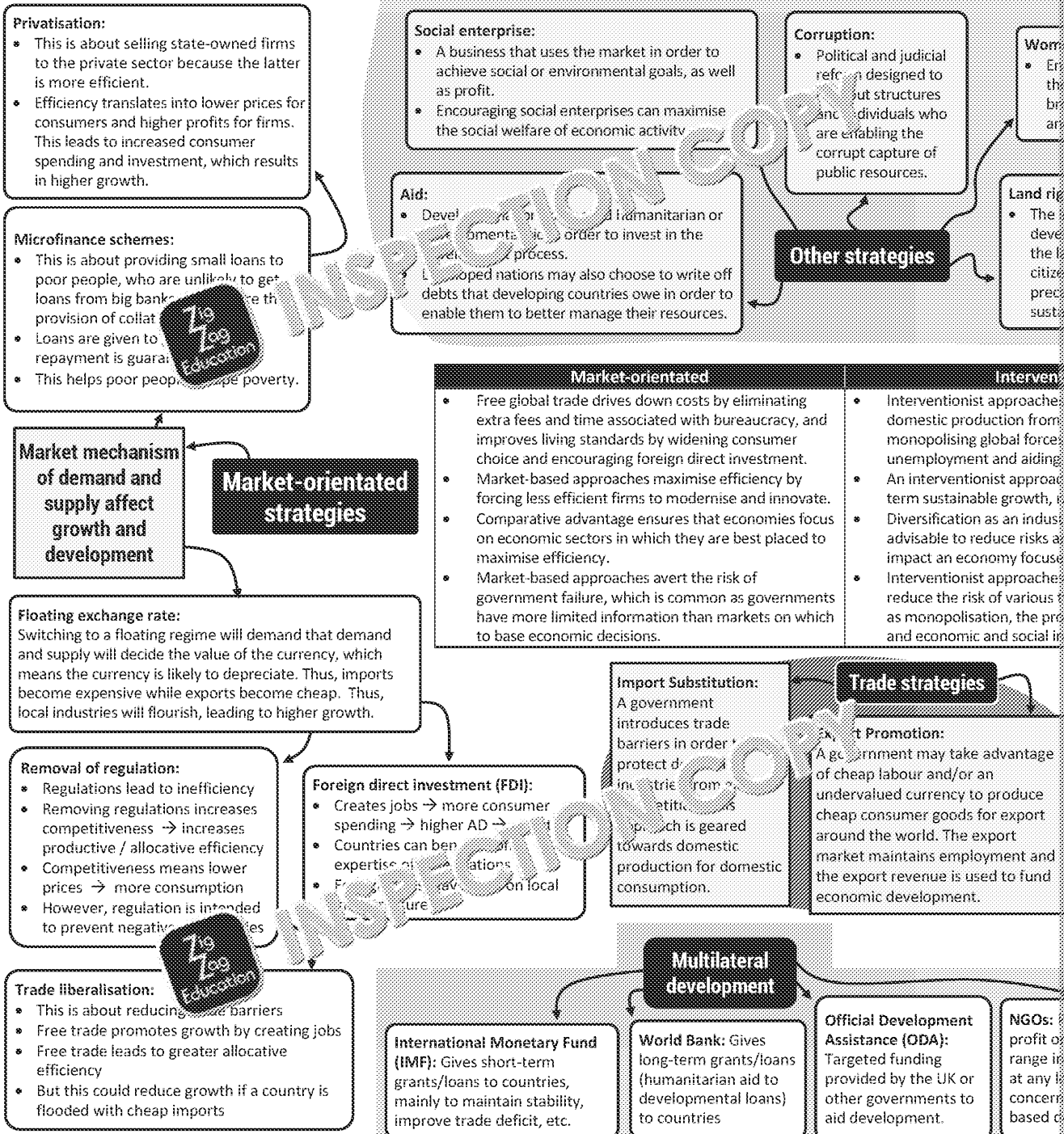


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## 4.10: Strategies influencing growth and development



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# 1.1: What is economics?

These nine concepts will be a recurring theme in your study of economics. You will need to understand their relevance and evaluate their importance to strong economic performance.

- Scarcity
- Choice
- Efficiency
- Equity
- Well-being
- Sustainability
- Change
- Interdependence
- Intervention

**Economic resources**  
all things that help us produce goods and services.

Human workers.

## Economics as a social science

Microeconomics →

Macroeconomics →

Define macroeconomics and microeconomics

✓ Economics is a social science because it is a study of society and human behaviour

Main economic

= scarcity because resources are limited while our wants are infinite

PPCs and the problem of choice

Renewable resources replenish quickly, e.g. sunlight.

Non-renewable resources do not replenish quickly, e.g. oil.

✓ PPC shows the combinations of types of goods and services that can be produced with limited resources

Fill in the blanks  
- Consumer goods  
- Capital goods

- \_\_\_\_\_ are directly bought by households
- \_\_\_\_\_ are used to make \_\_\_\_\_
- So more \_\_\_\_\_ help produce more \_\_\_\_\_

What are the four factors of production?

\_\_\_\_\_ refers to the risk-taking attitude that is required for a person to be able to run a business.

\_\_\_\_\_ – Technology or machinery to facilitate in converting raw materials into finished products.

**Scarcity** requires us to choose how resources are scarce, then how they can be made to the benefit of future generations

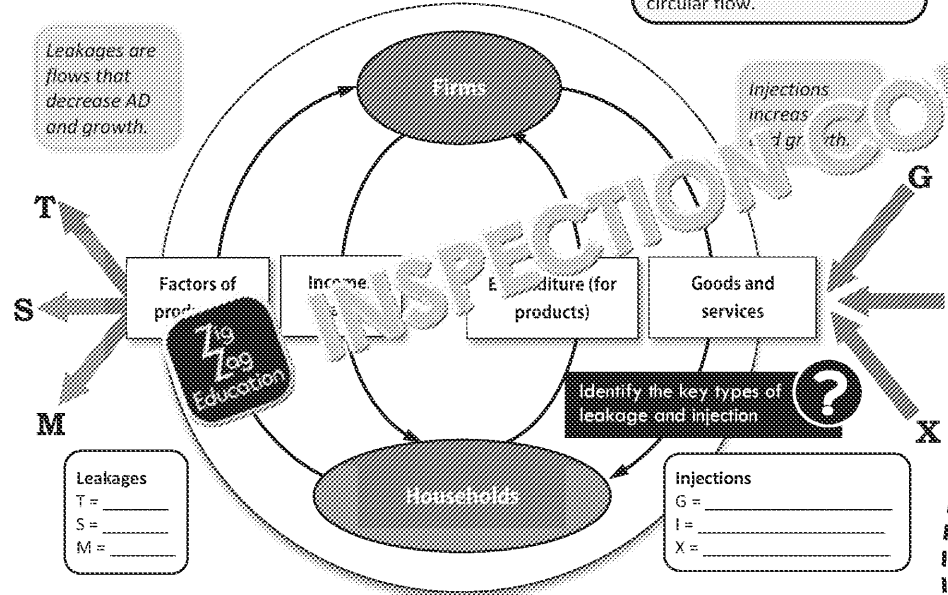
## Circular flow of income

The circular flow model visualises the way that income flows in, out and around the economy.

All economic actors are interconnected and play a role in injecting income into and leaking income from the circular flow.

Leakages are flows that decrease AD and growth.

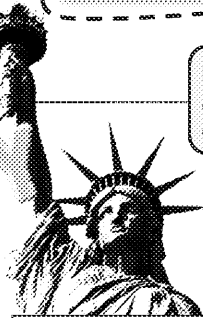
injections increase growth



Economic growth creating products for consumers

Advantages

- Efficiency
- Competition



✓ Free market economy

Disadvantages:

- Market failure
- No public goods
- Bad for the environment
- High inequality

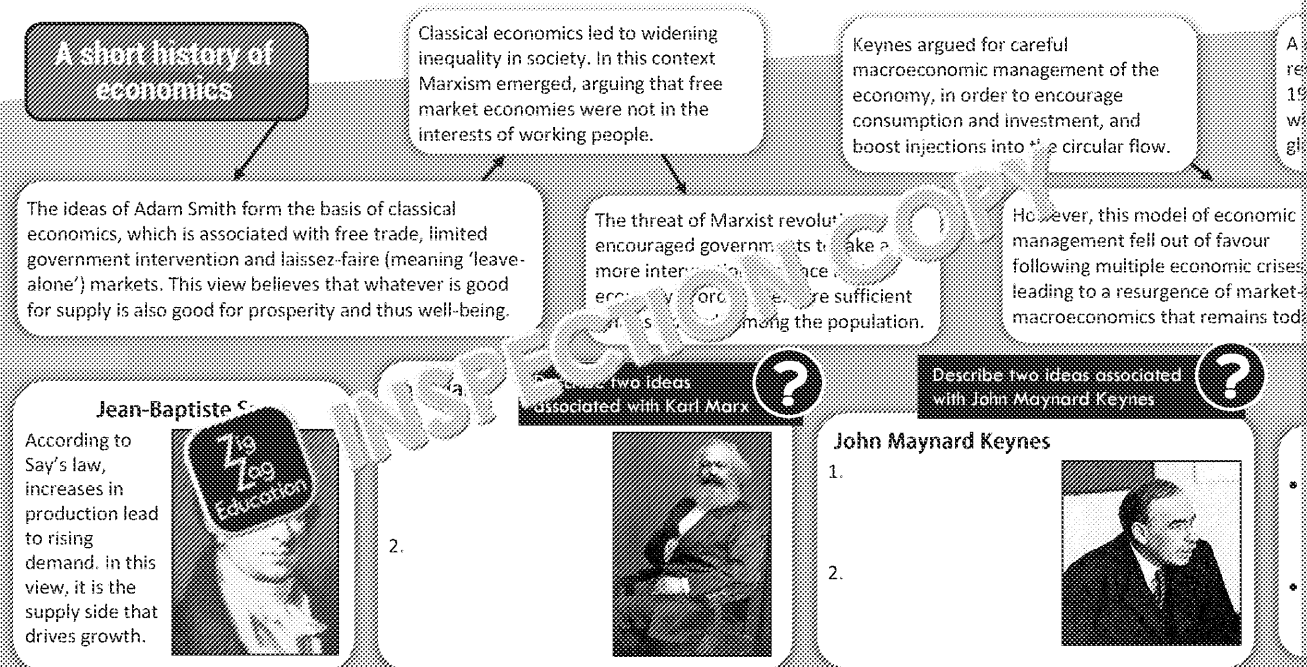
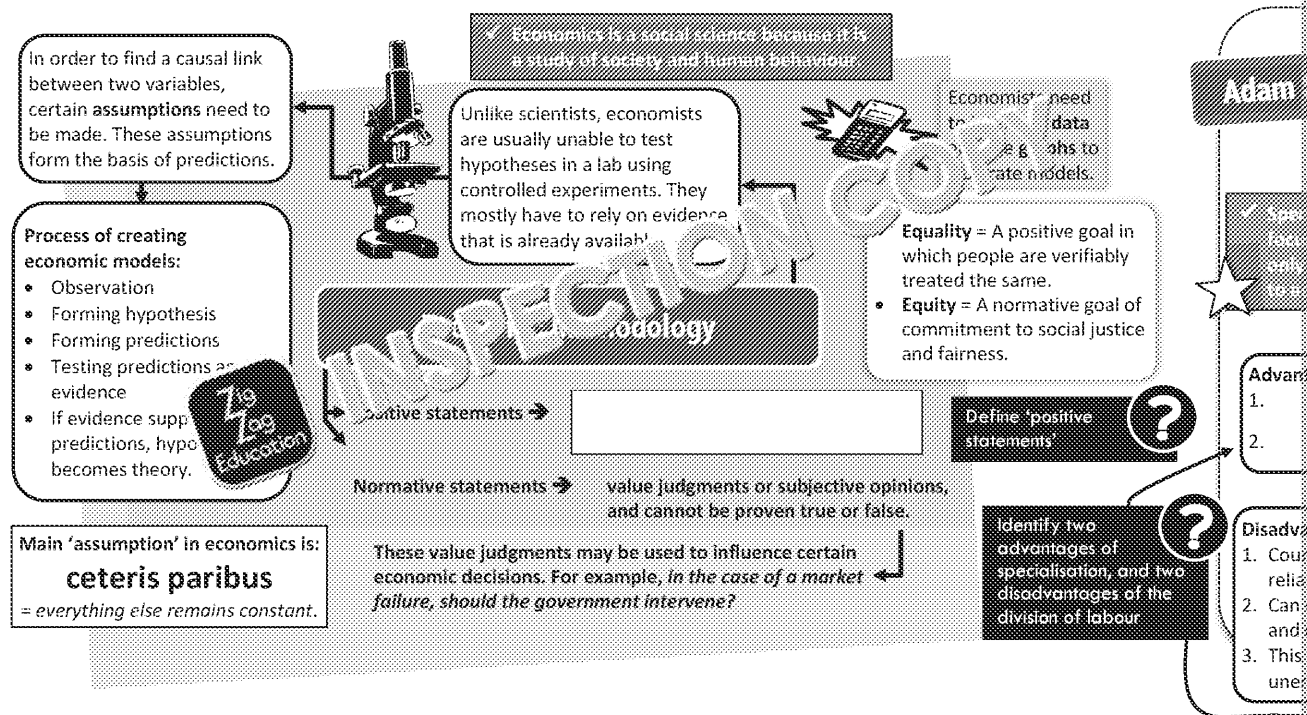
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## 1.2: How do economists approach the world?



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## 2.1-2.3: Supply, demand and market equilibrium

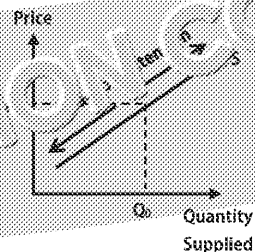
### Supply

Define supply

#### Movement along supply curve:

Changes in price lead to movements along supply curve. For example, if price rises, supply expands.

Provide any three factors that will cause the supply curve to shift



Shift in the supply curve result from

- 1.
- 2.
- 3.

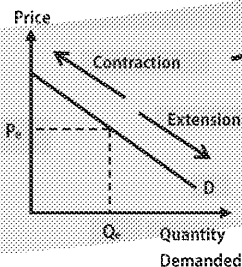
Remember this does not include changes in price variable.

### Demand

Define demand

#### Movement along demand curve:

Changes in price lead to movements along a demand curve. For example, if price rises, demand contracts.



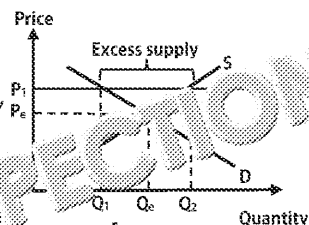
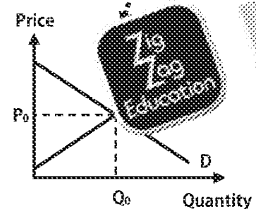
Shift in the demand curve result from

- Population size
- Advertising
- Tastes and preferences
- Income changes
- Others: price of complement/substitute

Remember this does not include changes in price variable.

### Market equilibrium

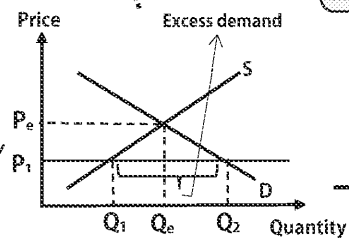
The point where demand and supply meet gives us the equilibrium price and quantity.



To eliminate excess supply, producers must contract supply. This allows price to increase. The supply curve contracts until equilibrium is reached.

Fill in the blanks

To eliminate excess supply, producers must contract supply. Thus, demand \_\_\_\_\_ and supply contracts until \_\_\_\_\_ is reached.



Market equilibrium is reached when the community surplus is maximised and the market is in equilibrium.

Community surplus is the sum of consumer and producer surplus.

Allocative efficiency is reached when community surplus is maximised and the market is in equilibrium.

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## 2.5 & 2.6: Elasticities

### Price elasticity of demand

PED =  $\frac{\% \text{ change in quantity demanded of good A}}{\% \text{ change in price of good A}}$

- PED > 1 means demand is relatively elastic
- PED < 1 means demand is relatively inelastic
- PED = 1 means demand has unit elasticity
- PED = 0 means demand is perfectly inelastic
- PED = infinity means demand is perfectly elastic

#### Factors that influence PED

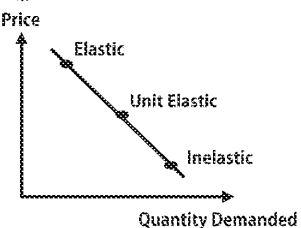
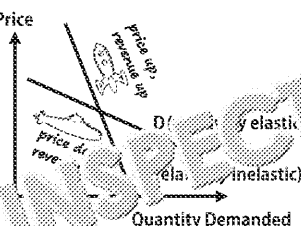
- Time period
- Proportion of income spent
- Availability of substitutes
- Type of good

**Remember:** PED is always negative.

- This means that price and demand always move in the opposite direction.
- For ease we will refer to the absolute values, i.e. '-1' becomes '1' as we ignore the minus.

#### PED and total revenue:

- Total revenue = Price  $\times$  Quantity
- Elastic demand  $\rightarrow$  fall in price increases consumer spending by a larger proportion, thereby increasing total revenue.
- Inelastic demand  $\rightarrow$  increase in price increases consumer spending by a smaller proportion, thereby decreasing total revenue.
- Total revenue is maximised when demand is unit elastic.



### Income elasticity of demand

Define each

YED =  $\frac{\% \text{ change in quantity demanded}}{\% \text{ change in income}}$

Fill in the missing elements of the formulae

Fill in the blanks

- YED > 0 means demand is \_\_\_\_\_ (i.e. change in income brings about a change in demand in the same direction). (**Normal good**)
- 0 < YED < 1 means demand is relatively \_\_\_\_\_ (**Necessity**)
- YED > 1 means demand is relatively \_\_\_\_\_ (**Luxury good**)
- YED = 1 means demand has unit \_\_\_\_\_
- YED < 0 means demand is \_\_\_\_\_ (**Inferior good**)

Fill in the blanks

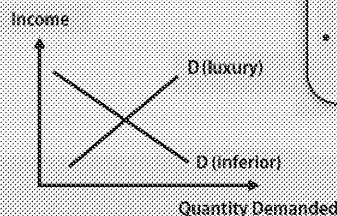
Example:  
Price of car increases,  
its demand decreases

Draw and label the following demand curves on the diagram:

- Perfectly elastic
- Perfectly inelastic
- Unit elastic

Example:

- Income increases,  
demand for car increases (luxury)
- demand for public transport decreases (inferior)



Work out the following question on YED. Please show your workings

When income decreases from £3,000 to £2,000 a month and the demand for Sainsbury's own brand bread increases from 500 loaves to 1,700 loaves

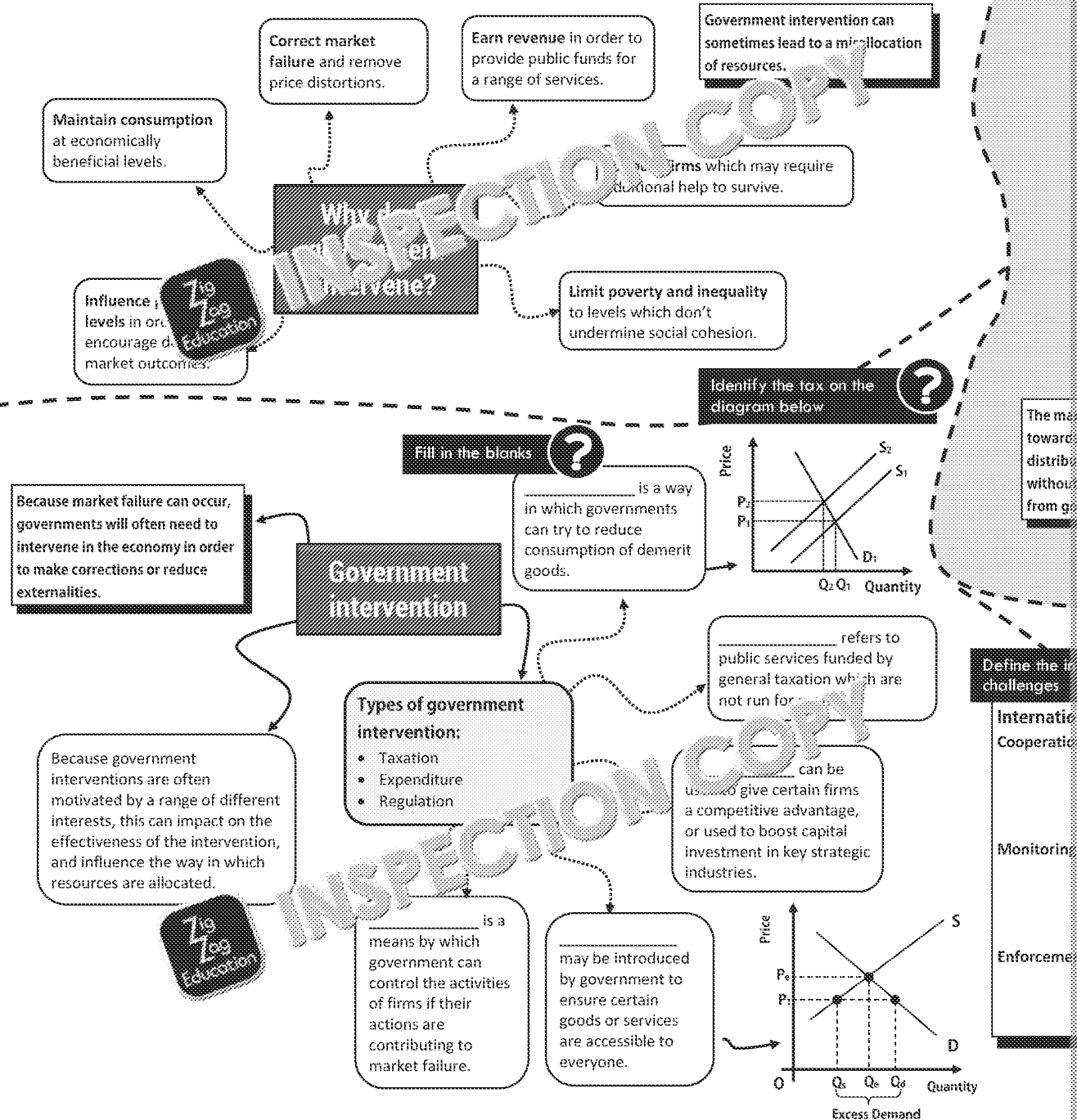
- Calculate the YED.
- What type of good is this? \_\_\_\_\_
- Is the good relatively elastic or inelastic? \_\_\_\_\_

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## 2.7: Role of government in microeconomics

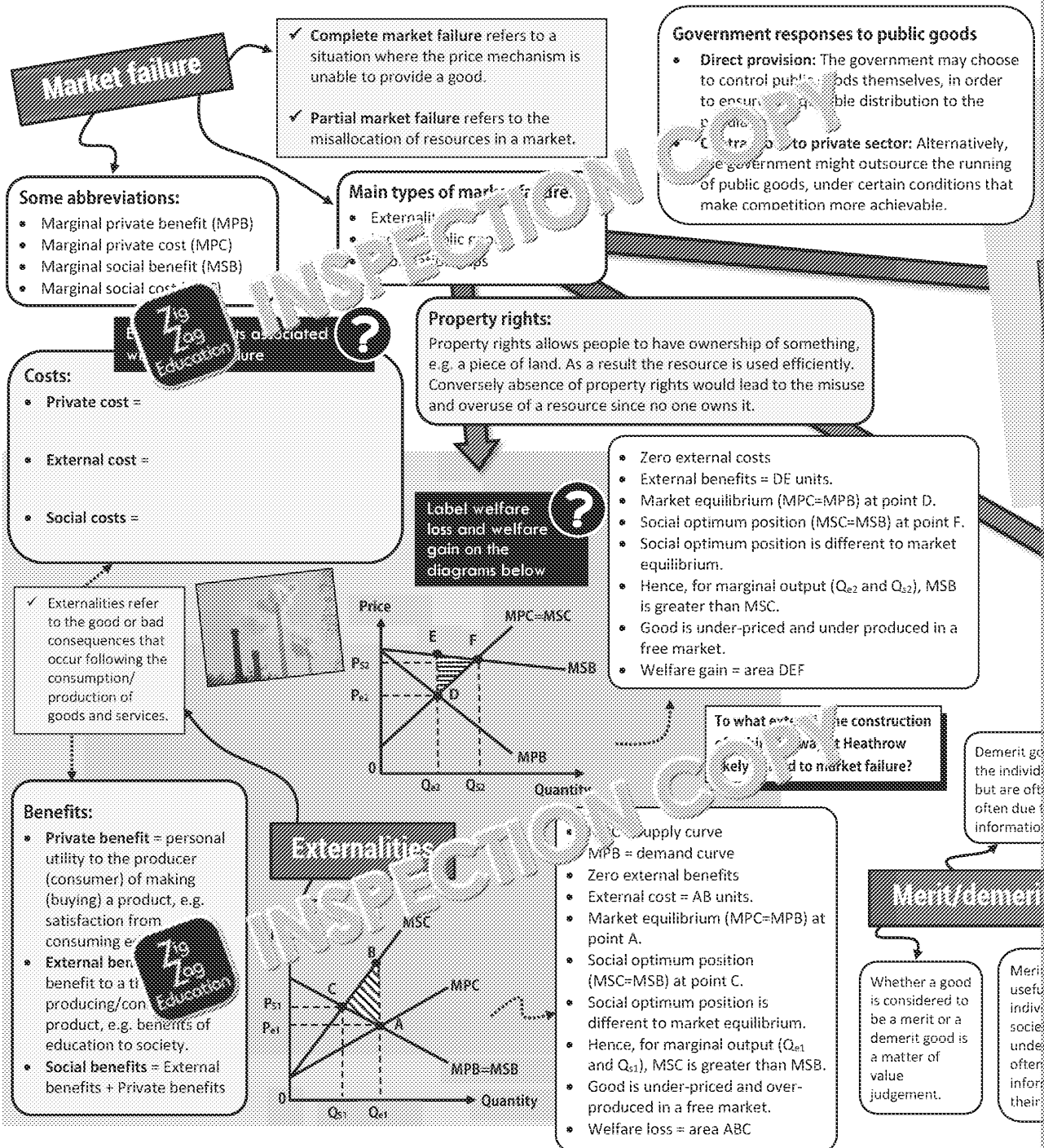


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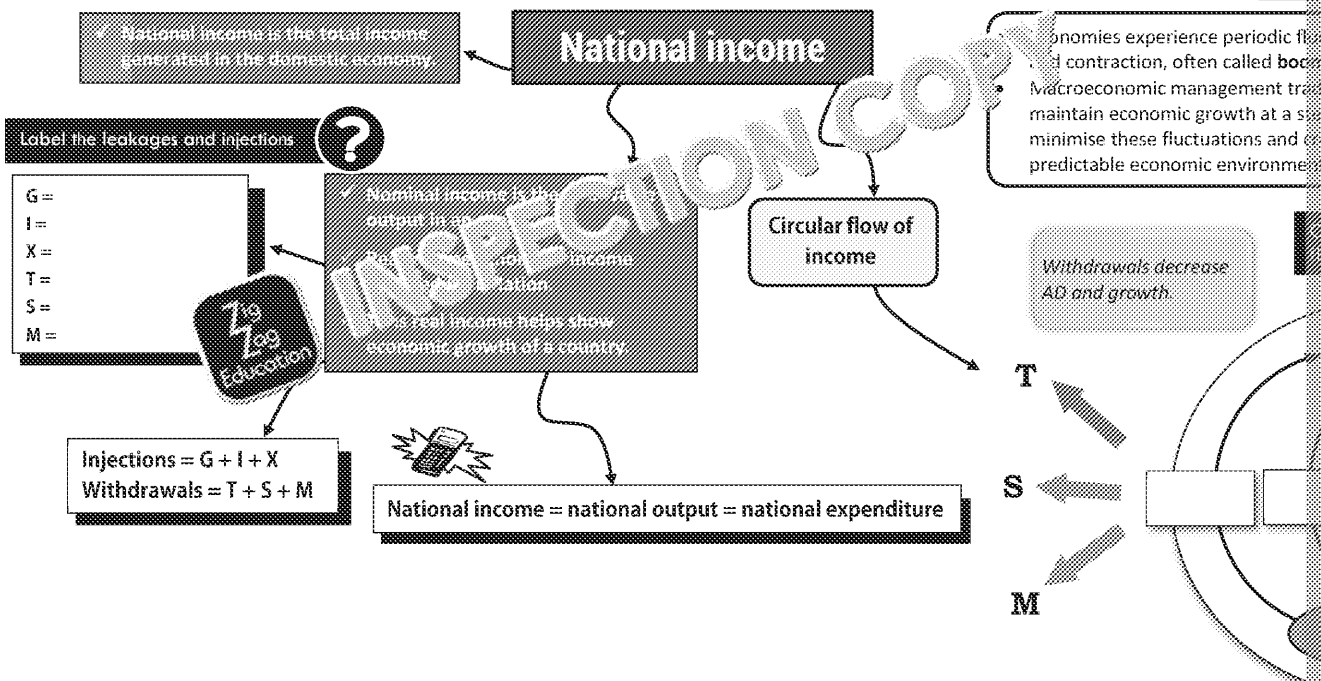
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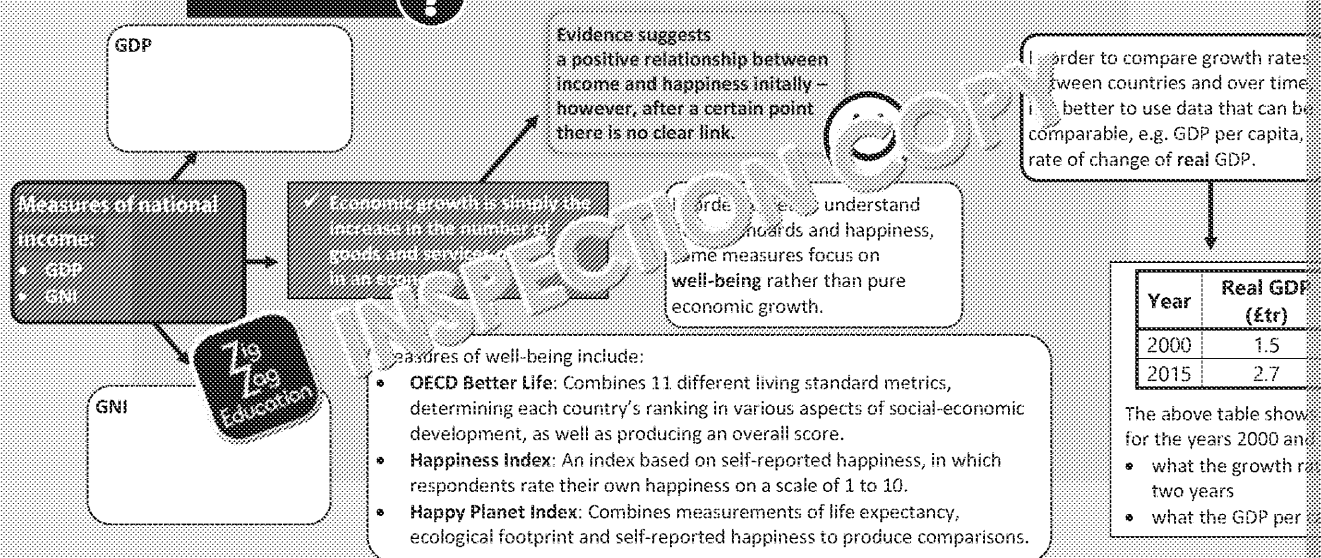
## 2.8 & 2.9: Market failure, externalities and public goods



### 3.1: Measuring economic activity



#### Define GDP and GNI



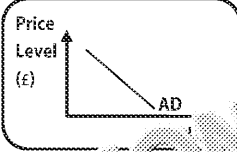
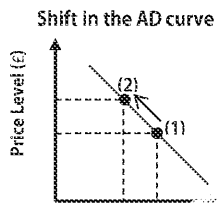
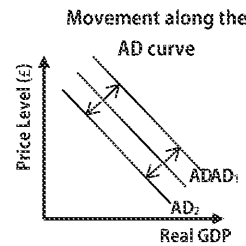
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## 3.2: Variations in economic activity

### Aggregate demand

✓ AD refers to the total demand for all the goods and services produced in an economy.



AD curve is downward sloping because of:

- **Real balance effect** – as prices rise, fewer people are able to buy goods and services.
- **International competitiveness** – if domestic prices are high, exports appear more expensive, while imports appear less expensive. So net exports fall, reducing AD.
- **Interest rate effect** – as price levels rise, interest rates tend to increase. Higher interest rates reduce investment and consumption (because firms and households are more likely to save than spend), thereby reducing AD.

If interest rates are high, consumers tend to...

**Consumer confidence** also determines the level of consumption. If the economy is doing well and confidence levels are high about the future, consumers are likely to increase consumption – and vice versa.

**Wealth effects** also matter. If the price of a person's asset (e.g. house) goes up, the person is more likely to increase spending. This is related to the consumer confidence idea.

- **Disposable income** is income that is left after all taxes have been deducted.
- This determines the level of consumption.

- Government spending is a part of **fiscal policy**.
- Fiscal policy is about making changes to government spending and/or taxation.
- A government can adopt either a contractionary or an expansionary fiscal policy.
- Contractionary policy is about increased taxation and lower spending.
- Expansionary policy is about lowering taxation and increasing spending.

- Marginal propensity to consume establishes how much extra is consumed following a rise in the disposable income.
- This tends to be higher for low-income families.

- **C** for **Consumption**
- Total household spending
- Largest component of AD in the UK (about 60%)

If households decide to save more, their consumption will fall.

In 2021, total consumer spending in the UK was £1,892 billion.

In 2022, 44.7% of UK's GDP was used in the form of government spending.

In 2022, UK was a net importer, with a trade gap of £52 billion.

- **I** for **Investment**
- Spending by firms on technology, infrastructure, etc.
- Forms about 15% of AD in the UK

- **Gross investment** refers to the total investment made in a period of time.
- **Net investment** = gross investment – depreciation of assets

#### Influences on investment:

- As the economy grows, more jobs are created and incomes rise. So to meet the increased demand, firms increase investment.
- Business confidence – if firms feel the prospect of investment is good, they will invest more.
- High demand for exports – more investment to meet the demand.
- If interest rates are high, investment will be low because the cost of borrowing would be high.
- If credit is easily accessible, investment will be high.
- Tight government regulation is likely to limit investment, e.g. high taxes.

#### Real incomes:

As real incomes rise, demand for imports rises. This decreases net trade ( $X - M$ ). In other words it increases a country's current account deficit.

#### Non-price factors:

The exchange rate does not affect the quality of traded goods, and changes to exports/imports as a result of exchange rates changes could be mitigated if domestic goods are particularly high-quality or unique.

Fill in the blank

- **G** for **Government spending**
- Spending on welfare, health, education, etc.
- Forms about 25% of AD in the UK

- Government spending depends on the **trade cycle**.
- When the economy is doing poorly, unemployment rises. So the government has to spend more on welfare while the tax revenue it receives also falls.
- The opposite happens during an economic boom.

#### State of the world economy:

Recession is likely to affect a country's ability to export. However, if there is a global recession, other countries may also be in recession, so exports may increase. However, if there is a global recession, other countries may also be in recession, so exports may increase. However, if there is a global recession, other countries may also be in recession, so exports may increase.

#### Exchange rates:

If the value of the pound increases (appreciation), exports become more expensive. Thus, exports fall and imports rise, which worsens the trade balance, ceteris paribus. The opposite applies to depreciation.

#### Degree of protectionism:

A country can try to protect its exports by subsidising them and/or taxing imports (tariffs). This is likely to increase net exports. However, if one country imposes trade barriers, others are likely to follow suit. This will reduce net exports.

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### 3.3: Macroeconomic objectives

#### Effects of growth:

- Economic growth can improve living standards by creating jobs, raising incomes and improving consumer choice.
- Growth increases tax revenues for the government, enabling more spending.
- Growth can also help government to service existing debts more quickly.
- However, growth is not distributed evenly and can create income inequality.
- Growth can create environmental damage and be unsustainable in the long run.
- Growth creates inflationary pressures.

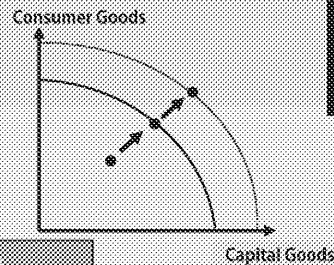
Complete the sentences ?

- Short-run growth occurs when...
- Long-run growth occurs when...

#### Causes of growth:

- Demand-side factors:**
- An increase in the components of AD will increase growth (C, I, G, X - M)
- Supply-side factors:**
- Technological advancement
  - Education and skills
  - Demographic changes and migration
  - Government regulation

#### Economic growth



Label actual growth and potential growth on the PPF diagram ?

Define it

- Actual economic growth
- Potential economic growth

#### Inflation

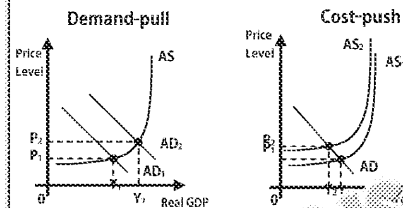
- Inflation – increase in prices
- Deflation – fall in prices
- Disinflation – falling rate of increase

Inflation is measured using the **Consumer Price Index (CPI)**. CPI uses prices of a 'basket' of everyday goods that are compared over time.

#### Causes of inflation:

- **Demand-pull** – demand pulls prices with it (i.e. a rise in demand pulls prices up).
- **Cost-push** – high costs of production push prices up.
- **Growth in money supply** – increases demand for goods.

Label each type of inflation ?



#### Limitations of CPI:

- Prices could change due to changes in quality.
- Temporary shocks can exaggerate inflation.
- A typical 'basket' of goods could be different for different groups of consumers (e.g. students, pensioners).
- Price rise for certain goods may not be captured by CPI.

#### Causes of deflation:

- Falling aggregate demand, often associated with recessions.
- Falling costs of production, possibly due to low commodity prices, technological innovation or currency appreciation.
- Negative expectations: low consumer or business confidence.

#### Effects of deflation:

- Deferred consumption – people do not spend as prices fall.
- The real value of debt begins to increase.
- Creates uncertainty for firms and policymakers.
- Creates recessionary pressures, leading to bankruptcies and unemployment.

#### Effects of inflation:

- 1.
- 2.
- 3.

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### 3.4: Inequality and poverty

**Inequality** – the difference in income, wealth and power between different groups in society.

**Inequity** – the idea that society is structured in an unfair way, which disadvantages certain groups.

**Causes of inequality:**

- 1.
- 2.
- 3.
- 4.

List four causes of inequality

Define absolute poverty

Define relative poverty

What is the difference between wealth inequality and income inequality?

**Causes of changes in poverty:**

- High growth → decreases absolute poverty, increases creation of jobs
- High growth → increases average income → increase in relative poverty
- More FDI → more jobs → decrease in poverty
- More trade → more jobs → decrease in poverty
- Increased income tax → reduce income inequality

**Policies:**

- Transfer payments are direct payments from government which can alleviate poverty
- Government spending on public services can help to reduce inequality and poverty
- Minimum wages reduce income inequality
- Investment in education creates opportunities
- Legislation banning discrimination
- Policies which reduce discrimination
- A universal basic income could raise the standard of living for all.

**Direct Taxation**

- Direct taxation is often applied to any regular income that is received, such as wages, profits or rents.
- The most common example of direct taxation is income tax, which is deducted from people's wages.
- Other examples include corporation tax, National Insurance contributions, and a wealth tax.

**Indirect Taxation**

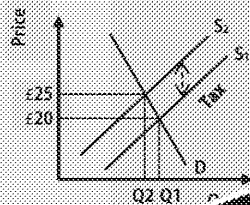
- Indirect taxation is often applied to irregular forms of spending, and often consumption on demerit goods.
- The most common example of indirect taxation is value added tax (VAT), which is added on to most consumption.
- Other examples include duties on demerit goods such as alcohol and tobacco.

**Alleviating inequality and poverty with taxation**

Taxation has a critical role to play in reducing inequality and poverty. Primarily, taxation acts as a means of income and wealth redistribution in society. It redirects resources away from wherever they are being accumulated, and towards wherever they are most needed. The effectiveness of taxation at reducing inequality and poverty is highly dependent on the kind of taxation system that is being implemented. Some taxation systems, such as marginal taxes, are better at reallocating resources than others, such as average taxes. The effectiveness of taxation also depends on how tax revenues are spent.

**Taxation**

- **Progressive taxation** – tax rates increase as income increases, reducing inequality
- **Regressive taxation** – tax rates decrease as income increases, increasing inequality
- **Proportional and indirect taxation** – tax rates are the same for all, which can increase inequality if progressive taxes are not implemented



Indirect taxation results in a leftward shift of the supply curve

**Marginal tax rates:** Marginal tax rates allocate different rates of tax to different levels of income. This means a higher rate of tax is paid on the income received over a certain threshold.

**Average tax rates:** average tax rates are simply the total amount of tax paid, divided by the total income earned.

Calculate the average tax rate on an income of £37,000

$$\frac{\text{total taxes paid}}{\text{total income}} \times 100$$

Income (£)	Rate (%)
0 – 10,000	0%
10,001 – 25,000	20%
25,001 – 40,000	40%
40,001 +	50%

Since 2022, the World Bank has set the global poverty line as an income of \$2.15 a day. Those earning less than this are regarded as living in absolute poverty.

**Difficulty measuring poverty**

- It is hard to measure many aspects of poverty, such as a lack of opportunity
- There is no universal agreement on what poverty means.
- Indices which rely on averages can overlook the impoverishment of some
- Getting accurate data on those living under poverty lines is difficult.
- Poverty can vary wildly in different contexts and locations.

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### 3.5 & 3.6: Demand-side policies

### Goals of fiscal policy

- A primary aim is to reduce the extent of fluctuations in the business cycle
- Reducing unemployment
- Maintaining economic stability
- Reducing inequality
- Maintaining financial equilibrium with other economies
- Low and stable inflation

Identify three strengths of fiscal policy

### Strengths of fiscal policy

- 1.
- 2.
- 3.

### Weaknesses of fish

- Subject to the above, privatisation can often take a long time from initial investment -- and efficiency can be undermined by political considerations.
- Privatisation transactions are costly and can substantially add to government debt.

Fiscal policy is revenue through taxes or revenue from government assets, and engages in either current or capital expenditure. Where fiscal deficits arise, borrowing occurs.

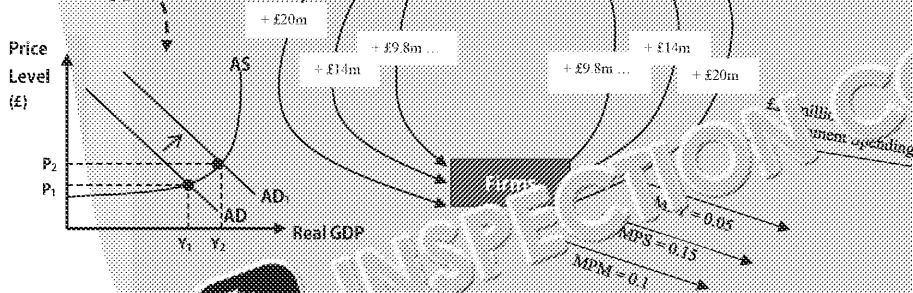
Macroeconomic policies designed to influence aggregate demand.

## Fiscal policy

Define  
policy

Fiscal policy may be **expansionary**: designed to stimulate aggregate demand through spending and low taxation, or **contractionary**, seeking to lower aggregate demand through spending reductions and low taxation.

### Effect of an expansionary fiscal/monetary policy



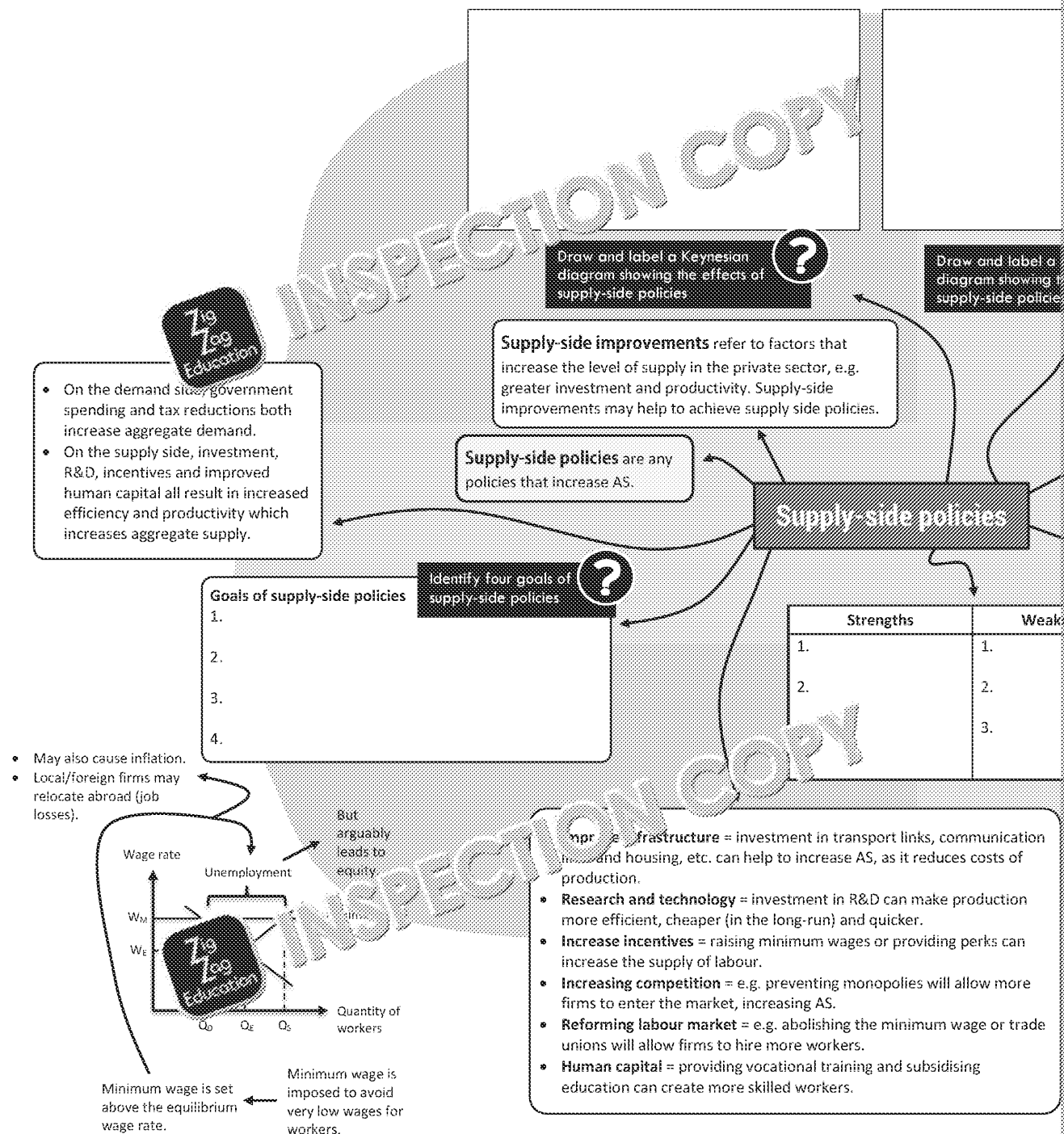
Others goals & policy

- To maintain the money
- To ensure stability in currencies
- To monitor the financial act as lender

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### 3.7: Supply-side policies



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## 4.1–4.4: International trade

What does the World Trade Organisation (WTO) do?



- The World Trade Organisation (WTO)...
- Conflict between WTO and regional trade agreements → over free trade diversion, which decreases trade elsewhere → comparative advantage.

Trade blocs + WTO



Bilateral – Preferential trade between two countries  
Regional – Preferential trade within a geographic area  
Multilateral – An international trade organisation

Types of trade blocs:

- 1)
- 2)
- 3)

List and explain the three main types of trade blocs



Impacts of international trade:

Give three positive impacts of international trade

Positive	Negative
1.	1.
2.	2.
3.	3.

Draw and

- Tariff increase on the price of imports → lower demand
- Revenue for government (ABCD)
- Domestic consumer surplus increased by  $P_1P_2DE$
- Welfare loss (ADE + BCF)

Trade protection

Advantages and disadvantages of trading blocs

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>No transaction costs</li> <li>Greater market access and economies of scale should lower costs</li> <li>Stronger bargaining position in multilateral org.</li> <li>Attract FDI → good for economic growth</li> <li>International cooperation increases political stability</li> </ul>	<ul style="list-style-type: none"> <li>Trade diversion</li> <li>Loss of sovereignty</li> <li>Undermine multilateral arrangements (such as WTO)</li> </ul>



Reasons for restrictions on free trade:

List at least five reasons for a country wanting to restrict free trade



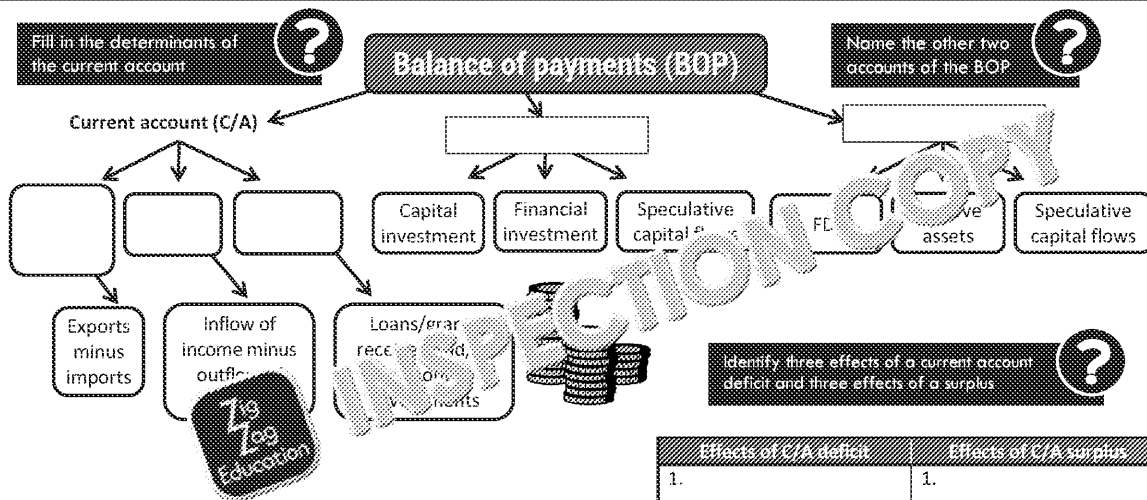
- 1)
- 2)
- 3)
- 4)
- 5)

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## 4.5 & 4.6: Exchange rates and Balance of payments



### Significance of trade imbalances:

- The accounts on the balance of payments are interdependent – all credits are matched by debits and all deficits by surpluses. For example, a deficit on the current account will be zeroed by borrowing on the financial account.
- As a negative trade balance increases, it becomes more and more difficult to finance. Hence, loans have to be taken out. This is because a negative current account implies a positive capital account.
- Government spending may fall significantly to repay those loans.
- Also, if exports outstrip imports, domestic consumers may be faced with limited choice.
- Trade imbalances also lead to massive currency fluctuations → affects global trade.

Effects of C/A deficit	Effects of C/A surplus
1.	1.
2.	2.
3.	3.

### Factors in

- Relative price: If relative price of exports is higher than imports, demand increases.
- Relative income: If relative income is higher, demand for exports increases → E demand.
- Speculation: If people expect the value of the domestic currency to rise, they will buy it, leading to higher demand and depreciation.
- State of the economy: Economic growth → demand for exports increases.
- Demand: The extent to which domestic demand is met by exports.
- Remittances: Direct remittances from abroad.
- Foreign direct investment (FDI) flows: FDI can lead to development.

**Growth and unemployment**  
ER depreciates → demand for exports rises → job creation → more consumer spending → more growth

**Living standards**  
ER depreciates → imports more expensive → living standards fall

**Growth and unemployment**  
ER depreciates → demand for exports rises → job creation → more consumer spending → more growth

### Impact of changes in the ER

**Inflation**  
ER depreciates → domestic goods become more expensive, and more reliant on imports

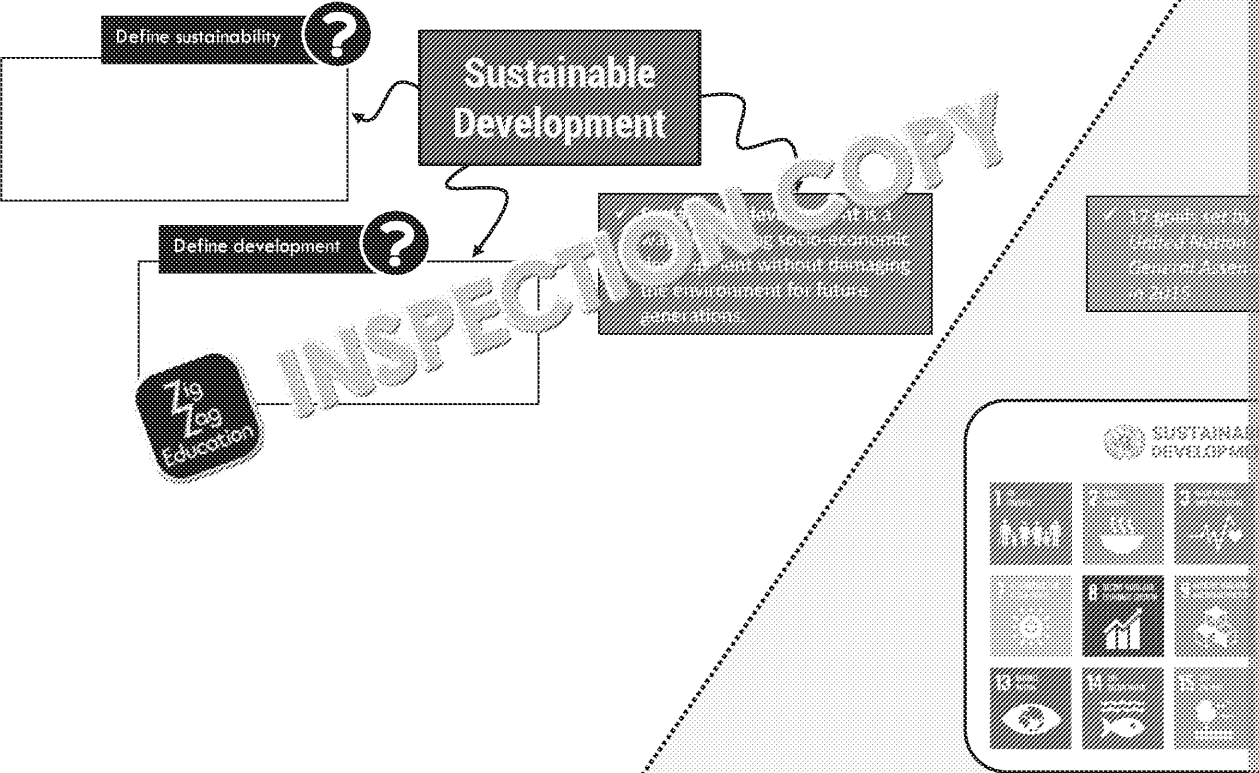
**Foreign direct investment (FDI) flows**  
ER depreciates → domestic assets appear cheaper → FDI flows increase

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4.7: Sustainable development



Microgrids: Solar in Yemen



Which SDGs does this project support?

1

2

3

4

5

6

7

8

9

10

11

12

13

14

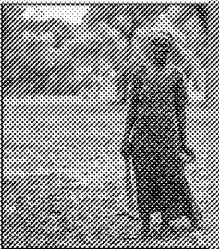
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- Yemen is one of the world's most impoverished countries. The country has been plunged into a humanitarian crisis due to a long running civil war.
- Yemen's energy supply – produced from oil and gas – does not meet demand, meaning many live without a reliable source of energy to meet their daily needs.
- The Enhanced Rural Energy in Yemen (ERRY) project grants money to empower rural women to help them start a business.
- Participants are provided with a mini solar farm sufficient to generate enough energy for a small neighbourhood, and trained in maintenance.
- They are then able to generate an income by selling energy to local households and businesses.
- In the areas where microgrids have been installed, unemployment and poverty have fallen drastically. Living costs have fallen due to a cheap and sustainable local source of energy. Prejudice against women has also reduced after local communities have seen them operate as trained solar engineers.

Regenerative Farming



Which SDGs does this project support?

1

2

3

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## 4.8 & 4.9: Development

Identify two more measures of development



### Measures of development

\_\_\_\_\_ :  
Combines life expectancy, ecological footprint and a happiness survey.

**Human development index (HDI)** is a composite measure of development.

**Benefits of HDI**

- Multidimensional
- Uses two measures for education

**Drawbacks of HDI**

- Ignores as it is
- Misses happiness

**Inequality-adjusted HDI (IHDI):**  
Also measures the distribution of health, education and income around the population

HDI =  
education index x  
life expectancy index x  
income index

What are the three components of HDI, and what do they measure?



Measures female participation in society.

Single indicators, such as:



Name \_\_\_\_\_




### Cycle of poverty:

- Poverty is often a self-reinforcing phenomenon – those living in poverty lack the opportunity to extract themselves from it.
- Limited education → lack of skills → low-value work → unable to save → children forced to work → limited education, etc.

### Capital flight:

- This is about people saving their money in foreign banks, which are more secure and/or have a higher interest rate
- Thus, developing countries are deprived of savings → lack of investment in capital → low growth

### Barriers to growth and development

### Economic factors

**Education:**  
Developing countries tend to lack the appropriate educational infrastructure

**Infrastructure:**  
Poor infrastructure makes trading very costly → discourages FDI

**Debt:**  
Developing countries tend to be in debt. While their governments build infrastructure and create jobs for the current generation, it is often the next generation that has to pay back the debt and becomes visibly worse off.

**Absence of property rights:**  
People do not have a sense of ownership, which is good for investment/borrowing and growth. However, developing countries lack some property rights.

**Volatility of economic growth:**  
Developing countries experience high overall economic instability (high inflation, unemployment, etc.)

Name \_\_\_\_\_  
explain three economic factors that influence growth and development in the blank boxes.





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## 4.10: Strategies influencing growth and development

Explain the following market-orientated strategies of influencing growth and development: 'privatisation' and 'removal of regulation'

**Privatisation:**

**Microfinance schemes:**

- This is about providing small loans to poor people, who are unable to get loans from big banks due to the provision of collateral.
- Loans are given to poor people and repayment is guaranteed.
- This helps poor people escape poverty.

**Market mechanism of demand and supply affect growth and development**

**Market-orientated strategies**

**Floating exchange rate:**

Switching to a floating regime will demand that demand and supply will decide the value of the currency, which means the currency is likely to depreciate. Thus, imports become expensive while exports become cheap. Thus, local industries will flourish, leading to higher growth.

**Removal of regulation:**

**Foreign direct investment (FDI):**

- Creates jobs → more consumer spending → higher AD → higher growth
- Countries can benefit from expertise and technology of multinational corporations
- Foreign investment can lead to local infrastructure

**Trade liberalisation:**

- This is about reducing trade barriers
- Free trade promotes growth by creating jobs
- Free trade leads to greater allocative efficiency
- But this could reduce growth if a country is flooded with cheap imports

**Social enterprise:**

- A business that uses the market in order to achieve social or environmental goals, as well as profit.
- Encouraging social enterprises can maximise the social welfare of economic activity

**Aid:**

- Development aid: for humanitarian or economic development in order to invest in the development process.
- Developed nations may also choose to write off debts that developing countries owe in order to enable them to better manage their resources.

**Corruption:**

- Political and judicial reform designed to put structures and individuals who are enabling the corrupt capture of public resources.

**Other strategies**

**Women:**

- Empowering women in the workforce and in business

**Land rights:**

- The government should develop the land rights of citizens to ensure sustainable development

Identify three strengths of the market-based approach and three strengths of the interventionist approach

Market-orientated	Interventionist
1.	1.
2.	2.
3.	3.

**Import Substitution:**

**Trade strategies**

**Export Promotion:**

What is the difference between the World Bank and the International Monetary Fund (IMF)?

**Multilateral development**

**International Monetary Fund (IMF):**

**World Bank:**

**Official Development Assistance (ODA):** Targeted funding provided by the UK or other governments to aid development.

**NGOs:** Non-profit organisations that range in size and at any time concerned with social issues based on

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