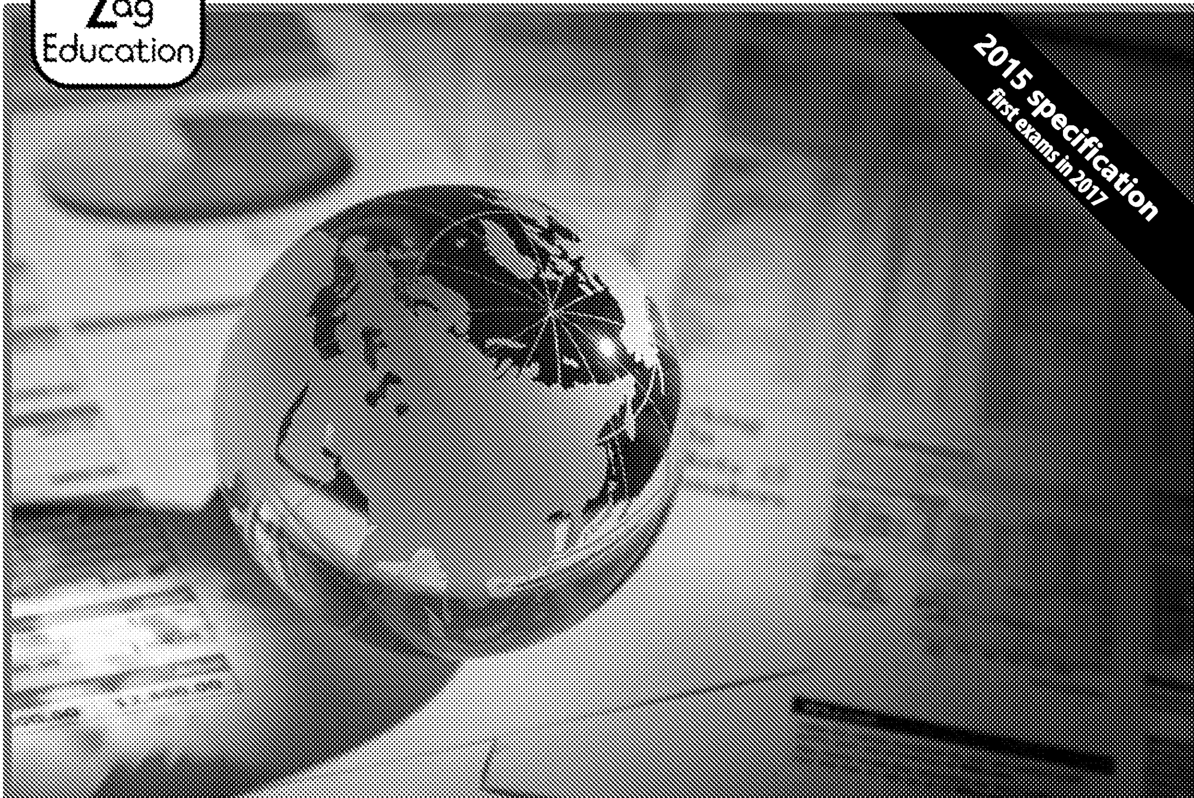
Economics A Level | Edexcel | 9EC0



2015 specification
first exams in 2017

Course Companion

For A Level Edexcel A Economics:

Theme 4: A Global Perspective

zigzageducation.co.uk

POD 5865

Contents

Thank you for choosing ZigZag

Talk to Us!

Love it as it is?
Let the author and other teachers know what you

Got a suggestion?
If your improvement leads to an update we will send you a n

Found a problem?
We will fix it and send you a free updated cop

We ♥ your feedback!
Let us know what you think using the feedback sheet on t

£10 ZigZag Voucher for detailed & complete reviev

Web: **zzed.uk/more**

Email: **economics @zigzageducation.co.uk**

Real Person: **0117 950 3199**

F **0117 9**

Become a Published Author

ZigZag is a large community of over 6000 teachers & edu
Review new titles, publish your own work or write to

Fancy being involved?

Then register at...

publishmenow.co.uk

The Professional Publishing Community

Alternatively email new resource ideas directly t
publishmenow@zigzageducation.co.uk

For more resources go to **zzed.uk/more**
where you can preview every page before you b

Teacher Feedback Opportunity

£10 ZigZag Voucher for detailed & complete reviews! ◆ Use for problems/areas fo

Resource ID & Name	5865 Course Companion for AS and A Level Edexcel Econ
School Name	
Your Name	
Position	

Overall, what did you think about this resource?...

....

....

....

I particularly like this resource because... ....

....

....

How does it help you or your students? ....

....

It is better than some other resources because... ....

....

....

What might you say to a colleague in a neighbouring school to persuade them to use t

....

....

....

How well does it match your specification (and which specification is this)?...

....

Other comments, suggestions for improvements, errors found (please give page numbe

....

....

Resources I would like published:	
Resources I might write, *or have written*, for consideration for publication:	

Fax to:	Email to:	Submit online:	Post to:
0117 959 1695	**feedback@ zigzageducation.co.uk**	**zzed.uk/feedback**	**ZigZag Educatio Greenway Bu Centre, Doncast Bristol BS10**

Terms and Conditions of Us

Terms and Conditions

Please note that the **Terms and Conditions** of this resource include point 5.3,

> **"You acknowledge that you rely on your own skill and ju**
> **determining the suitability of the Goods for any particula**

"We do not warrant: that any of the Goods are suitable for any particular pur qualification), or the results that may be obtained from the use of any publica that we are affiliated with any educational institution, or that any publication sponsored by or endorsed by any educational institution."

Copyright Information

Every effort is made to ensure that the information provided in this publication is ac responsibility is accepted for any errors, omissions or misleading statements. It is Zi permission for any copyright material in their publications. The publishers will be gl with any copyright holders whom it has not been possible to contact.

Students and teachers may not use any material or content contained herein and in without referencing/acknowledging the source of the material ("Plagiarism").

Disclaimers

This publication is designed to supplement teaching only. Practice questions may be specification and may also attempt to prepare students for the type of questions the will not attempt to predict future examination questions. ZigZag Education do not m that may be obtained from the use of this publication, or as to the accuracy, reliabilit

Where the teacher uses any of the material from this resource to support examinatio ensure that they are happy with the level of information and support provided pertai and to the constraints of the specification and to others involved in the delivery of th that the teacher adapt, extend and/or censor any parts of the contained material to s specification and the needs of the individual or group concerned. As such, the teach material, if any, to provide to the students and which parts to use as background info the teacher must determine what additional material is required to cover all points o specification point to the correct depth.

ZigZag Education is not affiliated with Pearson, Edexcel, OCR, AQA, WJEC, Eduqas, E Organization or DFE in any way nor is this publication authorised by, associated with these institutions unless explicitly stated on the front cover of this publication.

Links to other websites, and contextual links are provided where appropriate in ZigZa Education is not responsible for information on sites that it does not manage, nor ca that the content contained in the sites is accurate, legal and inoffensive, nor should a hyperlink be taken to mean endorsement by ZigZag Education of the site to which it users are directed to via the convenient ZZed.uk short URLs.

Teacher's Introduction

Overview

This resource is designed to supplement and enhance your teaching of the 2015 L
been written to include every aspect of the Edexcel A Economics course, as well as
study for keen and interested students. A minimum of 20% of the marks in the exa
quantitative skills. This resource has ensured that all the relevant maths is covered
students have a basic GCSE Level understanding.

These notes can be given to students before a lesson, after and even during lessons
students to read ahead in preparation, whereas afterwards the notes can be used as
build on current knowledge. Students and teachers can work through the resource t
Course Companion follows the syllabus ordering and numbering and, because it ha
each specification topic, this means the notes can easily be reordered and distribute

Questions are given at the **end** of each section to secure and develop pupils' lear
are provided at the end of the resource. After these there are sets of 'exam-style q
tailored to the sorts of questions that students will see in the Edexcel examination
provided at the end of the resource.

Each specification point has complete notes with all the relevant diagrams clearly
given where possible to help students relate their theoretical knowledge to real-li
defined either at the beginning of topics or in 'key term boxes' throughout.

Other boxes include:

Further Your Economic Knowledge: These boxes are designed for students who
and learn more on topics. The content in these boxes is relevant to the course and
used in the exam to gain the 'A* points'.

Quantitative Skills: These boxes detail the quantitative skills that are applied in t
boxes are placed close to the most relevant content in the course companion.

Activity! These boxes include a wide range of interactive or visual activities to sec
provide materials for reading around the topic. These can be used to break up les
learner types.

Recap! These boxes contain activities that summarise the topics students have be

Learn More! These boxes are similar to 'Activity!' boxes, but are specific to readin
and videos.

Evaluation Point: Edexcel will award marks to students who exhibit AO3 and AO4
provide pointers to students that can allow them to analysis and evaluate topics.

Link Circles: The exam board wants students to be able to make connections acro
sections, for example, using PPFs from Theme 1 to evaluate an economy when tal
in Theme 2. These circles are dotted throughout all four Course Companions and
to topics they will study or backwards to topics they have already studied that will
current lessons. Numbering used relates to the specification numbering.

A webpage containing all the links listed in this resource is convenient
*website at **zzed.uk/5865***

You may find this helpful for accessing the websites rather than typing

Free Updates!

Register your email address to receive any future free
made to this resource or other Economics resources yo
has purchased, and details of any promotions for you

** resulting from minor specification changes, suggestions from teachers*
and peer reviews, or occasional errors reported by customers

Go to **zzed.uk/freeupdates**

Theme 4: A Global Persp

International Economics

By the end of this topic, you should understand…

- The concept of globalisation and its advantages and disadvantages
- Specialisation and trade
- Trading blocs and differing levels of integration
- Protectionist policies
- The balance of payments
- The current account
- Exchange rates
- International competitiveness

Globalisation

Globalisation has no set definition and can be described differently across we would tend to say it is the ability to move production to anywhere in th resources available for production can be sourced from any country. It is a separate countries, cultures and economies into a single global entity. Bor people and markets are removed as they become more interdependent. A globalised, there is greater factor mobility as economic agents and factors from anywhere across the globe.

It is a phenomenon that has been happening for years and years. Here is a Keynes about the world in 1914:

'The inhabitant of London could order by telephone, sipping his morning tea the whole earth, in such quantity as he might see fit, and reasonably expect doorstep; he could at the same moment and by the same means adventure resources and new enterprises of any quarter of the world … He could secure cheap and comfortable means of transit to any country or climate without p

Factors That Have Contributed To Globalisation over the La

- **Transport Infrastructure and Operations**
The improvement in transportation and infrastructure around the glob movement of resources. As a result this has increased the trade of goo countries, and the use of factors of production from various countries do so. Because producers will want to use the resources that are chea transportation costs mean they are likely to spread their production a more globalised.
- **Communication Technology and IT**
The improvements in the ability to communicate across the world me flowing and imperfect information as a barrier to trade is reduced. The allows the world to share cultural and social experiences.
- **Trade Liberalisation (WTO)**
Agreements reached by the World Trade Organisation (WTO) have pre trade barriers. As barriers to trade are removed, economic agents are their goods, services and resources across nations, thereby becoming
- **Businesses Increasingly Operate Across Borders**
Transnational corporations (TNCs) sell their goods in various economi various nations. The increasing number and increasing influence of TN in the global market, and thereby increased globalisation.
- **The Dissolution of the Soviet Union**
When the Soviet Union dissolved at the end of 1991 economies that w world began to open up to the global market. This then led to an incre labour.
- **International Financial Markets**
As financial markets grew across countries, mainly due to the increase speculators and traders were able to operate in various countries, cau move freely across nations and thus making financial markets more gl

Impacts of Globalisation

There are many effects that have resulted from globalisation; some are goo degree of others is debatable. See below for the impacts of globalisation.

- **Increased Interdependence of Economies**
As producers begin to move their production process to different nati different markets, they rely on the countries in which they are operatin become more globalised and integrated, they also become more inte
- **Increased Living Standards**
It is generally believed that living standards increase as the world bec Countries will specialise in producing the goods in which they have a will mean markets will naturally grow and there will be more jobs avai increasing living standards.
- **Decrease in Current Global Superpowers**
It has been theorised that as developing countries deindustrialise, and China, begin to grow, power that was typically held by countries in No begin to shift towards alternative economies.
- **Greater Consumer Choice**
As economies open up to the global market, there will be an increase available for consumer purchase. Consumers will have the ability to co produced in their domestic economy.

- **Lower Price**
  Some believe consumers will be presented with cheaper goods as the products from a greater (global) range of producers. As countries spe advantage means they can produce the goods cheaper and prices will were produced by comparatively disadvantaged countries. Equally, as their production processes to wherever is cheapest, they are able to lo prices.
- **Worker Exploitation**
  TNCs are able to move production where labour is cheapest. However workers will be treated fairly, and often countries have cheap labour b bureaucratic procedures to protect workers. TNCs are able to set up p these protective procedures, and due to their large influence and mar exploit the workers.
- **Environmental Damage**
  Globalisation is associated with economic growth, which has many ne transportation of goods and production increases as economies grow greenhouse gases, which contribute to global warming and deteriorat

Globalisation creates winners and losers; those who benefit from the adva global trade, and those who suffer the disadvantages of exploitation and i disadvantages and advantages below and try to identify who are the winn agents can fall into both categories depending on the circumstances:

Advantages of Globalisation

- **Increased Competition**
  By opening up to the global market, economies are opening up to mo This means there is greater choice of products for consumers and gre producer they buy their products from. This means there is greater co Greater competition is believed to create a downward pressure on pri efficiency.
  - ***Reduces Domestic Monopoly and Monopsony Power***
    Greater competition will reduce the market power of domestic m monopsonies as they will have to compete with foreign firms and
- **Bigger Market Means Greater Economies of Scale**
  More globalised firms will have access to a bigger market. This means and greater demand for their product. This gives firms the ability to g economies of scale.
- **Increased Capital Flows and Inward Investment**
  As barriers are removed and there is greater freedom in the movemen economies can find they have an inward flow of investment. This injec used to stimulate its growth, increase jobs and improve standards of l also help spread new technology and knowledge to the country. Inter costs as they can avoid areas of high taxes and expensive regulation.
- **Free Movement of Resources**
  Barriers to free movement of resources are removed, allowing factors services to move to where they are best needed. Firms can be more c access to the cheapest factors of production anywhere in the world. T
  - ***Greater Resource Allocation***
    Without barriers, resources and factors of production are able to markets and instead are allocated where they are most needed.

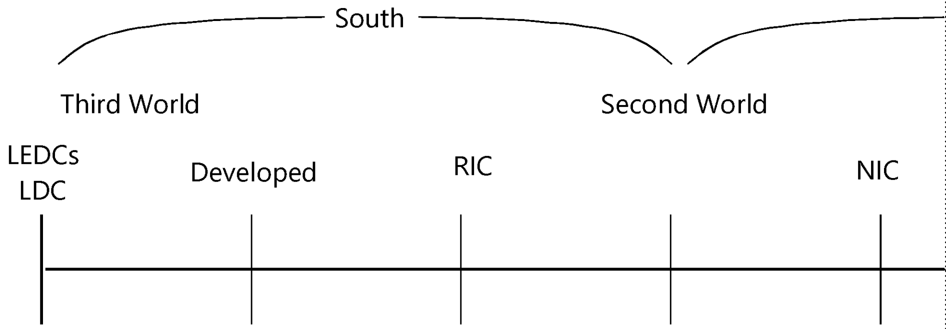
- **Increased Trade and Specialisation**
  Economies that are globalised have the ability to specialise in produci
  have a comparative advantage, and trade with other countries to obta
  have a comparative advantage in. This means a more globalised world
  specialisation and trade, which are: reduced costs and price, increase e
  allocation, and a greater choice for consumers.

Disadvantages of Globalisation

- **Increased Numbers and Power of MNCs**
  Multinational corporations (MNCs) have the ability to abuse their high
  therefore, a threat to consumers, workers and developing nations. The
  allowed more multinationals to exist and to grow.
- **Free Movement of Resources Leads to a Brain Drain**
  Because resources are free to move between countries, countries can
  more resources leave than enter the economy. If skilled workers leave
  other countries, then the country can find themselves in a brain drain
- **Global Monopolies and Monopsonies**
  Monopolies and monopsonies, just like in the domestic market, can e
  These firms and employers tend to be more powerful than domestic f
  of a greater market (the global market). They will have a great ability t
  and inflate prices. Equally, being internationally spread, there are very
  regulations that can control them.
- **Use of Scarce Resources and Greenhouse Gases**
  As trade increases, production increases. Further to this, production a
  transportation increases as resources and goods are shipped across th
  scarce and non-renewable resources quicker than if the world was les
  ever growing concern for the global society and environment as a wh
  resource bottlenecks and global warming.
- **Loss of Cultural Independence and Rise of Americanisation (Stand**
  As the world becomes more globalised, cultures begin to bleed into o
  diluted. Critics of globalisation call this 'Americanisation', referring to t
  background as cultural distinction fades away and societies tend towa
- **Regulation and Tax Avoidance**
  From an environmental and social point of view, globalisation is bad b
  necessary regulations which are designed to protect citizens, workers,
  environment. This represents a large missed opportunity for an inflow
  government and as a result, governments may raise taxes elsewhere. I
  towards domestic firms, who have no choice but to abide by these reg
  to costs and barriers to entry.
- **Interdependency**
  As countries become more dependent on each other, they become m
  that may evolve in other countries. Equally, if countries become more
  reliant on one market; 'putting all their eggs in one basket'. This mean
  good falls then the whole economy can suffer greatly. Countries can s
  can rely on the prosperity of another; this is the advantage of diversifi

Further your economic knowledge... Talking about Develop

Countries are often grouped into categories to refer to their development, econ status, and there are a wide variety of categories used. This box will briefly explo these categories. You may have heard of some of these before, and hopefully th some of them may be outdated or misused. You will not need to differentiate b is merely for additional background knowledge for those of you who are interes horizons.



The most common categories are those that spilt countries into one of two grou developing, and less economically developed countries (LEDCs, or LDCs) versus development countries (MEDCs or MDCs). These refer to countries based on the measures, such as GDP or HDI. What is good about the categorisation of LEDC/ developing/developing is that it identifies the distinction and simply a developm standards, whereas developing may imply the country is 'not good enough' or t deficient culture.

There are other categories such as the North–South divide. This category propo more developed than those in the South, generally. A line is usually drawn betw not correspond to the equator; this grouping suggests that development level i

West and East is another locational classification, however, this refers more to cu culture is generally 'American' culture, and Eastern culture looks at Asian culture it groups all Asian cultures into one, such as Japanese, Chinese and Indian, wher vastly different, and some may find this quite insulting.

Another one you may have heard of is First World, Second World and Third Wo categories, which specify countries either 'are' or 'are not', there is a third, midd into. Originally this looked at grouping countries based on their political-econo capitalist, Second World being communist, and Third World being referred to as concept is now outdated, although nowadays people refer to First and Third Wo wealth. However, this was not the initial meaning.

The classification of Recently Industrialising Countries (RIC) and Newly Industria at the two extremes and instead looks at the currently changing countries in ter status. NICs are countries such as China who are fully industrialised but only in r such as the UK who started industrialisation in the late nineteenth century. RICs Mexico who are starting to become more industrialised.

What may be identified here is that it is hard to categorise countries into just a f up of society, economic and political stances all vary by so much between coun similarities and differences. Mexico, for example, although not classed in the mo industrialised categories, does, however, have a growing and more established s than countries in other groups. Some argue that we would be better off to talk a development, as this highlights that countries may transition between certain ca critically about these categories; what factors are they differentiating countries o they accurate or outdated? Do they belong at this point on the spectrum? Can o there too many variables?

Specialisation and Trade

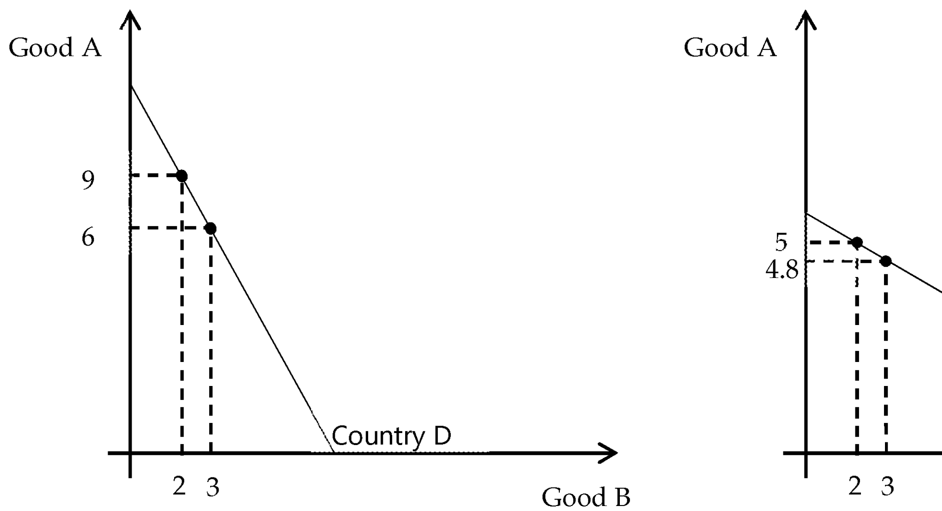
Recap!

Remember comparative advantage from topic 1.1.5? Watch this video to remi

http://www.open.edu/openlearn/society/politics-policy-people/economics/60-se principle-comparative-advantage

The Assumptions of Comparative Advantage:

- No economies of scale (constant costs of production)
- No transport costs
- Perfect knowledge
- Free mobility of resources between industries
- Environmental degradation is ignored



Here are Production Possibility Frontiers (PPFs) of two countries, Country D two goods, Good A and Good B. Country C has a comparative advantage i their opportunity cost of 0.2 units of Good A is less than Country D's oppo A. This means Country D has a comparative advantage in producing Good

This, pointed out economists such as Adam Smith and David Ricardo, means that rather than both countries producing both goods and having high opportunity cost, Country D should specialise in producing Good A, and Country C should specialise in producing Good B. The countries should then trade their surplus goods and would then have access to both goods but at a cheaper price.

Note that countries can have a comparative advantage even if another country has an **absolute advantage** in the production of both types of goods. For example, if Country C could produce 20 of good A and 25 of good B, it would have an absolute advantage over Country D (who can only produce 15 of good A and 5 of good B). Nevertheless, Country D would still have a comparative advantage in producing good A, since the opportunity cost of producing another unit of Good A is lower than Country C's opportunity cost.

ACTIVIT

comparat
wine? Th
from Ada

By means
very good
and very g
at about t
least equa
foreign co

Advantages of Specialisation and Trade

Lower prices: By producing the goods in which a country has a comparati produce the goods cheaper than another country could. Therefore, goods good was produced by the country that had the comparative advantage.

More Consumer Choice: By trading, consumers have access to more goo

Larger Markets: Firms can benefit from specialisation and global trade be expanded to a bigger (global) market.

Economies of Scale: Because firms have a greater audience, there is great This means they have the opportunity to expand and gain from economie

Increased living standards: If countries follow the suggestions of David R they can find they have an increase in living standards. By producing the g comparative or absolute advantage and trade for the rest, their consumers and increased consumer choice from international goods. The economy w rates and production increases.

Disadvantages of Specialisation and Trade

Trade Deficit: If a country is uncompetitive, then they could end up with a

Dumping: Countries with excess goods can sell them in foreign markets a price in order to get rid of them. The economy of the country that the goo be damaged as the increase in supply and fallen price can put some dome as it shocks the market.

Contagion (increased exposure to external shock): As has been seen by crash, economic shocks can be spread across economies. This is due to the economies; as one economy begins to crash, the countries that were depe they are also hit by their downturn and so economic shocks will be spread

Global Monopolies: International trade can allow the rise of global mono and power for market manipulation.

Problems Facing Emerging and Developing Economies: Emerging econ countries are generally susceptible to exploitation from global monopsoni countries that have access to the necessary finance, capital and knowledge

Pattern of Trade

Patterns of trade are influenced by comparative advantage: it is clear that they can specialise in (e.g. Saudi Arabia produce oil, the UK specialises in s

Since the creation of the EU, there has been a great deal of trade creation due to the reduction of trade barriers between them. However, trade has b member countries (trade diversion) since the interaction between member to the EU trade bloc. Commonwealth countries and the UK have found the deteriorated since the creation of the EU. Trade with emerging economies years as these economies grow rapidly and expand their export markets.

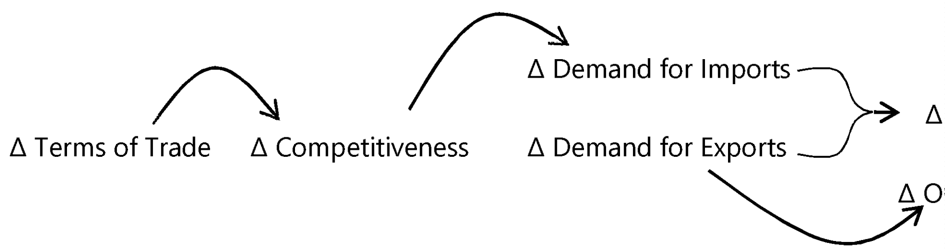
Trade flows are also affected by relative exchange rates. Countries with hig to benefit from greater imports, but they may find it harder to sell their ex relatively expensive). An example of the opposite case is China: rapid Chin extent on exports, and China has been attempting to depreciate its curren

Terms of Trade

The idea of 'terms of trade' refers to how many import goods a country ca
is a measure of a country's international competitiveness. Mathematically,
the following formula:

$$\text{Terms of trade} = \frac{\text{Index of Export Prices}}{\text{Index of Import Prices}} \times 100$$

Changes to a country's terms of trade indicate its competitiveness has cha
consequences for the rest of the economy. If their terms of trade has decre
competitiveness has fallen; terms of trade has fallen because either export
import prices have fallen. A less competitive economy will find its exports
will worsen a current account deficit. Equally, as demand for UK goods falls
or demand via exports, UK industries will begin to decline. This will mean U
unemployment will begin to rise as workers are laid off. Falling economic g
unemployment will reduce living standards.



Factors that Influence a Country's Terms of Trade

Relative Inflation Rates: If a country has high inflation rates, then the pric
increasing. This will mean that compared to other country's prices, they wi
only occurs if the foreign countries have no inflation. Therefore, the thing t
is the relative level of inflation rates. If one country's inflation rates are hig
prices will be rising quicker than another's and will appear more expensive

Relative Productivity: Countries that are relatively more productive are a
with the resources available to them. This means they are able to reduce th
more competitive, thereby increasing their terms of trade.

Exchange Rate: The exchange rate shows the price of one country's curre
exchange rate is so that £1 is the same as \$2, then changes to £1 to \$1, th
have fallen in price because a US consumer would only need to spend \$1 c

Trading Blocs and the World Trade Organisat

Trading Bloc = a set of countries who have an agreement on the level of trade restrictions they set between each other.

WTO = The World Trade Organisation is the international governing body on the trade restriction countries set.

Examples of Trading Blocs:

- NAFTA = North American Free Trade Agreement
- EU = European Union
- LAPA = Latin America's Pacific Alliance
- SADC = Southern Africa Development Community

Free Trade Areas

Free trade areas are groups of countries who have an agreement to allow free trade between them. By this it is meant that there are low trade restrictions or barriers between the countries involved. This is so there will be increased trade among these countries.

This agreement only determines the way in which the countries trade with the other countries within the agreement. The countries involved (member countries) are allowed to set their own, individual trade restrictions with countries outside of the agreement (non-member countries). From this, non-member countries can bypass potential high trade barriers of other member countries by entering through the member country with the lowest/cheapest trade barriers. Once they have accessed the free trade area through the low-barriered countries they are able to trade with the other member countries without the high-barriered countries' restrictions. 'Rules of origin' laws are often put in place to crack down on this type of circumvention.

Customs Unions

Just like a free trade area, a customs union has an agreement with its mem
no trade restrictions in order to promote trade among member countries.
problem of non-member countries avoiding barriers, a customs union will
protectionist measures. By this, it is meant that all the member countries w
restrictions to non-member countries. For example, the European Union u
in the 1960s and it set a 'common external tariff' to non-member countrie
set the same tariff to non-member countries).

Common Markets

A common market, like a free trade area, has an agreement with its memb
trade restrictions and a set of common protectionist measures, like a custo
a customs union, a common market allows free movement of factors of pr
countries. The EU allows any person who lives within the EU member coun
restriction, i.e. as an EU citizen, you are able to travel between EU countrie
(although travelling via aeroplane or through Eurotunnel still requires a pa
somewhat redundant to UK nationals).

Monetary Unions

A monetary union, also known as a currency union, is the last step towards example is the euro single currency used in various EU member states. A m trade area, has low to no trade barriers to free trade; like a customs union, protectionist measures; and like a common market, has perfect mobility of the additional condition is that the member countries adopt a single curre another step, economic union, where member countries attempt to align t (monetary and fiscal).

Costs of Monetary Union

- ***Transition Costs of a Single Currency***
  There are costs involved with changing prices on menu, price labels, e There will also be a period of adjustment while people realign their pr valuation.
- ***Loss of Sovereignty***
  As countries join together and agree to change to a trade policy, the c control and change its policy. A monetary union will mean the individu their independence to change monetary policy and lose exchange rat

Benefits of Monetary Union

- ***Eliminating Transaction Costs***
  Once all the countries are on the same currency, there is no cost in att currency to another in order to make transactions.
- ***Price Transparency***
  It is much easier to make price comparisons if all goods and services a currency.
- ***Reduction in Exchange Rate Uncertainty***
  Exchange rates are constantly changing. Some countries may adopt fixed exchange rates, where the government are making small adjustments on the financial market in order to keep their currency at the same rate, but this is costly and still not certain. With one currency, transactions between France and Germany, for example, can occur without the worry of the exchange rate changing.

Learn Mo

To unders European Eurosyste

https://w wGIQBg

Role of the WTO and Conflicts between Regional Trade Agr

The World Trade Organisation is a global organisation that monitors the trade and business conducted between nations. Their aim is to promote free and fair trade for all countries involved.

The role of the WTO is to promote trade creation. Trade blocs, although creating and encouraging trade among their member countries, often create trade diversion as trade is deflected from more competitive partners because they are outside the bloc.

Trade Cre *different c arrangeme internatio*

Trade Di *away from and towar trade barri*

Restriction on Free Trade

Why might a country want to restrict trade?

'Infant' and 'Sunset' Industries
A sunset industry is an old and declining industry. Income flows tend to be avoid these industries due to the decline in profits and demand for their go are important to economies and need to be supported, e.g. to maintain em the opposite; they are new and inexperienced and need supporting until th demand and knowledge to remain in the market. Countries may wish to pu order to protect these industries from global competition and facilitate the

Further your economic knowledge... The Paradox of Free T

It is believed that free trade benefits all economic agents in all countries, and b (protectionism) only harm it, and prevent the benefits that come with it.

Industries in one country may be harmed by opening up to the global market i Policymakers may wish to add protectionist measures to protect the industry fr thus ensure job security for the workers of that industry. However, the commor higher prices because cheaper goods are prevented from entering the market. structural unemployment, others will be harmed from higher living costs and re trade supporters would say that reducing protectionism will improve economic resources are used where they are most efficient and provide a greater benefit

However, developing countries are not always able to compete with firms from who have access to knowledge and capital, even if they have a comparative adv are often unfairly used to dampen competition from countries who have not ye paradox is that free trade can harm some countries and protectionism can be b welfare if used in the right circumstances. Developing countries will tend to ben because it allows them the fighting chance they need to gain a comparative ad themselves to compete in the global market. Once they have gained a place in generated funds to reduce poverty and raise living standards.

Employment
The general idea is that trade barriers will increase the price of foreign goo threaten domestic ones because they are more competitive. Demand will s produced goods to imports and the domestic industry will go into decline barrier is believed to shift domestic demand from imported goods to dom the industry to expand and create jobs (or protect the current level of emp increase employment. This can be done in a particular industry, by applyin goods, or to protect the employment levels in the whole economy by setti

Self-sufficiency
Some countries may be uncomfortable with global trade because it means countries to provide certain goods and services. Instead, countries may en to allow their economy to continue producing certain goods, so they still h countries fall in to recession or a war interrupts trade patterns.

Balance the Balance of Payments
The idea here is that a trade barrier will increase the price of imports and, for imports. As imports fall it is hoped a trade balance deficit will fall and n

Retaliation
If a country imposes trade barriers on another country's goods, the countr retaliation restriction.

Prevent Dumping
Dumping occurs when a foreign country sells its excess goods in the dome price. This is bad because it can put domestic suppliers out of business and barriers restrict the volume of goods a country can sell in the domestic eco country from dumping their goods.

Reduces Competition
Foreign countries may have a comparative advantage and are able to proc than the domestic economy. Therefore, a country may impose a trade rest level of competition threatened from foreign markets.

Protect Strategic/Important Industries
During times of conflict or global instability, normal trade patterns are disr want to protect certain industries that produce goods that are invaluable t are comparatively disadvantaged because, during times of disrupted trade need a steady supply of these goods.

Impacts of Protectionist Policies

Consumers
Consumers often suffer from protectionist policies as cheaper and more co prevented from entering the market. Instead consumers' demands are dire producers who tend to have a comparative disadvantage. The hope is that comparative advantage and will be self-sustaining to produce the goods c

Producers
The impact of protectionist policies on producers will have different effects producer is domestic or foreign and whether it imports materials, exports Domestic producers should find demand for their products increases as pr domestic demand away from imported goods to domestically produced g producers may find they encounter protectionist policies from tit-for-tat re which will damage their business. Some producers may import parts for pr making company importing the raw wood materials. These producers may protectionist policies are aimed towards imported goods. Foreign produce country will find demand for their goods falls as protectionist policies incre

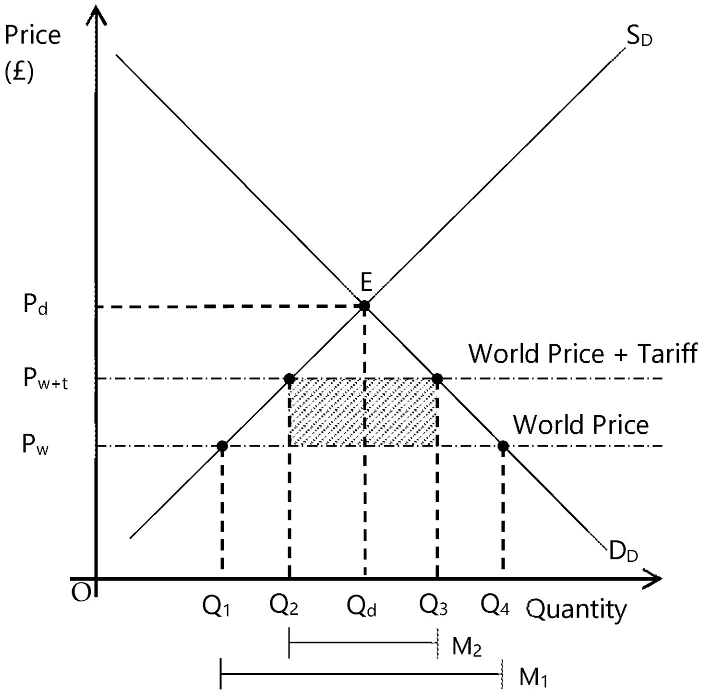
Governments
Governments may add protectionist policies due to a political agenda, or t will gain voter support. However, protectionist policies, such as subsidies, create a fiscal deficit leading to debt increase. Alternatively, the governme to gain tax revenue, although the bureaucratic procedures can be just as c the tax. Governments can find they are met with tit-for-tat retaliation polic which can be politically and economically damaging.

Living Standards and Equality
Protectionist policies are designed to protect the domestic economy and t country, such as domestic producers and the jobs of the workers. Without may find they lose their incomes, pushing them into poverty and reducing demand for domestically produced goods, jobs can be created, thereby re those previously without jobs are now earning incomes. However, countrie policies will find it harder and harder to export their goods. This can cause businesses to shut, living standards to fall and inequality to rise. It is often the brunt of protectionist policies, but they are the countries that need tra developing countries from competition but reducing developing countries will increase inequality.

Types of Trade Restrictions

Tariffs

Tariffs can also be known as import duties or customs duties. Tariffs are simply ta
in order to sell in the country. These additional taxes increase the costs for foreign
imports will rise.



Closed to internation shows the market for curves D_D and S_D are t P_d is the market equili closed to the internati

Open to internationa good on the world ma opened up to internat would fall to Q_1 becau compete with internat domestic demand wo would need to import demand.

Imposition of a Tarif to P_{w+t}. This means m the market and the qu goods will rise to Q_2. A demand will fall to Q_3. Q_2, the country will sti amount. The shaded a ment will receive in ta

Quotas

Quotas are similar to tariffs, but instead of imposing a tax on imported goods, qu
limit on how many goods and services an economy can import. The diagram is sir
no tax revenue is raised for the government because there is no tax. The 'world pr
the government has set the cap. The quota is aimed at reducing the amount the e

Subsidies

1.2.10<<

Thinking back in Theme 1, a subsidy is a grant the government gives to domestic producers in order to lower costs and become more price-competitive in comparison to international goods (see diagram).

Subsidy

Subsidies work in a similar but opposing manner to taxes. Unlike a tariff, a subsidy actually incurs a cost as governments need to give money to producers.

Non-tariff Barriers

There are other ways in which a government can manipulate imports that are more hidden that an obvious, up-front tariff or quota. For one, a government can implement expensive and long-winded bureaucratic procedure
Environmental or health and safety regulations can be another form of non-tariff

Questions: International Economics (Part 1)

1. **a)** List four characteristics of globalisation.
   b) Why has globalisation increased in the last 50 years? Name three reasons

2. Create a mind-map showing the impacts of globalisation on:
   a) individual countries
   b) governments
   c) producers
   d) consumers
   e) workers
   f) the environment

3. **a)** Explain the difference between absolute and comparative advantage?
   b) Fill in the table below (try to get at least one point for the specialisation the trade boxes):

	Advantages	
Specialisation		
Trade		

4. **a)** What is the equation for terms of trade?
   b) Explain three factors which influence a country's terms of trade
   c) Using one of the factors you've listed and the terms of trade, explain ho
      i. demand for imports and exports
      ii. current account
      iii. living standards

5. What type of trade bloc is...
   a) the European Union?
   b) the eurozone?

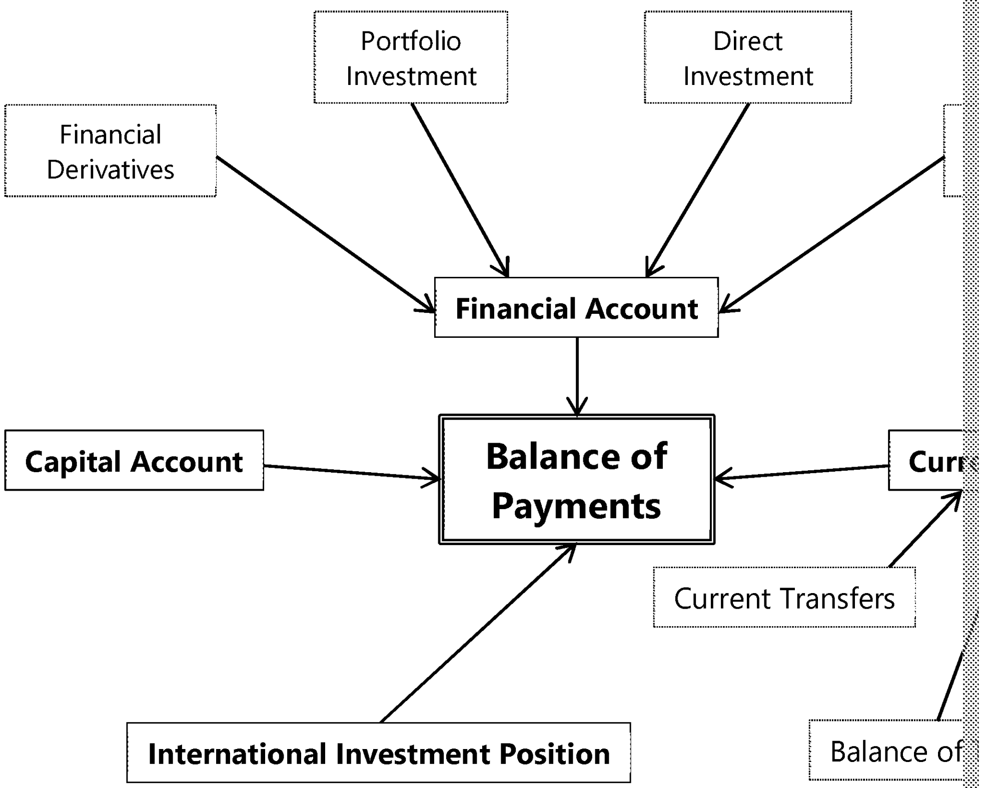
6. List and explain two costs of regional trade agreements

7. List and explain three benefits of regional trade agreements

8. **a)** Despite the benefits of trade, list and explain five reasons why a country
   b) What are the impacts of these trade restrictions on...
      i. consumers?
      ii. producers?
      iii. governments?
      iv. living standards and equality?

9. **a)** What is a tariff?
   b) Draw a tariff diagram showing the world price, domestic price and the p cost with the additional tariff
      i. Now, assuming the economy was closed, what would the quantity a
      ii. If the economy opened up to international trade, what would the q domestically supplied be?
      iii. What could a possible solution be to this misalignment of demand on the diagram?
      iv. If the government imposed a tariff on imported goods, what would be and what would the price be?
   c) Draw a subsidy diagram:
      i. Using the concept of price, how does a subsidy change quantity?
   d) Can you explain two other trade barriers?

Balance of Payments



Components of the Balance of Payments

The balance of payments is made up of four parts: the capital account, the curren
and the international investment position. Your exam expects you to know these f
need to know the current account and financial account in detail.

The balance of payments must always equal zero. If we buy more imports than the number of exports we sell, then we will need to fund these purchases from another component of the account, such as selling a government bond, which would be recorded on the financial account. So, deficits in one component must be counterbalanced by a surplus in another account.

The Current Account

- **Balance of Trade**
  There are two parts to the balance of trade; the trade in goods balance, and t
  balance of trade looks at the value of goods that been exported compared to
  the overall balance of these. An import appears as a negative on the account
  economy in return for the imported good, and an export appears as a positiv
  enters the economy in return for the exported good. Therefore…

  Current Account Deficit can occur when the value of imports exceeds the va
  value is negative, meaning more income is flowing out of the economy.

  Current Account Surplus can occur when the value of exports exceeds the v
  value is positive, meaning more income is flowing into the economy.

- **Income**
  The income part of the current account looks at the income earned by foreig includes things such as profits, interest and dividends on investments abroad citizens on overseas assets is counted as a positive on the current account be economy, whereas the income earned by foreign citizens from domestic asse because money is leaving the economy. Therefore…

  Current Account Deficit can occur when the value of domestic assets owne value of foreign assets owned by domestic citizens and the overall value is ne flowing out of the economy.

  Current Account Surplus can occur when the value of foreign assets owned value of domestic assets owned by foreign citizens and the overall value is po flowing into the economy.

- **Current Transfers**
  This looks at the transfers between governments. A transfer is something tha something else (i.e. it is not income as a result of trade because this money h good). When a government lends money to another, this is seen as a negativ if a government borrows money, it is recorded as a positive. This is the same from one country to another for a specific intention. An example of a grant w money from the EU's Common Agricultural Policy in order to support the UK appear as a positive on the current account. Therefore…

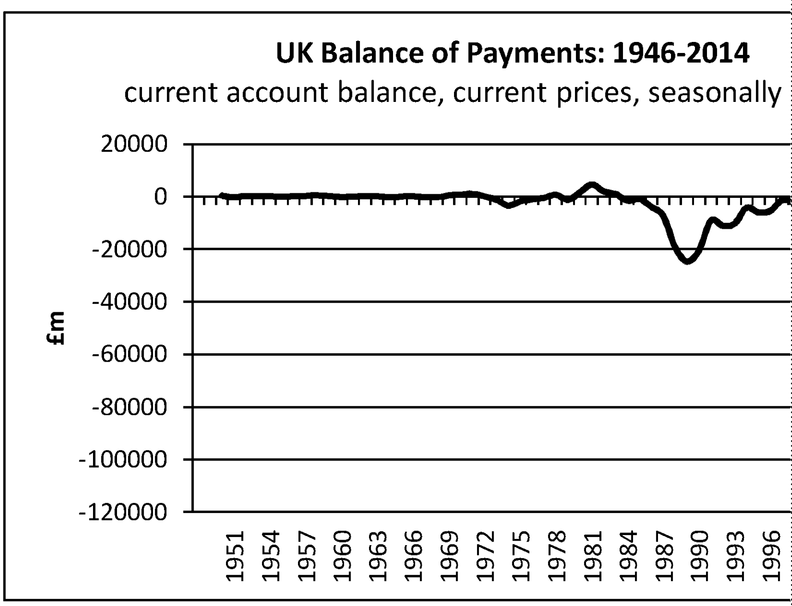
  Current Account Deficit can occur when a country lends or gives more mon the overall value is negative, meaning more income is flowing out of the eco

  Current Account Surplus can occur when a country receives or borrows mo and the overall value is positive, meaning more income is flowing into the ec

In summary…

- **A current account deficit** occurs when the current account is negative bec leaving the country (-) exceeds the total value of money entering the county money into the economy.
- **A current account surplus** occurs when the current account is positive bec leaving the country (-) is less than the total value of money entering the coun money out of the economy.

The chart below shows the history of the UK's current account between 1946 and deficit on the current account since the 1970s.



Quantitative skills

Real and nominal prices
The graph below shows the balance of payments in **current** prices rather than **co**
the figures are **nominal** rather than **real**. The effect of inflation hasn't been take

Seasonally adjusted figures
The figures in the graph have been **seasonally adjusted.** This means that any va
regular interval (perhaps during the summer, for example) has been smoothed o

The Capital Account

The capital account is a relatively small part of the balance of payments. It looks a ownership of domestic firms and domestic ownership of foreign firms.

The Financial Account

- **Direct Investment**
  This accounts for the transfer of capital between an enterprise and an investo be capital that is provided to an investor by an enterprise, or received by an e
- **Portfolio Investment**
  This component looks at the investments in equities and debt securities.
- **Financial Derivatives**
  Any financial instrument is accounted for in the financial derivatives part of th these instruments are priced on their value of the underlying asset.
- **Reserves Assets**
  This part looks at the foreign financial assets that the Bank of England, and o order to regulate payment imbalances and for financing.

Causes of Current Account Deficits and Surpluses

- **Value of the Country's Currency**
  If a country's currency is overvalued, then their goods and services will appea other countries' goods and services. This will mean demand for the country's current account deficit. If a country has an undervalued currency, then demar because their goods and services will appear relatively cheap. This could pote surplus.
- **Rate of Inflation**
  Inflation represents the price of a good or service. If a country has relatively l country's goods and service will appear at lower prices compared to other co to sell exports, potentially leading to a current account surplus. If a country h another, their prices will appear relatively higher than the other and then the potentially creating a current account deficit.
- **Economic Growth from Imports**
  Economic growth tends to bring about higher average incomes. This means p consumption and, if domestic supply cannot meet the increased demand, the Rapid economic growth often results in a current account deficit because the increasing demand and increasing supply. Equally, in the UK we have a high p can be the view that imported goods are better than domestic goods, such a wine. So when people's incomes go up, they will switch to importing French w potentially has a current account deficit.
- **Non-price Factors (Quality and Design)**
  People don't base their decision to buy a good or not solely on the price. Thi quality of a good can come into play. If a country produces goods of high qu demand for their exports and, thus, are likely to have a current account surpl low-quality goods, this may reduce demand for their exports and thus they a deficit.

Measures to Reduce Current Account Deficits

- **Expenditure Reduction**
  This is a deflationary policy aimed at reducing aggregate demand. A fall in ag
  in consumption (as this is a component of aggregate demand). A fall in cons
  the purchasing of imports thus alleviating the deficits. Equally, as domestic d
  will try to sell their goods to foreign consumers. This will increase imports an

  Problems: A fall in aggregate demand can mean an economy has negative (
  unemployment may rise as firms cut back production to meet the falling den

- **Expenditure Switching**
  By adding tariffs, quotas or other trade barriers, domestic consumers can be
  expenditure from imported goods to domestically produced goods. By switc
  a current account deficit can be reduced.

  Problems: This can lead to tit-for-tat retaliation from other trading partners
  exports falling; the deficit problem may not be corrected.

- **Supply-side Policies**
  Spending on policies that improve productivity and human capital can boost
  demand for exports through increased quality of goods, boosting internation

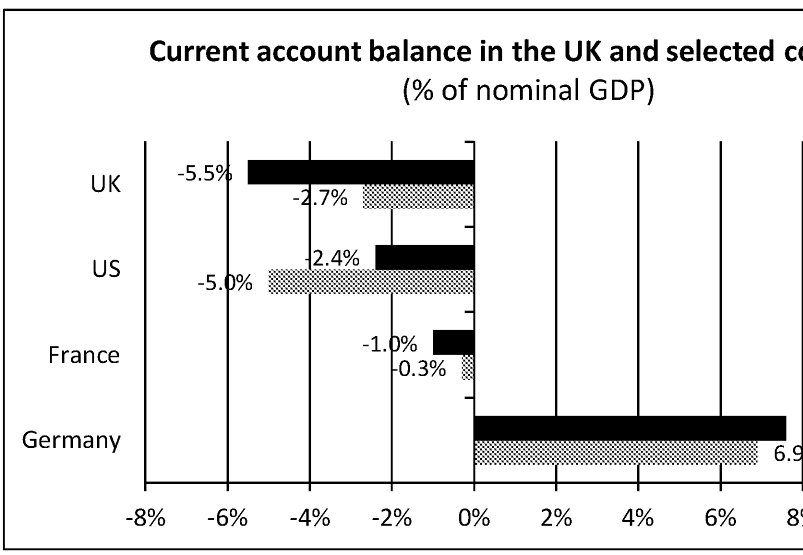
  Problems: Supply-side policies tend to have long time lags so their effects m

Global Imbalances

It is not sustainable for a country to have a reoccurring current account deficit bec
another component, most commonly through a surplus on the capital or finance a
large sums of money can only alleviate the problem in the present time. Eventuall
return on their investment.

This scaled up to a global level can have significant problems. The recent collapse
suggested that large current account deficits were unsustainable. Equally, large su
they last for a long time. Living standards and consumer choice may be lowered b
resources are being used for export purposes rather than being used on domestic

The graph below shows the change in current account balances in the UK and oth
financial crisis) and in 2014. Note how the UK's current account balance worsened
US's improved. Germany ran a current account *surplus* in both periods.



Source: ONS, Eurostat, US Bureau of Econ

Exchange Rates

The exchange rate shows the price (or value) of a country's currency in terms of an
price of US currency ($) if you were to buy it using UK currency (£).

Exchange Rate Systems:

- **Floating**

  A floating exchange rate system simply means a country allows the value of its currency to fluctuate according to the free market forces of demand for its currency and the (somewhat controlled) supply of its currency. Decreases and increases in a country's currency are described as depreciations and appreciations in currency when under a floating exchange rate regime.

  Learn Mor
  Black Wedn
  UK econom
  watch this v
  https://www
  GzMI&list=
  xAqMCwLP

  Appreciation = when a country's currency increases in value, e.g. the pound has appreciated if the exchange rate was £1 = $1.50 (each pound cost $1.50) but is now £1 = $2 (each pound costs $2).

  Depreciation = when a country's currency falls in value, e.g. the pound will h
  rate was £1 = €2 (each pound cost €2 to buy) but is now £1 = €1 (each poun

- **Fixed**

  A fixed exchange rate is when a country's governing body or central bank ke
  terms of another, at the same level. Revaluation and devaluation of a country
  bank's decision (mediated through the IMF) to increase or decrease a countr
  another currency.

  Revaluation = is when a country's central bank decides to increase the value
  £1 = $2 to £1 = $2.50.

  Devaluation = is when a country's central bank decides to decrease the valu
  example, £1 = $3 to £1 = $2.

- **Managed**

  A managed exchange rate is when the monetary authorities of a country influ
  the country's currency via buying and selling the currency itself or by changin
  the foreign exchange markets, authorities, such as the Bank of England, are a
  country's currency in terms of another.

Factors that Influence a Floating Exchange Rate

Ultimately, the market forces of demand for a currency and the supply of a curren currency value. However, there are a variety of factors that influence the demand

- **Relative Interest Rates**
  The UK interest rate affects the rate of return on UK investments, such as sav interest rate increases, the rate of return on UK investments increases and att will switch their currency for pounds in order to invest in the UK and thus pu pounds. This short-run result is called 'hot money flows'.

- **Relative Inflation Rates (purchasing power parity)**
  If the UK has lower inflation rates compared to other countries then it means lower rate than others. This means in comparisons, UK goods will be more co demand pounds in order to purchase UK exports. Rising demand for pounds appreciate. High rates of inflation would have the opposite effect; UK prices countries, thus appearing less competitive.

- **The Level of Imports and Exports (Current Account)**
  In order to purchase UK exports, foreign consumers need UK currency. This n increases, the demand for pounds also increases. Buying imports will increase market because UK consumers will need to swap their UK currency for the cu country has a current account deficit, then their imports are bigger than expo greater than the demand for pounds. Excess demand means the price of the has a current account surplus, then their exports are greater than their impor of pounds because there is greater demand than supply, which will cause the

- **Speculation**
  Speculation is the act of trading on the anticipated price movements of finan gambling. As investors speculate, the demand and supply for pounds and the and supply of currency in great volumes every second. Generally investors ac which is a self-fulfilling prophesy. If investors believe the pound will apprecia pound ready to sell later at the increased price. As they buy more pounds, th and thus the pound will appreciate.

- **Quantitative Easing**
  Quantitative easing is a monetary tool the Bank of England uses to stimulate England increases the supply of money to restore a liquidity shortage, but by the value of the pound will depreciate.

Government Intervention and Managing the Exchange Rate

- **Changing Interest Rate**
  Changing the interest rate can change the demand for money because high investors to domestic investments. Foreign investors will need to change the currency before investing and thus will demand the domestic currency and p

- **Influencing Foreign Exchange Market**
  If the central bank buys its own currency then this would reduce the supply o exchange market. The value of currency will also rise. Equally, by buying the demand for the currency and this would equally increase the value of the cur

Consequences of Devaluation and Depreciation

An economy can gain international competitiveness by devaluating or depreciatin
makes their goods appear cheaper on the international market. For this reason, so
deliberately attempt to devalue their currency in order to boost their exports. This
countries pursuing an export-led growth strategy.

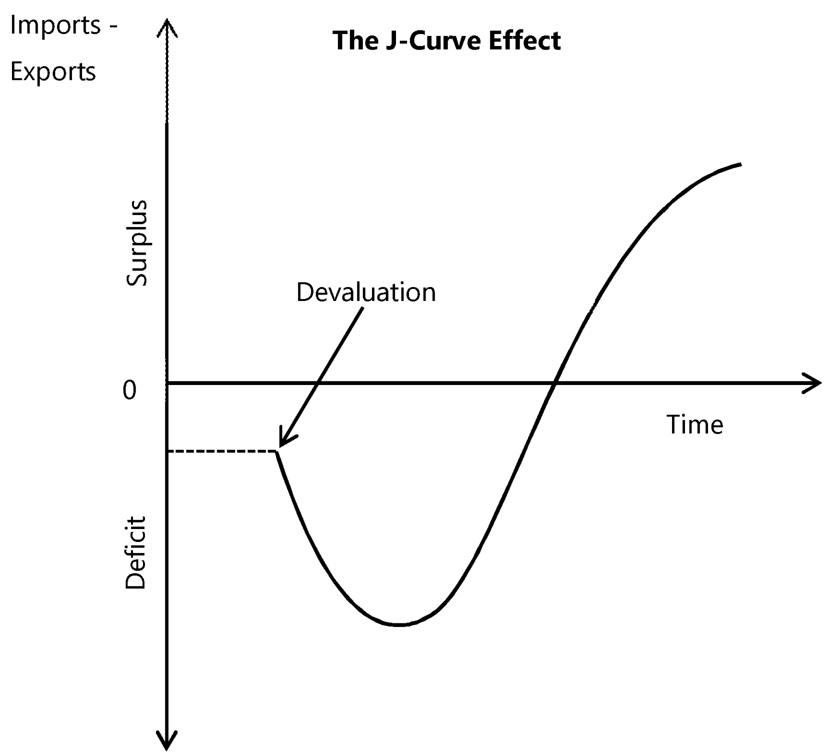
However, as was the case in the 1930s, if a large proportion of countries followed t
appear more competitive. Instead this would lead to decline in world trade.

Impacts of Changes in the Exchange Rate

- **Current Account of the Balance of Payment**
  A devalued or depreciated currency will increase international competitivenes
  appear cheaper in relation to other countries. As a response, the demand for a
  the demand for imports will fall as domestic consumption is switched to dome
  reduce any current account deficit a country may have and potentially push it

  Marshall Lerner Condition
  The Marshall Lerner condition states that there will be an improvement in a c
  following intervention, only if the total sum of all the elasticities of all the imp
  services is equal to or greater than 1.

  J-Curve Effect
  If firms have a high price elasticity of supply, because they are fixed into cont
  to quickly change their production, then they will be slow to change to the n
  consumers may have inelastic demands to imports, or foreign consumers ma
  exports because of habitual behaviour, for example, and will be slow to chan
  the pound depreciates, the theory says exports should fall and imports rise, w
  However, high elasticities mean the number of exports sold and imports bou
  value of these will change, so that the value of exports falls and the value of i
  deficit, but as people and businesses adjust, the number of exports sold will i
  and the deficit will be improved. The J-Curve effect explains that the current a
  it improves due to these inflexibilities and adjustment time lags.



- **Economic Growth and Unemployment**
  If the exchange rate changes such that a country's goods become more com
  is a boost in their exports and domestic demand as people swap to buying th
  industries will increase production in order to meet this new demand, thereb
  and higher employment levels through the increased demand for labour.

  If an economy's goods become less competitive, then there would be a decline
  leading potentially to negative growth, and unemployment could begin to rise

- **Rate of Inflation**
  If the exchange rate changes such that the pound depreciates, then imports will become more expensive. This will increase the costs of production for those firms that import raw materials for production. This will then consequently push the price up, leading to inflation. Equally, the increase in demand created from the increase in exports will also cause inflation.

  If a country's currency appreciates, then they may experience falling inflation rates or even negative inflation, particularly if they are reliant on exports.

Ev

The
an i
the
cur
the
rela

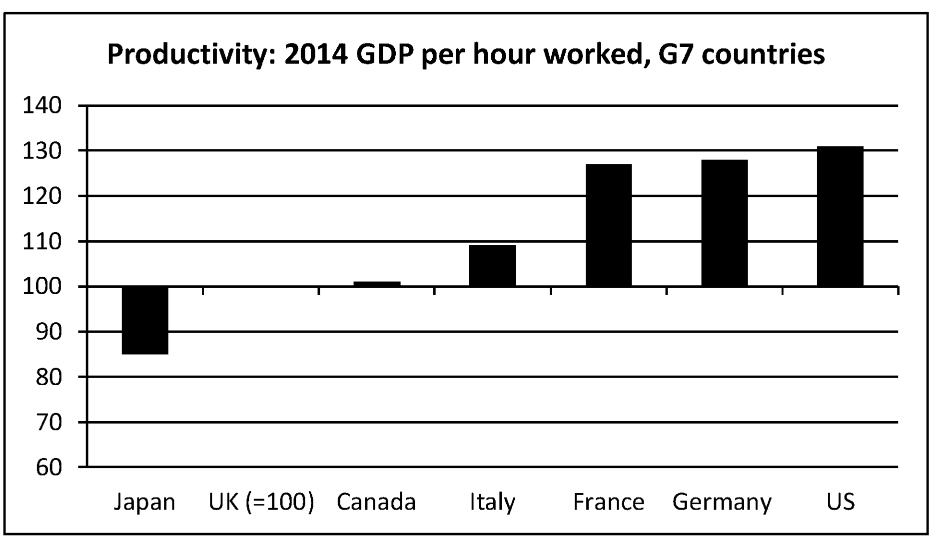
- **FDI Flows**
  If the exchange rate falls, then it will be cheaper for foreign companies to invest in the country. This would attract more Foreign Direct Investment (FDI) in to the economy. On the other side, if the exchange appreciated, then it would be more costly for foreign firms to invest. As a consequence, FDI flows will fall.

International Competitiveness

Competitiveness is the ability of a country or firm to compete and provide the bes
best price. Although it is mainly based on price factors, consumers will also consid
services and will choose the producer that provides the best option, so will choose
competitive.

Measures of and Factors that Influence International Comp

- **Relative Unit Labour Costs (Productivity and Wages)**
  The unit cost of labour depends on two things: the cost unit of labour, i.e. the
  of labour, i.e. how much labour a firm would need to employ to produce a ce
  are low, then the unit labour cost will be low, and if labour is relatively produ
  will need to employ, and thus labour costs will be cheaper. The lower the uni
  relative to other countries, the cheaper their costs of production and thus pri
  they will be. The graph below shows how the UK's productivity per hour work
  countries in 2014:



Source: ONS

- **Relative Non-wage Costs**
  There are other factors that can affect a firm's costs of production other than
  country may have strict environmental regulations which are costly to implem
  country will be less competitive due to their increased costs. There may be ot
  such as employment protection schemes, or requirements to provide a pensi
  such as VAT or those aimed at reducing negative externalities, will also affect
  competitiveness.

- **Relative Rate of Inflation**
  Almost all countries experience inflation (rising prices) and, therefore, it is the
  important. If Country A's price were rising quicker than Country B's, then Cou
  greater in comparison. Country A would become less competitive than Coun
  purchase their goods.

Benefits and Problems of International Competitiveness

\+ **Greater Exports**
A country that is more internationally competitive will have comparatively ch
market. This will increase a country's exports and reduce imports. Exporting f
more jobs.

\+ **Increased Aggregate Demand = Job Creation and Economic Grow**
An increase in exports will increase aggregate demand. An increased aggrega
economy. Although initially growth and job creation will be found in the expo
the injection of income will flow into the rest of the economy causing widesp
job creation.

\+ **Improve a Current Account Deficit**
An increase in exports and a decrease in imports (because domestic consume
imports to consuming domestically produced goods) will elevate any deficit a

\- **Worsen a Current Account Surplus**
If a country has a trade surplus, then becoming more internationally competi
surplus because exports will increase to a higher level and imports will decrea

\- **Increased Aggregate Demand = Inflation**
If goods become more competitive then exports will increase and thereby pu
Increased aggregate demand can increase prices and cause inflation.

Questions: International Economics (Part 2)

1. What are the four accounts in the balance of payments?

2. List and explain four causes of…
   a) current account deficit
   b) current account surplus

3. a) Explain three measures that a country can take to reduce a country acco
   b) What problems might arise from each of these measures?

4. What is a…
   a) floating exchange rate regime?
   b) fixed exchange rate regime?
   c) managed exchange rate regime?

5. List and explain three factors that influence a floating exchange rate

6. Explain two ways a government can manage an exchange rate

7. a) What might a depreciation or devaluation in a country's currency do to a
   b) What does the Marshall Lerner condition state?
   c) What is the J-curve effect?
   d) What three other impacts might a depreciation or devaluation have?

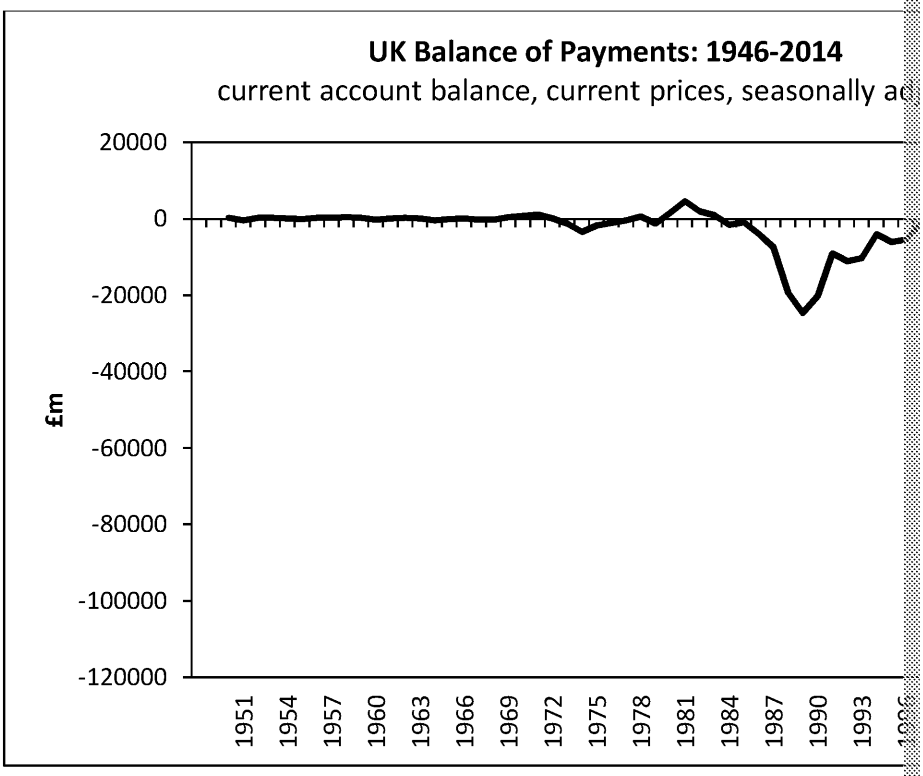
8. a) What is meant by international competitiveness?
   b) What three factors influence a country's international competitiveness?

9. Explain three benefits of being internationally competitive

10. Explain two costs of being internationally competitive

Exam-style Questions (1): International Economics

1. The chart below shows the UK balance of payments on the current account b current prices.



a) Explain the trend in the UK balance of payments over time.

....

....

....

....

b) The chart shows data in current (nominal) prices. Explain the effect this m given the trend for price levels to rise over time.

....

....

....

....

2. Define a **floating exchange rate** system.

....

....

....

....

....

....

3. Explain, with reference to the **J-Curve**, how a currency devaluation might init
payments on the currency account *worse*.

....

....

....

....

....

....

4. Explain **one** possible **disadvantage** of globalisation.

....

....

....

....

5. Explain how a non-tariff barrier can restrict trade without the use of tariffs, qu

....

....

....

....

Poverty and Inequality (

By the end of this topic, you should understand…

- Absolute and relative poverty
- Wealth inequality and income inequality
- Measures of inequality
  - The Lorenz curve
  - The Gini coefficient
- Causes of inequality
- How capitalism and economic change might affect inequality

Absolute and Relative Poverty

Absolute Poverty occurs when a person has an inability to afford basic needs. Th
countries regardless of differing living costs.

Relative Poverty occurs when a person has relatively less in relation to others **in**

Measures of Poverty

Absolute poverty is often measured by a boundary; if a person earns below the bo
poverty. Although the margin varies over time, due to inflation, most economists t

Relative poverty, however, is not a definite measure. The level at which a person c
varies across countries because the average wage in each country is different. In t
relative poverty if they fall below 60% of median income.

Median Income

Median income is the 'middle income'; this differs from the mean and gives a m
the average income earned, especially when dealing with data sets that have a la
example…

In a neighbourhood of seven people, the lowest earner earns £10,000 and the h
Below lists the wages of the seven workers in the neighbourhood in order of low

Person:	1	2	3	4	5	6
Income:	£10,000	£20,000	£25,000	£40,000	£50,000	£85,000

The median income is £40,000, but the mean income is £68,500 (to the nearest £
7, and to some degree person 6, earn incomes that are far above the rest. Relati
below 60% of the median income, which is £24,000. Person 1 and person 2 woul

Causes of Changes in Poverty

A country's absolute and relative poverty levels can vary with economic growth. T
will bring money into the economy, meaning some people's incomes will rise, alth
even distribution and so the difference between the poorest and richest may grow
development can also change poverty levels. Economic development is more likel
with poverty levels than economic growth would. Because assets provide asset ow
in asset price will change income levels and thus poverty levels. The government c
providing benefits to those on low income levels and taxing those on higher inco
between the two.

Inequality

Wealth Inequality vs Income Inequality

Income is seen as a <u>flow</u> of money. It is the money that flows from person to pers
e.g. wages in exchange for labour or rent in exchange for letting a property.

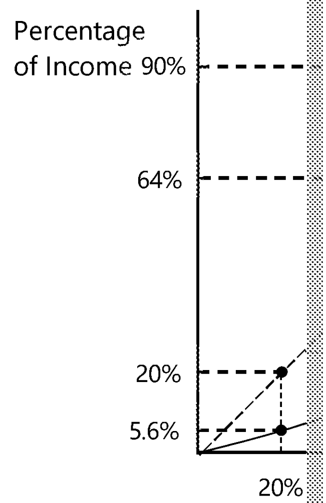
Wealth is seen as a <u>stock</u> of money as it is kept or stored. Wealth can be in the fo
such as houses (assets). It may have built up from wages or investment returns, bu
the money that a person holds.

Therefore, income inequality is the differences between the flow of money betwe
money they earn; whereas, wealth inequality is the differences between the stocks

Measures of Inequality

Lorenz Curve

The Lorenz curve is used to show the distribution of wealth in a country. It plots the cumulative income against the cumulative population. What this means is that each percentage along the axis has been added on to the one before. So you start at 1% of the population, and you plot how much income they have as a percentage of the whole income earned in the economy. Then you plot the next 1% along, this adds to make 2% and includes the first 1% and the second 1%. So when you plot the income that this 2% earns, you would look at both the income the first 1% earned, plus the percentage of income the second 1% earns.



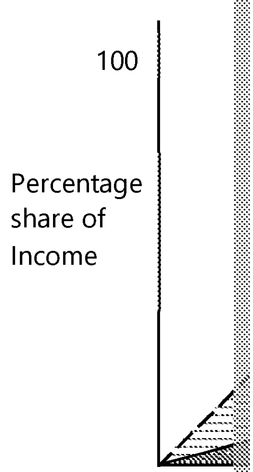
ACTIVITY

Watch this video on the income inequality in America; the ideal perception and the shocking reality:

https://www.youtube.com/watch?v=QPKKQnijnsM

A completely equal economy wou
earning 10% of the income; becau
the economy, the other 90% of th
by the other 90% of the populatio
economy will earn an extra 1% of
45 degree (dashed) line drawn on
perfectly equal progression.

The solid curve shows the actual percentage of income each percentage of the population earns. As shown on the diagram, 20% of the population should be earning 20% of the income, however, they actually only earn 5.6% of the income. This shows there is income inequality because they have far less than they should have. 90% of the population should earn 90% of the income in the economy, however, 90% of the population (a large majority) only earns 64% of the income, that's just over half for what is nine-tenths of the economy. This means the top 10% earn 36% of the income. That's almost a third of the income earned by the whole economy which goes to only 10% of the population. The closer the curve is to the 45 degree line, the more equal the distribution of wealth is in that economy.



Gini Coefficient

The Gini coefficient is a number that is calculated from the Lorenz curve and allow according to inequality levels. It is calculated using the area between the 45 degre relative to the whole area under the 45 degree line. The smaller the area between curve is to the 45 degree line, the more equal the society and the smaller the coef

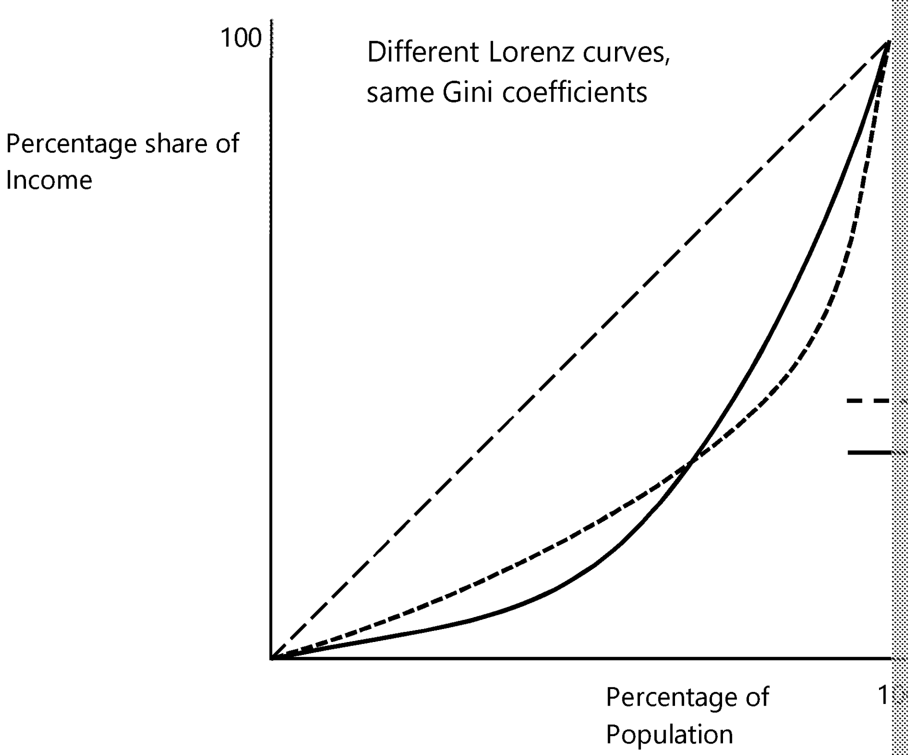
$$\text{Gini Coefficient} = \frac{\text{Area A}}{\text{Area A} + \text{Area B}}$$

The resulting Gini coefficient can theoretically range between 0 and 1. The closer higher the level of inequality of wealth.

In reality, Gini coefficients for individual countries tend to range between 0.2 and the Gini coefficient for the United Kingdom is 0.38. This is higher than Norway (0.2

Limitations of the Gini coefficient

The Gini coefficient has its critics, however. Consider the following diagram. Both *exactly the same Gini coefficients* despite having different Lorenz curves. This is be identical despite the curves having different shapes. The result is that two countrie income distribution can have the same Gini coefficient.



Another problem with the Gini coefficient is that countries have different approac income per *household*, others look at income per *person*, for example. These sorts make the Gini coefficient less meaningful when making comparisons between cou

Causes of Income and Wealth Inequality Within and Betwe

- **Education and Training (Human Capital)**
  Labour with greater human capital will have a higher price and so will because it generally costs to improve skills through education and tra will demand a higher wage to compensate for the costs. Equally, the s and the level of human capital increases and thus the price increases; people who have a degree than there are who have GCSEs and so gra graduates. Those workers with an increased human capital will have a to obtain a job with a higher income. Equally, those countries that hav policies will have workers with less human capital and lower incomes t higher human capital.

- **Wage Rate (Minimum Wage)**
  A minimum wage (if set correctly) ensures workers earn above the abs with a national minimum wage rate will generally have less inequality minimum wage rate.

- **Strength of Trade Unions**
  Trade unions can help provide workers with the bargaining power to i reduce any income inequalities.

- **Degree of Employment Protection**
  Employment protection policies can protect workers from low wage ra that may be inefficient to sustainably cover living costs.

- **Social Benefits**
  Social benefits can be given to support those in absolute or relative p a social or welfare system can thus close the gap between the poor in earners by providing for those at the bottom end of the range.

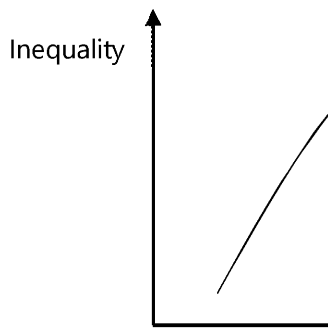
- **Progression of the Tax System**
  There is much debate among economists on the effect of progressive levels. On one hand, the theory is that by increasing the tax levels for range of income earners can be restricted and the money collected fr to the low earners in order to bring the two ends closer together. How theory is that this will disincentivise people to work for promotion and their wages. Equally, some believe that increasing the tax for high inco the incentive to avoid tax. Tax revenue overall will fall and only those w accountants (the high income earners) will avoid tax, and those that ca earners) will be left paying higher taxes to make up for the fall in tax r taxes will discourage foreign firms from entering and investing in the look to cut costs elsewhere, such as wages, in order to pay the taxes. T can change the inequality levels within a country or can explain the di

- **Pension Entitlements**
  Pensioners no longer have a steady income, as they are retired. A lack to cover living costs, can push some people into poverty. If a country scheme for its retired workers, then it can prevent pensioners from fal reduce its inequality levels.

- **Ownership of Assets and Inheritance**
  Wealth, due to its characteristics, tends not to trickle through the eco the same households. Assets are passed to relatives via inheritance an are unlikely to own assets. This is especially noticeable as those who a unable to afford assets.

How does Economic Change and Development Impact Ineq

Simon Kuznets was an economist born in Belarus who studied economic g hypothesised that initially, as an economy grew, inequality would increase, economic growth would result in increased development and reduce inequ shown on the diagram to the right (now known as the Kuznets curve).



Initially, as an economy grows and GDP increases, poverty falls as everybody is at the same low level and so income flowing into the economy is distributed evenly across everybody. Industrialisation starts. However, those who have the knowledge, ability, skills and/or the chance to become entrepreneurs, in other words those who are at the forefront of industrialisation, will have greater incomes than those with less opportunity or ability. The income coming into the economy will be unevenly skewed towards the 'risk-taking' business people and firm owners. Inequality will b and national income grow, but growing more in the pockets of the rich tha From a business perspective, it is advantageous to give the majority of the pay as little as possible to resource of production (workers). It is, therefore will be any more than the bare minimum.

Learn More!

Some famous economists on inequality and capitalism include Thomas Piketty, Adam Smith and Karl Marx. Research them and their theories.

Visit ***http://www.adamsmith.org/*** and be sure to look on the 'research', 'news' and 'blogs' sections for up-to-date articles.

Once the economy has gr government will have gai resources from taxes and benefit system to support possible to implement co provide equal opportuniti the economy is on the do curve, and now with econ development, and inequa

Capitalism and Inequality

ACTIVITY

Watch t 'corporate corruption' thinking in a creative a the relationship betwe inequality and the eco *https://www.youtube.co*

Free markets need motivations to improve and incentives to seek to maximise profits and utility. This motivation keeps the economy turning to maintain income flowing and drive the economy forward. Generally, the opportunity cost of working (which would be giving up spending time on leisurely activities) is high. Without the benefits of working (which in the most basic sense is an income), most people would not choose to work. Some people may experience other benefits and utility fro useful, fulfilling a sense of duty, bettering oneself through increasing skills choose to work. But, a greater number of people will choose to work only providing the opportunity to increase that wage and gain promotion, work longer hours, work harder and improve skills through education and traini expanding their knowledge and enjoy learning, however, for most people school and acquire qualifications is the reward of greater opportunity to o

is also a legal requirement to stay in school to a certain age and hence peo
ensure the economy keeps producing the goods and services people requ
services people desire, the economy or government either needs to provid
or enforce it (through legal obligations and laws); a free market economy c

Because people have differing skills, capabilities and to some extent differi
will also be unequal incomes individually provided depending on the requ
ability of a worker to satisfy these. Hence, in a free-market, capitalist econo
uneven distribution of income and, therefore, income inequality. However,
sense, does not necessarily translate as unfair. When opportunities are une
creates barriers to social mobility and causes unfair inequality, which some
constraint to economic growth. Opportunity inequality prevents people fro
and tends to prevent those who start off with little from attaining high-inc
inequality slows and 'blocks' money from trickling down, and so people te
financial position as where they started. This is when inequality becomes a
may wish to change their situations are unable to.

Wealth can create income and so wealth owners will find their wealth grov
that can be rented out and the rent increasing the landlord's savings. But, w
spread across the economy or flow easily between economic agents and s
just like monopolistic markets with high sunk costs, it is difficult for those
without wealth to gain wealth (enter the market). Hence, wealth inequality
can be a social barrier.

Questions: Poverty and Inequality

1. **a)** What is absolute poverty?
   b) How is it measured?

2. **a)** What is relative poverty?
   b) How is it measured?

3. How do wealth and income differ?

4. **a)** Plot two Lorenz curves using the data below and include the 45 degree

Country A	
Percentage of the Population	**Percentage of Income**
10%	5%
20%	10%
30%	15%
40%	25%
50%	35%
60%	45%
70%	55%
80%	65%
90%	80%

Country B	
Percentage of the Population	**Percentage of Income**
10%	3%
20%	5%
30%	10%
40%	15%
50%	20%
60%	30%
70%	40%
80%	50%
90%	70%

   b) What is the equation for the Gini coefficient?
   c) Without calculating, which country would have a higher Gini coefficient?
   d) Which country has higher levels of inequality?

5. Explain five causes of inequality within countries

6. **a)** Draw the Kuznets' curve
   b) Explain the relationship economic growth has on inequality depicted by

Emerging and Developing Econ

By the end of this topic, you should understand…

- Measures of development
  - HDI (Human Development Index)
  - Other measures
- Factors affecting growth and development
- Strategies influencing growth and development
- International Institutions and NGOs

Measures of Development

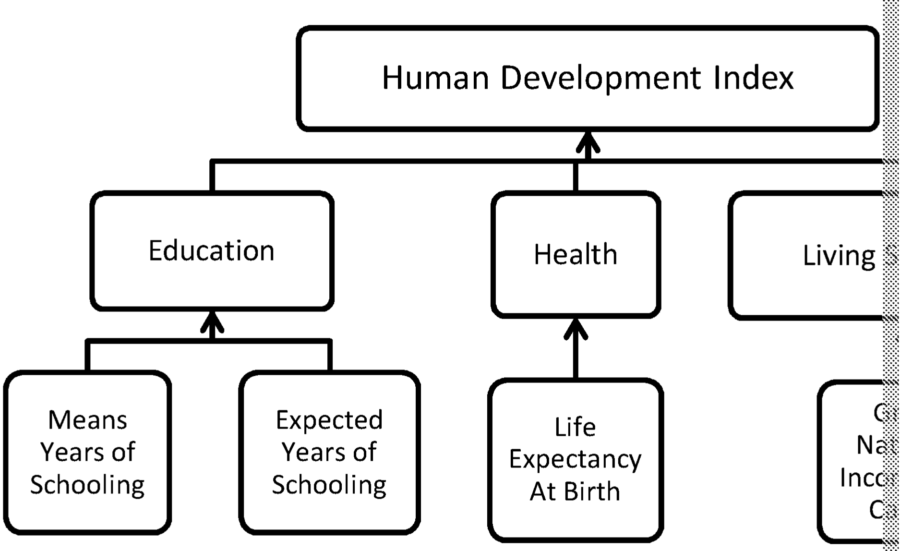
- **Economic Growth** measures the change in size of an economy as measu
- **Economic Development** measures the quality of a country in terms of society and welfare is.

How do they differ…?
Development and growth differ in terms of what they are concerned with, variables. Production is better at showing the size and value of an econom literacy rate is better at showing the quality of a workforce. There is often both; although the exact relationship is debated and does not always hold increasing economic growth will result in increasing economic developme that is growing has more income flowing around and this income can be u of society, such as funding job creation or providing more goods and serv there is more money going into the government which can then be redire schools and hospitals for example.

Human Development Index (HDI)

1. **Education:** Mean years of schooling for an adult aged 25 and expecte entrants
2. **Health:** Life expectancy at birth
3. **Real GNI per capita:** Adjusted using purchasing power parity

The measures come together to create an index value between 0 and 1. C according to how developed they are, 0 being less developed and 1 being



Advantages and Limitations to HDI

+ It is multidimensional as it combines economic growth measures with suitable for showing development.
+ It allows for easier comparison and ranking between countries
- Does not take into account inequality, only looks at the mean average
- Does not take into account ecological or environmental consideration

QUANTITATIVE SKILLS

Understanding composite indicators.

A requirement of the quantitative skills element of the course is the understanding is the most common and most important of these.

A key idea is that HDI is unitless: it is an *index*, composed of various factors as sh can only be interpreted, therefore, as a means for comparison with other countrie

The HDI is a geometric mean of the three components (education, health, and livi need to calculate composite indicators in your exam. However, the formula for H you understand it:

$$HDI = \sqrt[3]{Life\ Expectancy\ Index \times Education\ Index \times Inco$$

Top 10 Countries in 2014	
Ranked by HDI	**Ranked by GDP per capita**
1. Norway	1. Monaco
2. Australia	2. Liechtenstein
3. United States	3. Luxembourg
4. Netherlands	4. Norway
5. Germany	5. Qatar
6. New Zealand	6. Switzerland
7. Ireland	7. Australia
8. Sweden	8. San Marino
9. Switzerland	9. Denmark
10. Japan	10. Sweden

Source: United Nations/World Bank

The table to the left shows t world ranked by HDI and by the lists are quite different. N the world as determined by top 10 countries as ranked b

Other Development Indicators

- **Economic Indicators (GDP, GNI, GNP)**
  Economic indicators can show development because there is often a c
  and development. By measuring the national income in an economy, i
  economy to expand and improve. However, economic measures are n
  development because there is no guarantee a large economy has a pr
  living standards and quality of life.
- **Inequality (Lorenz Curve and Gini Coefficient)**
  The problem with economic measures and development measures alik
  ranges. Averages may appear at good levels, but they can be unrepres
  living below these values if there is a minority that measures extremel
  is looking at people and not figures, these masked groups are signific
  The Lorenz curve and Gini coefficient attempt to account for the range
  proportion of the population actually are and aren't represented by th
- **Inequality-adjusted Human Development Index (IHDI)**
  IHDI attempts to take into account the damaging effects of inequality
  averages that were calculated according to the inequality levels withir
  high, then the averages will be lowered in order to account for this.
- **Multidimensional Poverty Index (MPI)**
  MPI looks at poverty from a versatile point of view. It goes beyond a s
  perspective and looks at a wide variety of measures, such as sanitation
  in poverty if they are deprived of one-third or more of the items meas
- **Mobile Phones**
  By looking at the number of mobile phones there are per 1,000 peopl
  technology can be determined. This can indicate the level of developn
  shows whether the incomes are high enough to afford luxury items, a
  has a high access to technology which can improve production purpo
- **Access to Clean Water**
  Clean water is a basic human right and the accessibility can show the a
  this need, thus indicating a country's level of development.

Factors Influencing Growth and Developmen

- **Primary Product Dependency**
  Primary product dependency refers to countries whose main bulk of e
  products (raw materials) such as wood or coal. This can limit growth fo
  primary products generally have little return, hence why they are some
  goods'. This means the value of exports is very low and there will be o
  into the economy. Secondly, commodity prices fluctuate, which causes
  aggregate demand and exchange rate and can create economic instab
  grow. Equally, primary products are income elastic, so as world incom
  change to the demand for these products.
- **Volatility of Commodity Prices**
  Commodity price volatility can create economic instability from inflati
  producers varying revenue. This will deter potential investors in the co
  countries gaining the influx of income they may need to grow and dev
- **Harrod–Domar Model (Savings Gap)**
  The Harrod–Domar model explains that there are two factors that affe
  development levels of a country: the savings ratio and the capital-out
  ratio looks at the efficiency of capital to produce goods; the more pro
  goods and services a country can produce and so the quicker it will gr
  the level of savings in a country. The higher the savings ratio the easie
  and then firms can borrow to invest and grow.

- **Foreign Currency Gap**
  Developing countries may suffer from a foreign currency gap. This is w
  payments deficit (on the current account) is higher than capital inflow
  countries are heavily dependent on exports (perhaps coffee beans or
- **Capital Flight**
  This is when investors move their capital from investing in one country
  can happen for a variety of reasons. For example, taxes in the original
  increase, so the return on investment will fall and as a response invest
  perhaps there is political and economic instability and so investors mo
  risk. As a consequence of capital flight, a country's currency will fall dr
  exchange rate; equally, as money leaves an economy it may begin to d
  have restricting effects on growth and development.
- **Demographic Factors**
  One aspect of demography is the age distribution of a population. Co
  population are likely to be restricted in growth rates because a lot of t
  of the workforce because they are outside working age.
- **Debt**
  If countries are spending money to repay old debts, then they are una
  growth or development policies. Debt repayments represent an outflo
  The nominal value of the debt is less relevant, the sustainability of the
  an economy and their ability to afford it. This is why debt is often mea
- **Access to Credit and Banking**
  If the people within a country do not have access to capital or the abil
  then they will not be able to protect and grow their wealth, or take ou
  accessibility can prevent a country from growing and developing.
- **Infrastructure**
  Infrastructure determines the ease at which resources can be moved a
  infrastructure will prevent businesses from transporting their goods, th
  from acquiring the resources they need for production, therefore prev
  manufacturing. These barriers will prevent a country from developing
  and economy.
- **Education and Skills**
  Education and skill can improve human capital. Countries who invest i
  capital will find their growth and development rates will increase as th
  workforce.
- **Absence of Property Rights**
  Property is often used as collateral when somebody takes out a loan. I
  right to a property, then this may prevent them from obtaining a loan
  and development rates may suffer.

Non-Economic Factors

Non-economic factors affect the country's ability to manage and regulate
the efficiency of the economy and reduces growth levels. These factors ca
and quality of life, which adversely affects a country's development levels.

- corruption
- poor governance
- wars
- political instability
- geography
- distribution of resources (resource curse)
- landlocked countries

Strategies Influencing Growth and Developm

A lot of the strategies discussed in this section are recaps of p

- **Market-Orientated Strategies** are strategies where the government attemp promote growth and development, rather than the government directly char
- **Interventionist Strategies** are strategies where the government takes a mor manipulating the market, the government will simply change the market con

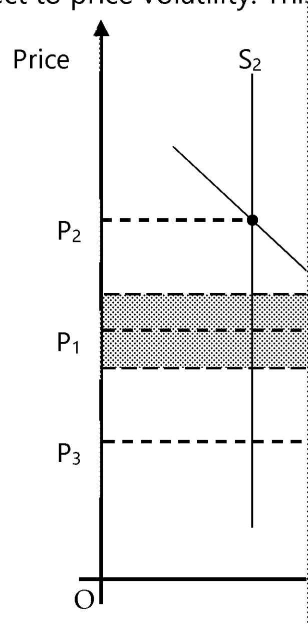
Market-Orientated Strategies

- **Trade Liberalisation**
  By reducing trade barriers and liberalising trade, it is hoped a country to grow and benefit from an increased market. More consumers mean can increase their production and create inflows of income into the ec increase job creation and lower unemployment, which in turn will ben demand (due to the increase in incomes) and improve development a
- **Promotion of FDI**
  Foreign multinational companies can bring an inflow of money into a which can boost economic growth and development. If a foreign MN because maybe the tax rates are low, then the theory is they will offer incomes that will go to boost the economy.
- **Removal of Government Subsidies**
  By removing a subsidy, industries that were once protected by state in be open to global competition. Inefficient industries will collapse as th to compete against foreign firms. In the long run, it is hoped that rem subsidies will improve resource allocation as the resources that were t industries, or the resources spent on protecting these industries, will b more efficient industries that will provide more revenue and higher gr industry collapses and another begins, there will be structural unempl growth and development. Imports will rise if domestic consumption is domestically produced goods anymore, and this could cause or worse However, the money that the government isn't spending on subsidies elsewhere, such as supporting those who lost their jobs from the decli growth and development policies.
- **Floating Exchange Rate Systems**
  Countries that have spent money on artificially keeping their currency benefit from changing to a floating exchange rate. This is when they a currency to appreciate and depreciate in line with change in demand The currency will depreciate from its artificially high value and there w in exports and fall in imports. This inflow of money will boost the econ
- **Microfinance Schemes**
  Microfinance is a way for people to loan a small amount of money to fund other people's investment projects. It is often aimed at people who have little access to banks and funding, to help promote their innovation and entrepreneurship. By providing finance to those who lack the ability and opportunity, a country can find a positive impact on its growth and development levels.

  Le
  De
  an
  vic
  htt
- **Privatisation**
  Privatisation can make an economy more efficient. Equally, any resour government had spent on the organisation can now be spent on deve growth policies. The private firm that took on the company can now g which will be taxed and add to the inflow of money to the governmen

Interventionist Strategies

- **Human Capital**
  By improving human capital a country can increase the productivity ar thus increasing GDP and economic growth. Equally, the more skilled a workforce, the more likely industries that produce complex and highly this in turn will bring in higher revenues and greater incomes for the c
- **Protectionism**
  Protecting industries will protect the jobs of those within the industry. sunset industries can ensure critical goods will still be produced and p domestic market. Without these goods, living standards may fall. Prot industries can allow a market to gain a comparative advantage and th expand into this market and economic growth rates will increase.
- **Managed Exchange Rates**
  A government can manage an exchange rate by changing the demand through interest rate changes. By doing this, a government can depre and stimulate exports. The inflow of income from greater exports can rates.
- **Infrastructure Development**
  The economy works like your body might; every little component has small changes in these components can have significant effects to the The infrastructure is like the veins and arteries, it allows the economy transport resources. Poor infrastructure will add inefficiencies and time only add barriers to economic growth. Equally, crumbling buildings ar effects on living standards and quality of life. So, improving and invest improve the economy and surroundings.
- **Promoting Joint Ventures with Global Companies**
  By promoting the engagement of global companies, a country can be foreign direct investment which can inject money into the economy fo bring new jobs and provide employment and incomes to the people w not only boost growth rates through increased aggregate demand, bu rates as people will be able to afford the goods and service they requi
- **Buffer Stock Schemes**
  Agricultural goods and commodities are subject to price volatility. Thi some years they will have very little income and they cannot always plan ahead for investment as they do not know what returns they will have in the future. This can be detrimental to an economy, especially one that has a large agricultural sector, as this not only will affect the balance of payments and output of an economy, but also the farmers are other businesses' consumers and if their incomes are low, it can have knock-on effects for other markets. Buffer stocks are design to mitigate these fluctuations and allow farmers the ability to plan, invest and grow. To show how this works, we will use the example of corn (see graph). One year there may be a bumper harvest, the supply

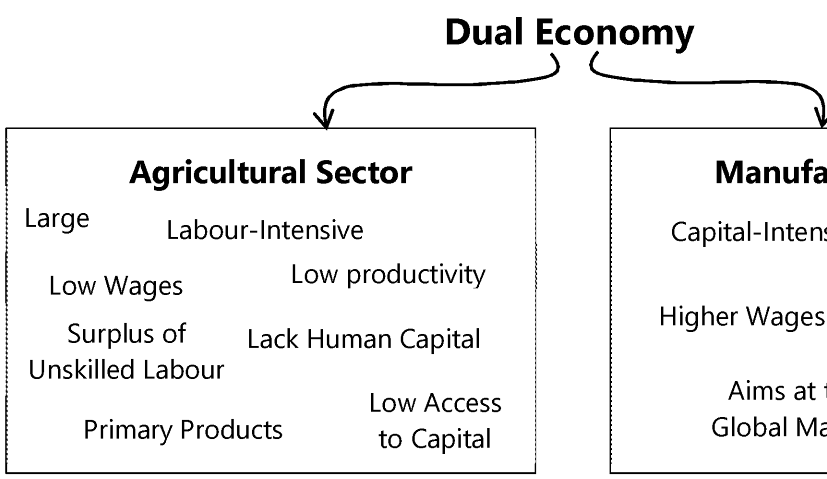


curve would be at S_3 and the price would be at P_3. This is below the 'fl
the minimum income for farmers to meet their basic needs and cover
government will buy corn in order to reduce supply to S_2 and bring th
may be a shortage of corn; perhaps there was particularly bad weathe
would be at S_1 and price at P_2, this is the government's chance to sell
bought from the previous bumper harvest. Selling the stored corn will
S_1 and the price back down again to be within the set limits. This also
on the market for consumers to buy corn and at a price they are able

Other Strategies

- **Industrialisation**
  Industrialisation is the idea that a country develops its sectors from a
  to a higher-return industrialised sector. Industrialised markets tend to
  produce goods that bring in higher revenues, which results in higher
  less volatile with prices. This increase in the value of goods should bo
  and provide better living standards through more advanced goods an

- **The Lewis Model**
  William Arthur Lewis came up with a development model to explain h
  being agricultural to becoming industrialised. He believed countries w
  this he meant the economy would have a large agricultural sector and
  sector. The model of a dual economy assumes the agricultural sector
  unskilled labour, and that the manufacturing sector had higher wages
  It predicted that workers from the agricultural sector would be attract
  move to the manufacturing sector. The firms in the manufacturing sec
  expansionary projects. As more people joined this sector, leaving the
  grew, the manufacturing sector would expand as the agriculture secto
  would become industrialised.



- **Tourism**
  The tourist industries tend to require more labour-intensive work tha
  means countries with low levels of capital, but that are 'labour abunda
  Holidaymakers present an inflow of money into an economy as they c
  tend to have slightly more inelastic demand curves.

EVALUATION POINT

Tourism can present negative externalities. For example, tourists can dama
litter and increased travel. Airports not only represent an increase in CO_2 e
airports. Resources (such as clean water) are sometimes provided to touris

- **Fair Trade Schemes**
  Often, developing countries are unable to compete on the global market due to the market power of developed countries and their protective policies. The WTO aim to reduce protective policies in order to provide developing countries the chance to fairly trade their goods and services.

EVALUA

Fair trade
resource'.
return, res
other mor

- **Aid**
  Supporters of aid believe money given to countries can be spent on d
  improve growth and development rates. However, critics of aid believ
  policies that appeal to the public but are actually inefficient at improv
  There are different types of aid:
  Humanitarian aid = things given in times of emergency, such as tem
  disasters
  Grants = money given ('free of charge') to fund projects
  Soft loans = money given with the intent to be paid back, usually at a

- **Debt Relief**
  Countries that have borrowed money may find they are unable to pay
  1980s and 90s 'debt crisis'. Countries with high repayment costs will fi
  money on development and growth policies because they are instead
  paying these loans back will mean government can put the money int

Role of International Institutions and Non-Government Org

World Trade Organisation (WTO)

What is the role of the WTO?

Formerly known as the General Agreement on Tariffs and Trade (GATT), the WTO came to be in 2001. Their role is to police the international market. Their main aims are to increase competition on the global market through completely free trade between countries.
The WTO attempts to provide support to developing nations and allow the
expand and develop through trade. However, they try to take into account
aim to stay within acceptable social and environmental bounds and allow
acceptable. They endeavour to function with complete transparency.

How do they achieve their aims?

The WTO provides a place for trading nations to discuss and negotiate the
From this, trade disputes can be resolved and legally-bound rules can be c

International Monetary Fund (IMF)

What is the role of the IMF?

The IMF was set up in 1945 after World War II. It was created in order to provide loans and finance to countries which needed the funds to rebuild after the devastating destruction the war created. Their original aim was to prevent the disastrous consequences experienced from the Great Depression in the 1930s. Nowadays they aim to assist countries to obtain macroeconomic stability and to reduce poverty worldwide.

> **Lear**
> To le
> their
> *http:/*

How do they achieve their aims?

The IMF collect data on all sorts of variables from all across the world. The data analysis and to provide economic forecasts. From this, the IMF can wa shocks and provide policy advice. As well as advice, they also provide loan overcoming economic difficulties. They also provide concessionary loans, w reduce poverty in developing countries.

World Bank

What is the role of the World Bank?

The World Bank Group started after the World Wars and is made up of five institutions. When people refer to the World Bank, they mainly refer to the International Bank for Reconstruction and Development (IBRC) and the International Development Association (IDA). The World Bank Group also includes: International Finance Corporation (IFC); Multinational Guarantee Agency (MIGA); International Centre for the Settlement of Investment Disputes (ICSID). The World Bank's aims are to end absolute poverty, which they measure as earning less than $1.25 a day, and to increase the wages of the poorest 40%.

> **Learn More!**
> Scroll about hal
> link below and u
> you are able to
> World Bank Gro
> *http://www.worl*
>
> The World Bank
> have a look at s
> link: *http://data.*

How do they achieve their aims?

They, like the IMF, also collect and analysis global data and provide policy increase living standards, the World Bank invest in projects that improve e and natural resource management. They also provide low interest-free loa need funds.

NGOs

A non-governmental organisation (NGO) can be organised over a local, na Although there may be a 'governing body' to manage the organisations, t government (as the name hints) and they are not profit motivated, they ar organisations. Some examples can be seen below:

- Oxfam
- Greenpeace
- Wikimedia Foundation
- Amnesty International
- NSPCC
- RSPCA

Questions: Emerging and Developing Economies

1. What are the three measures in the Human Development Index?

2. Name and explain four other indicators for development.

3. Name and explain five factors that influence growth and development.

4. **a)** What are market-orientated strategies?
   b) Can you describe five market-orientated strategies?

5. **a)** What are interventionist strategies?
   b) Can you describe five interventionist strategies?

6. **a)** What is a dual economy?
   b) Explain the how a country industrialises using the Lewis model

7. There are other methods a country can adopt to develop...
   a) Evaluate the use of tourism as a strategy for development
   b) How do fair trade schemes affect development?
      i. What is the negative of fair trade schemes?
   c) Explain two other strategies for development

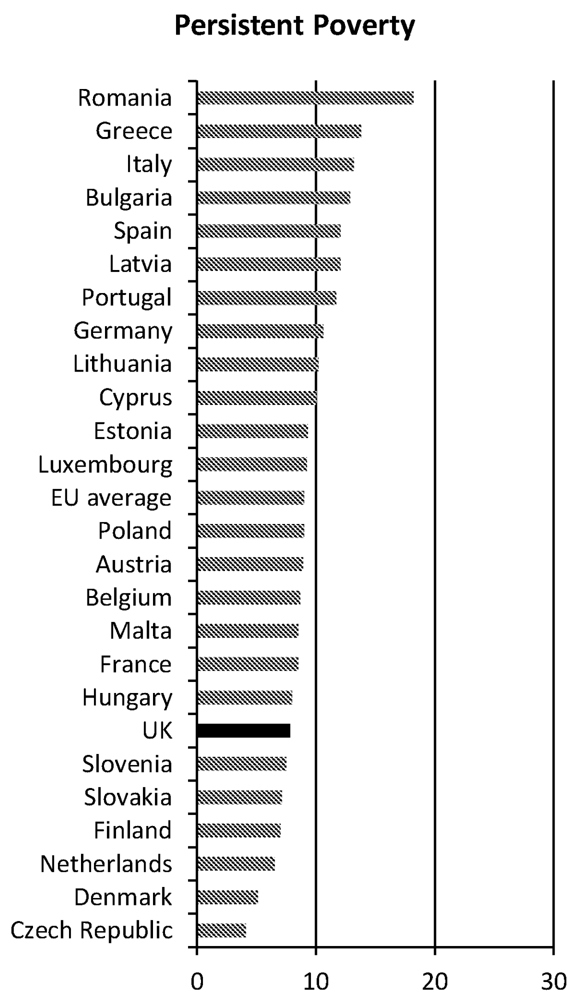
8. **a)** What is the WTO?
   b) What are the WTO aims?
   c) how does the WTO achieve these aims?

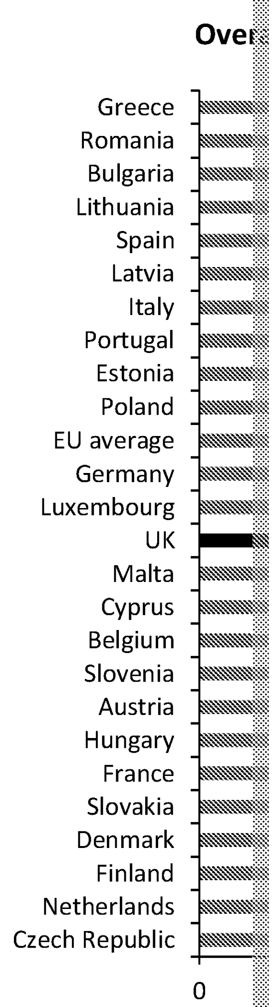
9. **a)** What is the IMF?
   b) What are the IMF aims?
   c) What is the role of the IMF in achieving these aims?

10. **a)** What is the World Bank?
    b) What are the World Bank aims?
    c) What is the role of the World Bank in achieving these aims?

Exam-style Questions (2): Poverty and Inequality, Deve

1. The two charts below show the **persistent poverty** rate and the **overall pov**
In this case poverty refers to relative low incomes. **Overall** poverty is defined
less than 60% of the median in that country. **Persistent** poverty is defined as
year and at least two years out of the three years before that. The data used
2008 and 2013.





Which one of the following can be inferred from the set of charts?

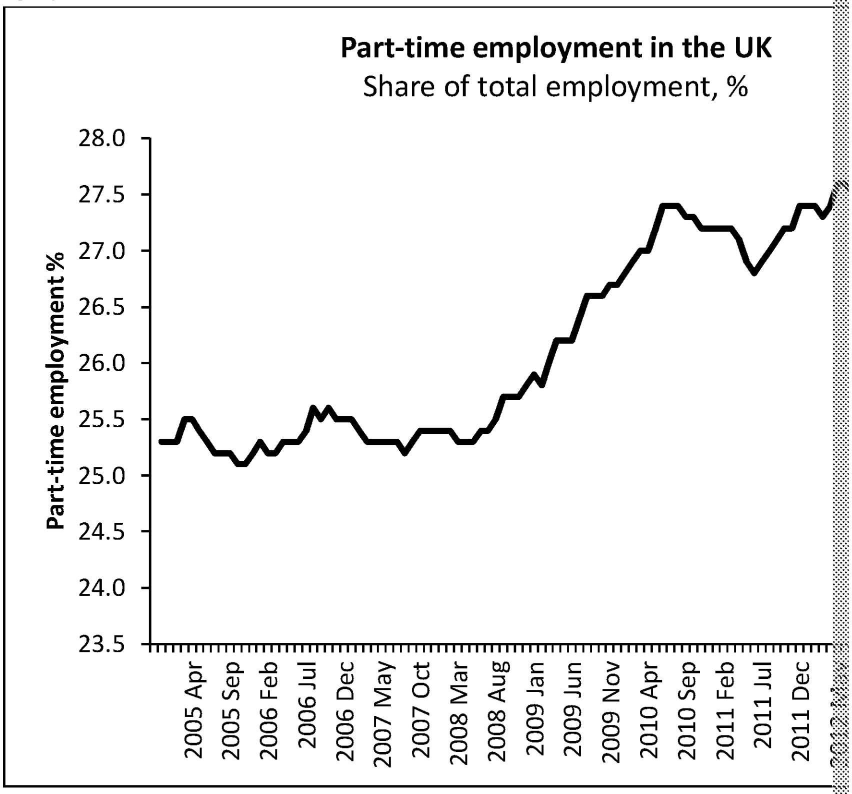
A The UK has a better *persistent* poverty rate **and** *overall* poverty rate com
the time period analysed.

B The Czech Republic has the worst poverty in both measures analysed ove

C The UK has a better overall poverty rate compared to persistent poverty

D Romania and Greece tend to have the worst poverty across both measur

2. The chart below shows the percentage of total people in employment that is time work.



a) Which one of the following can be inferred from the chart?
   - A Part-time work as a percentage of total employment steadily increa
   - B The share of part-time work remained constant after the 2008 finan
   - C Part-time work as a share of unemployment remained between 25 during the period shown.
   - D More people are employed in part-time work than in full-time roles

b) With reference to the chart, explain how a changing balance between pa might affect inequality.

....

....

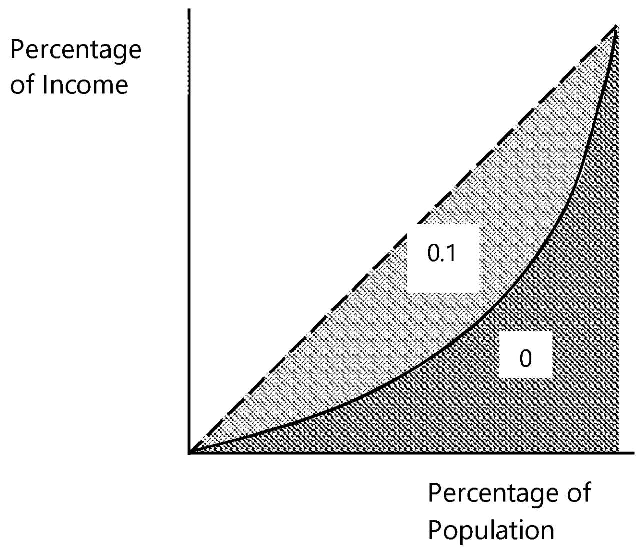
....

....

....

....

3. The diagram below shows the Lorenz curve and the line of complete equality



a) Calculate the Gini coefficient for the economy. You are advised to show

....

....

....

....

b) Explain one possible measure that a government could put in place to re

....

....

....

....

4. Explain how the Lewis model explains the industrialisation process using a du

....

....

....

....

....

....

The Financial Sector (4

By the end of this topic, you should understand...

- The role of financial markets
- Market failure in the financial sector
- The role of central banks

Role of Financial Markets

For your exam, you only need to have a basic understanding of the role of financial market is tricky to think about because the good that is being bo you use money to buy money – it is an abstract concept. But, like a generic service, the financial market has people (producers) who are able to supply people who require and are willing to purchase the money (consumers). Th operates to allow those who are willing to purchase the money to find and willing to supply it.

Those willing to supply the money are those with excess money, who earn The excess could sit around in their homes and just build up in piles, but th can invest in projects and earn more from it; businesses tend to invest thei expansionary projects. The financial market is a place that facilitates saving place to lend to the businesses and individuals that may need to borrow, a it provides a place for them to borrow funds. Money is sold on the financia shares, bonds, equities and many more. The financial market is the place w be traded as well as currencies and commodities. .

Market Failure in the Financial Sector

Before starting this section, have a look through your notes from Theme 1 market failures. In this section we will look at these failures at a macro-per focus on the financial market rather than a market for any goods or service

Asymmetric Information

Asymmetric information occurs when there is imperfect information within more information on a product than another party. In the financial market, may have imperfect information on the people they are lending to and, as informed decisions. Equally, regulators may have less information than ban secure and stabilise the banking system.

Externalities

The consequences of an unstable or collapsing financial market will have r whole economy leading to losses in the form of money and potentially eve crash for example, in order to prevent the collapse of the Royal Bank of Sc decided to bail out the bank for $45 billion, which was mostly paid for by t problem that originated in the financial market.

Moral Hazard

The government bailed out the banks after the 2008 financial crisis. This ha wrong message' as it removes the incentive for banks to ensure their pract lead to further crashes in the future because banks know they can take hig will step in if the investment doesn't work out.

Speculation and Market Bubbles

A market bubble is the word to describe a market that is growing and 'infla it shouldn't. Market bubbles will inevitably burst, and the ones that have h them, the bubbles that have inflated to such a large degree, will have dras burst. The US housing market was a market bubble that was blown up thro banks. US banks would lend money to homeowners regardless of their abi would do this because they believed there was lots of money to be made when the bubble eventually burst because borrowers were unable to pay b sub-prime mortgage market collapsed. This had disastrous consequences market and sparked off the 2008 financial crisis.

Market Rigging

Market rigging is similar to collusion; it occurs when two or more parties in prevents the market from functioning as it should. They do this because by they are able to make more money than they would have had the market manipulation. It is believed that some bankers are involved with rigging wh and interest rates.

Role of Central Banks

- **Implementation of Monetary Policy**
  You may need to read back to Theme 2 in order to refresh yourself on the way in which the Bank of England (which is the UK's central bank) changes the interest rates that we as consumers face, by changing the interest rate which they offer to commercial banks. One role of the central bank is to monitor and manipulate the economy through the use of monetary policy tools, such as interest rates and money supply.

> **Learn More!**
> Read the Bank of E about their role ar
> *http://www.bankof ments/other/mone*

- **Banker to the Government**
  The different departments within a government will need an account t deposit their money and from which to withdraw their funds. The cent bank to the government and, like a commercial bank to people, is able government short-term loans if they need.
- **Banker to Commercial Banks**
  Because commercial banks lend their depositors' deposits to borrowe money from somewhere in order to provide the depositors with their The central bank sets an interest rate at which it will lend to commerci will then set a higher interest rate when it lends to borrowers (otherwi money). The central bank is also the 'lender of last resort'. By this it is liquidity problems and have no other option, they are able to borrow in order to get out of trouble.

- **Banking Industry Regulator**
  Usually, the central bank governs the banking system. In the UK it is n Authority (FCA), who work in conjunction with the Bank of England. Th regulation in order to keep stability within the banking market and fin central bank requires that the commercial banks must keep reserves. T that is put in from depositors. The bank then lends this money to borr proportion of this money within the bank to give to depositors who m The central bank could change regulations and require that commerci Although you do not need to know all the regulations that central ban question in your exam could ask you to analysis the potential effects o

Questions: The Financial Sector

1. What are the four roles of the financial market?

2. **a)** How does asymmetric information present a problem in the financial ma
   b) What is market rigging?
   c) Explain three market failures in the financial sector

3. **a)** What is the role of the Bank of England to the government? (You may n
   b) What are the two roles the Bank of England takes in the banking industr
   c) What policy does the Bank of England implement?
      i. What are the two tools the Bank of England uses to implement this
      ii. How are each of these tools used?

Role of the State in the Macroec

By the end of this topic, you should understand…

- Public expenditure
  - Factors that affect public expenditure
  - The impacts of high levels of public expenditure
- Market failure in the financial sector
- The role of central banks
- Taxation
- Public sector finance macroeconomic policies in a global context

This section builds from the content you learnt in Theme 2; you will now need to expenditure more thoroughly and be able to analyse the macroeconom

Public Expenditure

Current expenditure is the government's regular, everyday expenditure. This is fo the money has been spent, the good has been used. Examples of current expendi service employees, electricity bills for street lighting, paying for the maintenance o for the NHS.

Capital expenditure is long term investment by the government that will improv PPF. This expenditure is good for promoting growth and development. For examp or expanding schools and hospitals will improve the quality of the workforce by in health of workers, and as such will increase the maximum productive potential. Or spending on a project to resurface the roads would improve the transport of good increasing the capabilities of an economy to produce goods and services.

Transfer payments are payments that are given by the state to individuals but wi services in return. Transfer payments would include job seeker allowance, or empl unable to work due to illness. They are often used as a way of supporting society a

Factors That Change the Size and Composition of Public Expend

- **Incomes**
  As incomes change, the demand for some services and goods will change. Ge people demand state-funded services. For example, people may instead swit care rather than using the NHS. Equally, less people may need state financial expenditure may fall with rising incomes.
- **Age Distribution (Demographic)**
  People of different ages have different needs and wants. Countries with an a levels of expenditure on health-care services. Countries with a current baby b payments will increase.
- **Expectations**
  This can refer to expectations of both the government itself and of the public expenditure on health-care services because they forecast an ageing populat provided goods and services can alter the level and composition of expendit should be spent on unemployment benefits but more should be spent on im government is likely to change the amount it spends on these factors in orde
- **Financial Crisis**
  Many governments found they had large and persistent fiscal deficits due to because the level of expenditure increased due to higher levels of unemploy also the level of tax revenue decreased, because consumption and wages fell had to borrow money and now a larger proportion of their expenditure is sp

Impacts of High Levels of Public Expenditure on…

- **Productivity and Growth**
  The impact of expenditure on growth and productivity is debated depending on the stances one has on the degree of state intervention. Those in favour of state intervention would say that public expenditure will increase growth levels and productivity because it is spent on projects that do just that. Generally, this is capital expenditure. Critics of state intervention would say that because the state is not profit-motivated, they tend to fall into the trap of x-inefficiency. They believe public expenditure restricts growth and productivity because the public sector instead uses the resources that the private sector could use, thus misallocating resources away from more efficient uses.

Learn

Read
Laffer
relatio
reven

https:/
014/1
curve-

- **Living Standards**
  Public expenditure is often made on things that will improve living standards development. Whether that be current expenditure (which is spent to keep th capital expenditure (which is spent on investing in the economy), or transfer need), money is spent ultimately with the aim of improving and developing.

- **Crowding Out**
  Crowding out it a term used for an expansion of the public sector which resu sector, because of course, resources are limited and will need to be taken fro Financial crowding out occurs when public sector expansion is funded by gov persuade investors to buy government bonds (loan the government money) make them more desirable. Investors will switch from lending to private secto investments, and thus the private sector will deflate as the public sector inflat similar, except rather than take money away from the private sector; resource sector.

- **Taxation**
  Public expenditure is funded from tax revenue. This means, unless the goverr effect is that the tax level will be increased to cover the increased levels of pu government will fall into a fiscal deficit.

- **Equality**
  Transfer payments are often used to redistribute income by providing money those who lack the opportunity to gain or increase wages. By taxing the high payments for the low-income earners, the range can be shortened. Equally, e such as education and training to reduce occupational mobility and structura equality levels of job prospects and opportunities.

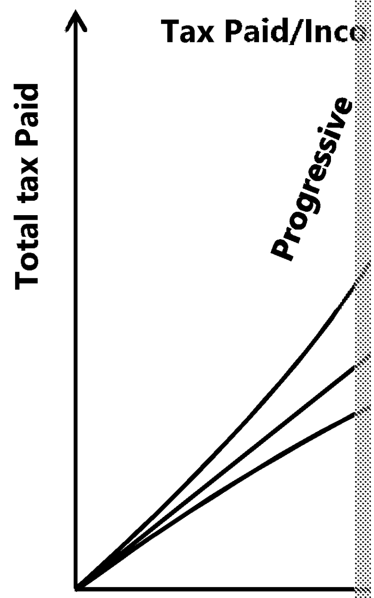
- **National Debt**
  If public expenditure is higher than the level of tax revenue, then there would fiscal deficits can lead to increasing government debt as the government ma sustain the deficit.

Taxation

Proportional Taxes are constant level taxes that do not change by income level of the taxpayer. They are also known as 'flat taxes' because taxpayers will pay, for example, 10% of their income whether they earn £1,000 (and pay £100) or they earn £100,000 (and pay £10,000).

Progressive Taxes are taxes that vary depending on the level of income somebody earns; this then means that the percentage of the tax changes with differing income levels. So, somebody earning £1,000 would pay 10% income tax (£100), but somebody earning £100,000 would pay income tax of 30% (£30,000).

Regressive Taxes are taxes that result in charging low-income earners more than high-income earners. For example, a government may impose an environmental tax on fuel in order to reduce the negative environmental externalities. However, it is generally low-income earners who will purchase old cars because they cannot always afford the new, greener cars. Therefore, low-income earners will pay more in fuel tax.



Further your economic knowledge... Assessing the Types o

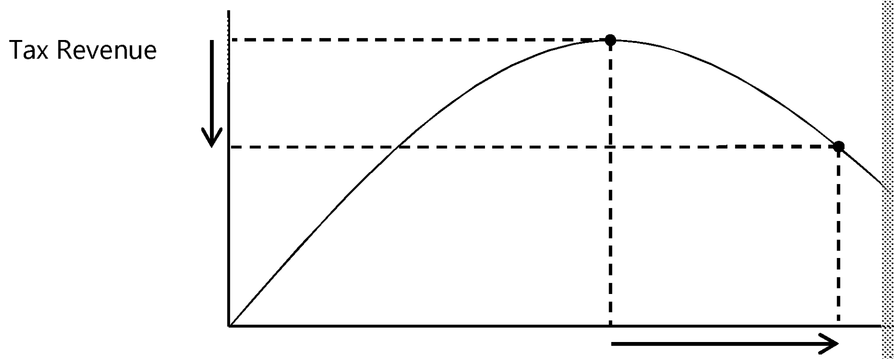
Proportional taxes can be seen as a fair system because the rate is the same an between income levels. There are fewer bureaucratic procedures with progress easier to understand and cheaper to administer. They are much harder to evade taxed the same percentage and so claiming you are earning less doesn't make is believed they don't discourage or disincentivise working like proportional tax penalise workers for increasing their incomes. This means people are less likely their increased wages are pointless, and so they are less likely to feel they want

However, proportional taxes are quite regressive in reality and can have a bigge earners. Progressive taxes address this issue. The idea is that those on lower inc and therefore pay less tax. Those on higher incomes are more able to pay taxes Progressive taxes attempt to redistribute income and correct income inequalitie progressive taxes is that they can discourage people from attempting to increa make people feel disgruntled or fined for 'working harder'.

Regressive taxes are often implemented to correct other market failures but are earners are likely to face more than higher-income earners. This will worsen un

Impacts of Direct and Indirect Taxes on…

- **Incentive to Work**
  Some people may be put off working longer hours, or getting a job with high taxes mean they will be taxed higher. Therefore, increasing taxes may create encourage people to work less or remain unemployed.
- **The Laffer Curve (Tax Revenues)**
  The Laffer curve describes a negative parabola relationship between tax reve the tax rate will increase the amount of tax revenue the government receives increasing tax revenue will only disincentivise people to work and encourage means tax revenue will decrease from an increase in tax rate beyond this poi that will provide the highest tax revenue.



- **Income Distribution**
  Progressive taxes can be used to correct uneven distributions of incomes, thi that is raised from the tax goes towards benefits and payments to lower-inco
- **Real Output and Employment**
  Taxes are a leakage from the circular flow of income. Therefore, higher taxes deflate and economic growth rates will fall. A deflating economy will mean e because firms will cut back production in order to compensate for the increa tax could discourage people from entering the labour market, or even encou market. This will mean the employment rate will fall, and in turn growth rates be seen by an inward shift in the PPF.
- **Price Level (Inflation)**
  Higher taxes would increase the costs of production and firms will respond b on the burden of the tax. If this happens countrywide, then this can cause inf price spiral as workers ask for higher wages to cover the costs of goods. Equa workers will have less disposable income and may ask for higher wages in or increased taxes, which will lead to inflation as firms increase prices to cover t
- **Trade Balance**
  Increasing direct taxes will reduce the level of disposable income that people people will have less to spend on imports and thus imports will fall. This coul However, if firms increase their prices to cover tax costs, then their goods wil international market.
- **FDI Flows**
  Lowered tax levels will entice foreign firms and multinational corporations to foreign direct investment (FDI) flows can inflate the economy and increase gr in the tax rate will deter foreign firms from entering the country because the

Public Sector Finance

Make sure you know the difference between...

Fiscal Deficits occur when the money raised from taxation is lower than the mon
This means the government is losing or spending more money than it is gaining c

National Debt occurs when the government has borrowed money, often to fund
deficit results in national debt, a persistent deficit can lead to increasing debt prob

Automatic Stabilisers are 'countercyclical' responses that occur in an economy w
the government. For example, during a boom, people's incomes will rise and uner
that taxes will increase and government spending on benefits will fall. Injections fa
automatically as a response to a boom, which then limits the effects of the boom
hence the term 'automatic stabilisers'.

Discretionary Fiscal Policies are response policies that the government sets in order to correct economic or market problems. Discretionary fiscal policies, unlike automatic stabilisers, have time lags from the bureaucratic and democratic procedures that are involved with creating and implementing these policies.

Cyclical Deficits occur due to the economic cycle. Because during a downturn tax revenue falls and spending increases due to falling incomes and rising unemployment, it is likely the government will find their spending increases beyond their tax revenue during certain cyclical periods and should be corrected once the economy starts to recover and head for a boom.

Structural Deficits are fiscal deficits that remain even when the economy is in a boom and working at full capacity. This represents a bigger problem than a cyclical deficit.

EVALUAT

If taxes dec
then the go
deficit. How
depends on
and taxes, t
and the size
the governm
decrease in
may only le
may not be
governmen

Factors Influencing the Size of Fiscal Deficits

- **State of the Economy**
  If the economy is in recession, it is likely the government will run a fiscal defi
  Workers' wages will fall, and so they pay less income tax, but further to this, m
  redundant and they won't pay income tax but the government will have to in
  unemployment benefits. Due to the reduced wages and low expectations, co
  government will receive less tax from taxes on goods and services too. Lastly
  people have cut back their spending and so the government will receive less
- **Housing Market (Stamp Duty)**
  Houses are very expensive and so a lot of tax revenue is collected from stam
  house). If the housing market is going well or booming, then the governmen
  which should offset a deficit, or at least help reduce the size of the deficit. If t
  stagnant, then few houses will be sold and the government will receive signif
  could cause a fiscal deficit or increase the size of the deficit.
- **Political Priorities**
  The government may wish to pursue particular policies, such as spending on
  increase spending and be likely to increase the size of a deficit. Equally, there
  reduce taxes which would mean the government has less money coming in.

Factors Influencing the Size of National Debt

- **Fiscal Deficit**
  Because fiscal deficits can lead to national debt, the factors that affect the siz factors that affect the size of the national debt. The size of the deficit affects the deficit the greater need there is to borrow and the bigger the increase in

The Significances of the Size of the Fiscal Deficit and Natio

- **Lower Living Standards**
  If countries have a high level of debt, they have a lot of debt interest to pay b from tax revenue will be spent on paying off the debt instead of being spent education sector. Large debt level, therefore, can reduce the living standards reduce a large deficit, governments may reduce spending, which will have sir standards.
- **Credit Rating**
  The greater level of debt a country has, the less likely it is to pay it back. This back from the money the economy makes from the goods and services it pro measured against GDP. The country will have a lower credit rating and, much loan from a bank, the lower their credit rating the less able they are to obtain will charge a higher rate of interest to 'insure' against the higher risk, so it wi money.

Macroeconomic Policies in a Global Context

The Impact of Fiscal, Monetary, Exchange Rate and Supply-

This section visits the topics discussed previously in this theme and examines the in It has been marked which sections link; check back through your notes and try to read the linked sections first to refresh your memory and add

Fiscal Policy

Fiscal policy was used 'casually' before 2008 and didn't play an active role in controlling the economy. This is seen as quite a classical approach as classical economists believe there are automatic adjustments that exist within the economy that supersede fiscal policy. However, when it came to the '08 financial crisis the government responded in a Keynesian manner and took a more involved approach with fiscal policy. By using an expansionary fiscal policy of increased spending and reduced VAT to encourage consumption, the government attempted to stimulate the economy out of the recession.

Monetary Policy

Monetary policy is determined by the Bank of England and its purpose is to maint changes in interest rates and money supply. However, it is very difficult to know th economy. This is due to many factors, such as the vast quantity of money that is u money that is 'floating around' in bottoms of bags and jeans pockets, and the mo without declaring it.

Supply-side Policy

Supply side policies are designed to increase an economy's long-run aggregate su potential. They have wider effects of increasing development and improving living have extremely long time lags to take effect. Supply-side policies are the only poli believe will increase production (in the long run) without causing inflation. Accord aggregate demand will only push up the price level.

Reducing the Fiscal Deficit and the National Debt

If the government wishes to make changes to the fiscal deficit and national debt, t
to the fiscal policy instruments. Because deficits occur when government spending
government could decrease it's spending or increase the tax rate in order to redu

Deficit reduction policies are called 'austerity' measures. From an economic point o
necessity. However, in reality society and living standards can fall because of them
hospitals and schools, take large cuts, and living and production costs increase.

Reducing Poverty and Inequality

Poverty and inequality can be reduced using a wider range of policies. From a fisc
can be made more progressive so the poor are taxed only a little but high taxes a
Equally the government can provide benefits to those who need them in order to

To reduce poverty, the government can provide free education so everybody has t
human capital they need to obtain higher paid jobs. This is a supply-side policy th
low social-economic groups. Other supply-side policies, such as free health care, w
those who may not be able to afford their basic needs.

Learn More!

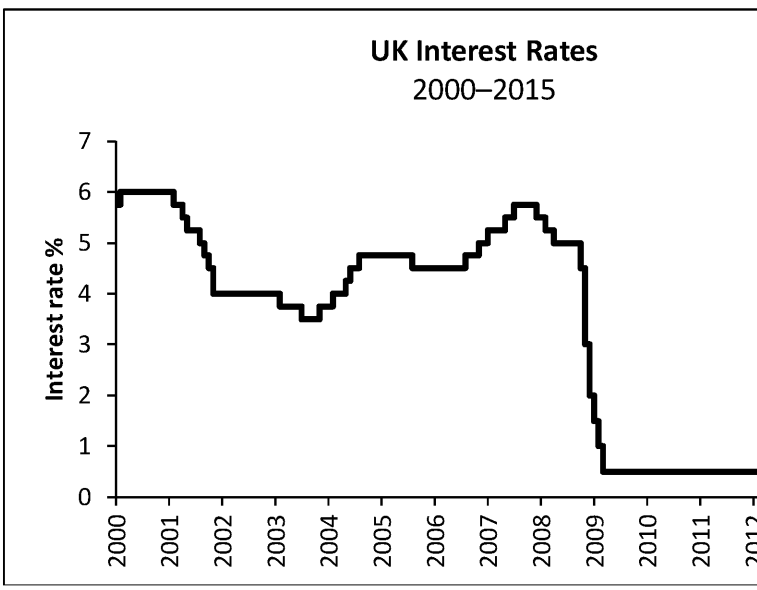
The UN has set global goals to reduce poverty, inequality and increase living sta
Millennium Development Goals. If you'd like to read more about their aims and

http://www.undp.org/mdg/?

The link below has up-to-date articles on the progress and success of some of t

http://www.un.org/millenniumgoals/

Interest Rates and the Money Supply



Source: The Guardian

The graph above shows how the UK interest rate has varied in recent years. The ef
tool to stimulate the economy is often debated. Here are some of the contrasting

Monetarists (and classical economists) differ greatly from Keynesians when it com
monetary policy and the influence money supply and interest rates have on GDP a

Monetarists and classical economists believe a government is able to increase G
supply to increase aggregate demand. This, they believe, happens because the de
change. This means an increase in the money supply will only increase the surplus
result people will spend it. Increased consumption, from the increased supply of m
demand and the economy will expand production, creating an increase in GDP.

Monetarists differ, however, from classical theory as they do not believe the econ
full employment. The Quantity Theory of Money states an increase in the money s
Monetarists believe in the short run an economy can be operating at less than full
aggregate demand will only cause inflation in the long run. This is why they sugge
promote growth without causing an inflationary consequence in the short run.

Keynesians do not believe there is a 'direct' link between money supply and the p
case because the economy is not at or near full capacity (remember the Keynesian
agree there may be a link between the supply of money and GDP, but not in the s
Keynesians believe an increase in the money supply means banks will have more l
easily able to offer loans. This ease in loaning money will mean interest rates fall a
more likely to borrow to consume and invest. Ergo, increased aggregate demand
are very doubtful of the use of money supply and interest rates. This is because ho
very inelastic demand curves with respect to interest rates and there is no guarant
more if interest rates fall. This, they believe, is particularly noticeable in a recession
confidence are low (Keynes' Animal Spirit). Keynesians also suggest that increased
mean an increase in the number of loans provided because banks instead may jus
less willing to lend to risky ventures.

Increasing International Competitiveness

Increasing international competitiveness can be done using a range of policies. Su
increase productivity through, for example, increased education and training for w
more goods and services can be produced using the resources available. This mea
average costs will fall.

Changing taxes can reduce a firm's costs of production as well, which is a fiscal wa
competitiveness. Equally, trade barriers on exporting companies, or companies tha
decrease costs and price of UK goods relative to other countries.

Exchange rate policies can also be used to increase international competitiveness.
in the currency will mean goods will be more competitive on the international ma
exchange rate regime, the government can devalue the currency to appear more

Use and Impact of Macroeconomic Policies to External Shock (Pr

External shocks are events that have occurred outside of the economy, but have a
example, the 2008 financial crisis started as an event outside of the UK economy b
economy. It was triggered by a collapse of the US sub-prime mortgage market, bu
economies.

Changes in oil prices can have very significant impacts on all economies because o
good for both domestic and manufacturing purposes. If oil prices rise, an econom
inflation as oil is a cost of production. Equally, there is a social impact behind risin
heat our homes, cook our food, drive our cars, rising oil prices mean living costs w
their ability to afford the costs.

Price stability has increased along with the increase in globalisation; however, this
necessarily a causal relationship, i.e. the pattern similarity is coincidence and a cha
caused the change in the other. There is also great debate over whether globalisa
body's ability to control the economy.

The 2008 financial crisis has shown us that a globalised financial market can creat and a single government was unable to prevent the recession. External shocks aff weaken a domestic governing body's ability to control their economy.

Some believe globalisation affects the Phillips curve. The Phillips curve trade-off s levels of employment (near full capacity) would have rising inflation if it attempts because demand for labour is rising, but supply of labour is falling. Because produ from anywhere in the world, there is less need for firms to offer higher wages bec labour from the world labour market. This means firms' price elasticity of supply w the Phillips curve will flatten (at levels close to domestic full employment, the eco production by instead employing foreign labour).

This pool of international labour, it has been argued, can create uncertainty for p originally built using the values of domestic output and domestic supply of labou economy is actually determined by the values of international output and internat less easy to measure. Although more and more mobility barriers are removed, so relocation costs and language barriers, which prevent complete free mobility of la structural unemployment within an economy, meaning there can be pockets of ex of excess demand for labour across the country, but mobility barriers prevent the unlikely a large supply of international labour will affect a domestic economy too as it has desirable benefits, such as lowering inflation and increasing an economy'

According to the Classical view, long-run aggregate supply is static and unchangi manipulate the economy in response to economic change, the central bank or go aggregate demand to meet aggregate supply. Aggregate demand is already susc through international trade of exports and imports. There are concerns that the g and more influential in the domestic economy, which the government has no con domestic consumption through tax rates and interest rates, it can manipulate inve it can directly control government spending; however, it has no sway over foreign

The central bank manipulates demand by changing money supply. However, it ha financial market, that shifts huge quantities of currency, has a bigger effect on mo The actions of the central bank are simply 'drops in the ocean' of global liquidity s

There is only debate, with no concrete conclusion over whether a globalised econ control a domestic economy or not. It can be noted that policies adopted in one c effect on other countries. Equally globalisation has eased the spread of economic can damage domestic markets. From this perspective, globalisation has impacted does not mean governments are unable to react to the shocks and regain control

Controlling Global Companies

Global companies spread across international borders, and as such they have no u control and monitor them. However, the governments of the countries they are ru for the operation involved in that country.

Governments can implement policies that ensure global companies use the resou as labour) rather than employ resources from overseas. This means the economy effects, such as wages and skills.

Governments will face limits to their ability to control global companies. This can spread across international borders. In other words they are 'footloose' and able t relatively low costs.

Transfer pricing is another issue with global firms that are often comprised of seve countries. Goods and services may be sold between their subsidiary companies fo becomes a concern if the goods and services are moved to avoid or lower the am whole. Corporation taxes are generally only paid on profits. The accounts might b company based in high corporation tax areas record losses – resulting in lower ov company based in tax havens (countries that have low corporation tax) would reco pay a much lower amount of tax on these profits and the company as a whole car occur even if the vast majority of goods and services are bought and sold in a hig government of that country loses out on revenue.

Problems of Applying Policies

There are many problems that policymakers encounter when creating and enforci policies need to be built on correct models using up-to-date data. If the data colle used do not reflect reality, then policymakers will be ill-advised and create policie good.

There are often a lot of uncertainties within economics. This is because economics behaviour and is, therefore, somewhat unpredictable. These uncertainties can mea choose the best policy.

Globalisation, as discussed before, means it is becoming harder for countries to de shock. Policymakers can be caught unaware by contaminating crises from oversea implement the right policy. This is especially noticeable as large economic shocks unfortunately there are time lags involved with not only creating and choosing po implementation.

Questions: Role of the State in the Macroeconomy

1. What is…
   a) capital expenditure?
   b) current expenditure?
   c) a transfer payment?

2. What four reasons (or factors) are there that may change the size or compos

3. What is the effect of public expenditure on…
   a) productivity and growth?
   b) living standards?
   c) crowding out?
   d) taxation?
   e) equality?
   f) national debt?

4. What is…
   a) a progressive tax?
   b) a proportional tax?
   c) a regressive tax?

5. a) Draw a Laffer curve
   b) Using the curve, explain the effect of changing the tax rate on the tax re

6. Explain five other economic effects changing tax rates have

7. Can you distinguish between
   a) automatic stabilisers and discretionary fiscal policy?
   b) fiscal deficits and national debt?
   c) structural deficits and cyclical deficits?

8. What three factors influence the size of a fiscal deficit

9. a) What two things are impacted by fiscal deficits and national debts, expla
   b) What policies could a government adopt to reduce fiscal deficits and na

10. a) What policies do Keynesians and Monetarists advocate?
    b) According to monetarists, what is the relationship between money supp and GDP?
    c) Keynesians oppose monetarists, what do they believe the relationship b demand, inflation and GDP is?

11. What policies could a government adopt to…
    a) reduce poverty and inequality?
    b) increase international competitiveness?

12. a) What issues do global companies pose?
    b) What two limitations do governments encounter when attempting to re

13. What three problems do policymakers face when applying policies?

Exam-style Questions (3): The Financial Sector and the

1. Explain how a high level of public spending might lead to **crowding out** of i

2. Explain how a **proportional** taxation system works.

3. Read the following extract before answering the question:

   After the 2008 financial crisis governments across the world bailed out banks. T banks were too big and too important to fail. If one large bank collapsed then t other banks that had expected money flows from the first bank. The result wou affect the whole banking sector. However, the problem is the message that thi they will never be allowed to fail then their actions will be affected.

   With reference to moral hazard, explain how banks may act differently if they not allow them to fail. [2]

4. Sketch the **Laffer curve** on the axes below to show how the government's ta the tax rate.

5. Explain how automatic stabilisers can smooth fluctuations in real GDP withou policies.

....

....

....

....

....

....

Answers to Theme

International Economics (Part 1)

1. a) **List four characteristics of globalisation**
   - Removal of trade barriers
   - Increased global activity
   - Standardisation, McDonaldisation, homogenisation
   - Increased activity of TNCs and MNCs
   - International interdependence
   - Increased global branding and global sourcing
   - Outsourcing factors of production
   - A bigger more integrated global market
   - Free mobility of resources
   - Integration
   - Increasing trade between countries
   - Increased foreign ownership
   - Cultural dilution
   - Environmental damage

   b) **Why has globalisation increased in the last 50 years? Name three re**

   Any three of the following:
   - Transport Infrastructure and Operations: The improvement in trans around the globe means goods, services and factors of production more easily and it is less costly to do so.
   - Communication Technology and IT: The improvements in the abilit world mean information is more free-flowing, and imperfect inform reduced. The increased use of the Internet has allowed and allows t social experiences.
   - Trade Liberalisation (WTO): The World Trade Organisation (WTO) e barriers and, as they diminish, economic agents are able to move fr resources are traded more easily across nations.
   - Increasing TNCs: Transnational companies spread across countries, in various economies and nations. The increasing number and the i increased activity in the global market.
   - The Cold War: At the end of the cold war, economies that were forn began to open up to the global market.
   - International Financial Markets: As financial markets grow across co are able to operate in various countries, causing the flow of money

2. **Create a mind-map showing the impacts of globalisation on:**

   a) **Individual countries**
   - Interdependence: As countries become interdependent, individual positive spill over effect from other countries, such as increased exp partners. Equally, however, individual countries are at risk of econo between integrated countries.
   - Increased Living Standards: Individual countries will see a general ri whole economy.
   - Decrease in Global Superpowers: Individual nations will become mo market as countries that originally were superpowers begin to lose
   - Lower Inflation and Lower Prices: As countries are exposed to good resources outsourcing) and cheaper prices, then they may find a fal lower levels of inflation.
   - Loss of Culture: Countries will find their culture becomes diluted an products.
   - Movement of Resources: As resources move between countries free an abundance of resources or lack of resources, such as the effect o

b) Governments

- Interdependence: Governments may find it harder to stabilise and c foreign influences and the spread of instability.
- Decrease in Global Superpowers: As the influence of powerful econ more influence other countries and their governments will have.
- Lower Inflation and Lower Prices: As countries are exposed to good resources outsourcing) and cheaper prices, then they may find a fal lower levels of inflation. This is better for economic stability and ec
- Tax Avoidance: Governments may lose or gain tax revenue as firms to countries with better tax systems.

c) Producers

- Interdependence: Firms that operate on the international market (e resources) will find their business is dependent on the stability and countries.
- Audience: Producers will be open to the global market and with tha
- Greater Competition: As economies become exposed to lower price firms will find they are up against more competition from global co
- Global Monopolies: Producers will find it harder to compete agains
- Global Monopsonies: Global monopsonies will have impacts on cos
- Free Movement of Resources: As resources freely move between co have an influx and excess supply of resources (so prices will fall) or
- Economies of Scale: A bigger market in which to sell means countri from economies of scale. Equally, they can then suffer from disecon

d) Consumers

- Greater Choice: Globalisation means there are more goods availabl
- Lower Prices: The global market offers, not only more goods, but al have been reduced from outsourcing.
- Increased Global Monopolies: Consumers will be susceptible to red of global monopolies.

e) Workers

- Interdependence: Workers' jobs are reliant on the performance of t climate of its trading partners. This means workers' jobs are suscep market.
- Worker Exploitation: Workers are susceptible to TNCs who wish to is particularly notable in countries that may have relaxed employme
- Increased Monopsonies: Global monopsonies will have greater pow supply of workers and will be able to bargain for lower wage rates.
- Free Resource Movement: Workers are able to move to where there being able to improve their lives.

f) The environment

- Environmental Damage: Greater production and transportation of p damage and degrade the environment.
- Use of Scarce Resources: As more firms start and increase productio and greenhouse gases will increase.

3. a) **Explain the difference between absolute and comparative advantag**
A country has an absolute advantage if it can produce more of each typ country is said to have a comparative advantage if they are able to prod cost than other countries.

b) **Possible advantages of specialisation:**
- Lower Prices: By producing the goods in which a country has a com produce the goods cheaper than another country could. Therefore, each good is produced by the country that had the comparative ad
- Increased Living Standards: If countries follow the suggestions of D then they can find they have an increase in living standards. By pro have a comparative or absolute advantage and trading for the rest, lower prices and increased consumer choice from international goo increase in growth rates and production increases.

Possible advantages of trade:
- More Consumer Choice: By trading, consumers have access to more
- Larger Markets: Firms can benefit from global trade because their a (global) market.
- Economies of Scale: Because firms have a greater audience, there is This means they have the opportunity to expand and gain from eco

Possible disadvantages of specialisation:
- Reliance on commodities: prices can be volatile, if demand for a go specialises in this commodity would be harmed

Possible disadvantages of trade:
Any three of the following:
- Trade Deficit: If a country is uncompetitive, then it could end up wit
- Dumping: Countries with excess goods can sell them in foreign mar market price in order to get rid of them. The economy of the count 'dumped' into will be damaged as the increase in supply and fallen producers out of business as it shocks the market.
- Contagion: As has been seen by the recent global financial crisis, ec across economies. This is due to the interdependence of economies crash, the countries that were dependent on its trade will find they so economic shocks will be spread across economies.
- Global Monopolies: International trade can allow the rise of global influence and power for market manipulation.
- The Problem's Emerging and Developing: Emerging economies and generally susceptible to exploitation from global monopsonies and that have access to the necessary finance, capital and knowledge.

4. a) **What is the equation for terms of trade?**
$$\text{Terms of trade} = \frac{\text{Index of Export Prices}}{\text{Index of Import Prices}} \times 100$$

b) **Explain three factors that influence a country's terms of trade**
- Relative Inflation Rates: If one country's inflation rates are higher th be rising quicker than another's and will appear more expensive in
- Relative Productivity: Countries that are relatively more productive with the resources available to them. This means they are able to re become more competitive, thereby increasing their terms of trade.
- Exchange Rate: The exchange rate shows the price of one country's the currency falls then goods will appear to have fallen in price

c) **Using one of the factors you've listed and the terms of trade, explai**

i. **Demand for Imports and exports**

- [The inflation rate increases / relative productivity falls / curren export prices will rise and possibly also its import prices will fal decrease. This means it will lose competitiveness and its dema demand for imports will rise.
- [The inflation rate decreases/relative productivity increases/cu country's export prices will fall and possibly also its import pric will increase. This means it will gain competitiveness and its de demand for imports will fall.

ii. **Current Account**

- [The inflation rate increases / relative productivity falls / curren export prices will rise and possibly also its import prices will fal decrease. This means it will lose competitiveness and its dema demand for imports will rise. Exports fall and imports rises cau account deficit.
- [The inflation rate decreases / relative productivity increases / c country's export prices will fall and possibly also their import p trade will increase. This means it will gain competitiveness and and its demand for imports will fall. Imports fall and exports ris even causing a trade surplus.

iii. **Living Standards**

- [The inflation rate increases / relative productivity falls / curren export prices will rise and possibly also its import prices will fal decrease. This means it will lose competitiveness. Export busin consumers will switch to buying imports. The economy will be employment will fall. The lack of wages will cause living standa
- [The inflation rate decreases / relative productivity increases / c country's export prices will fall and possibly also its import pric will increase. This means it will gain competitiveness. Export bu UK consumers will switch to buying domestically produced go expand as output increases, so employment will rise. The incre living standards to increase.

5. **What type of trade bloc is…**

a) **the European Union?**
A common market

b) **the eurozone?**
Monetary union

6. **List and explain two costs of regional trade agreements**

- <u>Transition Costs of a Single Currency</u>: There are costs involved with chan etc. into the new currency. There will also be a period of adjustment whi expectations into the new valuation.
- <u>Loss of Sovereignty</u>: As countries join together and agree to change to a the ability to control and change its policy. A monetary union will mean t will lose their independence to change monetary policy, and lose exchar

7. **List and explain three benefits of regional trade agreements**
   - Eliminating Transaction Costs: Once all the countries are on the same cu attempting to switch from one currency to another in order to make tra
   - Price Transparency: It is much easier to make price comparisons if all go same currency.
   - Reduction in Exchange Rate Uncertainty: Exchange rates are constantly c adopt fixed exchange rates, where the government are make small adju order to keep their currency at the same rate, but this is costly and still r transactions between France and Germany, for example, can occur witho changing.

8. a) **Despite the benefits of trade, list and explain five reasons why a cou trade.**

   Any five from the following:
   - Infant and Sunset Industry Argument: Countries may wish to put tra protect these industries from global competition and facilitate then industries are old and declining industries but they need to be prot to economies. Infant industries are the opposite; they are new and supporting until they have gained the finance, demand and knowle
   - Protect Employment: By increasing the prices of foreign goods, der produced goods from imports and the domestic industry will increa done in a particular industry, by applying trade restrictions to certa protect the employment levels in the whole economy by setting a '
   - Retain Self-sufficiency: Countries may enforce trade restriction in or remain producing certain goods so they don't become reliant.
   - Balance the Balance of Payments: As imports fall it is hoped a trade even cause a trade surplus.
   - Retaliation: Trade barriers may be a response or retaliation to anoth measures.
   - Prevent Dumping: Trade barriers restrict the amount of goods a cou economy and may prevent a country from dumping its goods.
   - Reduces Competition: A country may impose a trade restriction in c competition threatening from foreign markets.
   - Protect Strategic/Important Industries: Some countries may want to produce goods that are invaluable to the economy even if they are because during times of disrupted trade patterns, the economy will goods.

   b) **What are the impacts of these trade restrictions on...**

   i. **consumers?**

   Protectionist policies increase the prices of more competitive foreig from trade barriers as they face higher prices.

   ii. **producers?**

   Domestic producers should find demand for their products increase domestic demand away from imported goods and towards domest Domestic exporting producers may find they encounter protectioni retaliation which will damage their business.
   Some producers may import parts for production and will find their policies are aimed at increasing the prices of imported goods.
   Foreign producers who sell goods in the country will find demand f protectionist policies increase their prices.

iii. governments?

Protectionist policies, such as subsidies, can be very costly. This can debt increase. Alternatively, the government may impose a tariff in although the bureaucratic procedures can be just as costly as the m Governments can find they are met with tit-for-tat retaliation polici can be politically and economically damaging.

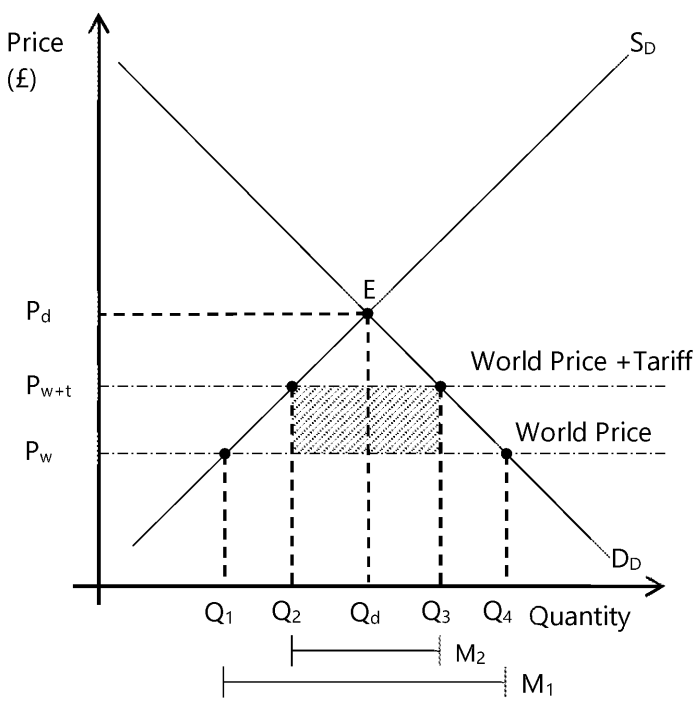
iv. living standards and equality?

Protectionist policies are designed to protect the domestic econom the country, such as domestic producers, and the jobs of the worke people may find they lose their incomes, pushing them into povert By increasing demand for domestically produced goods, jobs can b income inequality as those previously without jobs are now earning who face the protectionist policies will find it harder and harder to economies to decline, businesses to shut, living standards to fall an developing countries who bear the brunt of protectionist policies b need trade the most. Protecting developing countries from compet countries' chances to trade and grow, will increase inequality.

9. a) **What is a tariff?**

A tax on imported goods.

b) **Draw a tariff diagram showing the world price, domestic price and would cost with the additional tariff**



i. **Now, assuming the economy was closed, what would the quan**

The price and quantity of the goods in a closed economy would be which on the diagram is P_d and Q_d.

ii. **If the economy opened up to international trade, what would t domestically supplied be?**

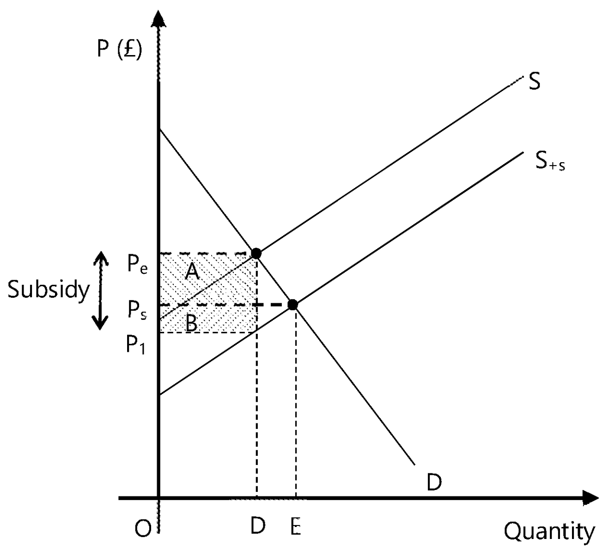
The price of the goods would be the international price because th quantity demanded at this price would be Q_4, only a few domestic supply the goods at this price and so the domestic quantity supplie

iii. **What could a possible solution be to this misalignment of dem show this on the diagram?**

To satisfy this excess in demand, consumers could import the good by M_2 which is the difference between Q_1 and Q_4.

iv. **If the government imposed a tariff on imported goods, what w demanded be and what would the price be?**
The price of the goods would be domestic price plus the cost of the lowest price, P_{w+t}. The domestic demand at this price would be Q_3.

c) **Draw a subsidy diagram:**



i. **Using the concept of price, how does a subsidy change quantity**
A subsidy to producers means they can reduce their costs. The sup producers will be more willing to supply the goods and with the inc lowered. This will mean more consumers will be willing and able to demand more. With the increasing willingness to purchase and the the goods will be more supplied and demanded.

d) **Can you explain two other trade barriers?**
<u>Quotas</u>: The government can limit the number of goods an economy ca
<u>Non-tariff barriers</u>: These are a variety of hidden costs, such as bureaucr safety regulations.

International Economics (Part 2)

1. **What are the four accounts in the balance of payments?**
   Financial account, current account, capital account, international investment

2. **List and explain four causes of…**
   a) **current account deficit**
   - Appreciated Currency: If a currency is relatively higher than other cu cheaper and exports will appear expensive. So the demand for imp fall which can cause a trade deficit.
   - High Levels of Inflation: If a country's inflation rates are relatively hi goods will appear more expensive and foreign goods will appear ch for their exports will fall and demand for imports will rise, causing a
   - Economic Growth: If growth results from increases in aggregate de supply cannot match it, then consumers will need to import to satis economic growth comes greater incomes. As consumers' incomes i their spending on imports as imports are seen as a wealthy produc cause a trade deficit.
   - Non-price Factors: If foreign producers produce goods that are bet likely to import the goods and so imports will increase and could ca

   b) **current account surplus**
   - Appreciated Currency: If a currency is relatively lower than other cu more expensive and exports will appear cheaper. So the demand fo exports will rise which can cause a trade surplus.
   - High levels of Inflation: If a country's inflation rates are relatively lo goods will appear cheaper and foreign goods will appear more exp for their exports will rise and demand for imports will fall, causing a
   - Economic Growth: If economic growth falls, then people's incomes imports will fall. This could cause a trade surplus.
   - Non-price Factors: If foreign domestic producers produce goods of consumers are likely to increase their consumption of exports, thus

3. a) **Explain three measures that a country can take to reduce a country**
   - Expenditure Reducing: Deflationary fiscal policy will reduce aggrega inflation and cause exports to appear more competitive. A fall in ag consumption will also have fallen; it is hoped that domestic produc goods and thus increase exports.
   - Expenditure Switching: The government could add trade barriers th their consumption from imports to consuming domestically produc
   - Supply-side Policies: The government could invest in reducing cost side policies to increase productivity. This will lower the price of exp goods.

   b) **What problems might arise from each of these measures?**
   - Expenditure Reducing: Reducing aggregate demand may decrease it can also result in negative, or at least slowed, growth rates. This c production and unemployment will rise.
   - Expenditure Switching: Adding barriers to trade can cause other co fashion, which will result in damaging the export sector. Ultimately, change to the deficit.
   - Supply-side Policies: The time lags that result from supply-side poli may not occur in time to react to short-term problems.

4. **What is a…**
   a) **floating exchange rate regime?**
   When the value of a currency is allowed to 'float' or change in line with th
   b) **fixed exchange rate regime?**
   The government intervene in the market to keep currency at a certain va
   c) **managed exchange rate regime?**
   Monetary authorities 'manage' or control demand and supply in order to

5. **List and explain three factors that influence a floating exchange rate**
   Any three of the following:
   - Relative Interest Rates: The UK interest rate affects the rate of return on rate increases, investors will switch their currency for pounds in order to the demand for and value of pounds. This short-run result is called 'hot
   - Relative Inflation Rates (Purchasing Power Parity): If the UK has lower inf countries then UK goods will be more competitive. More people will de UK exports. Rising demand for pounds will cause the pound to apprecia
   - The Level of Imports and Exports (Current Account): Buying imports wil the market because UK consumers will need to swap their UK currency f good. If a country has a current account deficit, then their imports are b of pounds is greater than the demand for pounds. Excess demand mear depreciate.
   - Speculation: As investors speculate, the stock market varies the demand investors believe the pound will appreciate, investors will demand lots o increased price. As they buy more pounds, the demand for pounds incre appreciate.
   - Quantitative Easing: Increasing the supply of money will cause the value

6. **Explain two ways a government can manage an exchange rate**
   - Changing Interest Rate: Changing the interest rate can change the dema interest rates will attract foreign investors to domestic investments. Fore their currency into the domestic currency before investing and thus will and push up the price of the currency.
   - Influencing Foreign Exchange Market: If the central bank buys its own cu supply of the currency on the foreign exchange market. The value of cur buying the currency they will increase the demand of the currency and t value of the currency.

7. a) **What might a depreciation or devaluation in a country's currency d account?**
   A depreciated currency will mean exports will appear more competitive exports will increase. Equally, domestically produced goods will appear r to imports and so the demand for imports will fall. An increase in export improve a deficit and could cause a trade surplus.
   b) **What does the Marshall Lerner condition state?**
   There will only be an improvement in a trade deficit if the elasticity sum
   c) **What is the J-curve effect?**
   The J-curve effect explains that the current account deficit will worsen b
   d) **What three other impacts might a depreciation or devaluation have**
   - Economic Growth and Unemployment: A depreciated currency will produced goods appear more competitive. Foreign and domestic c and boost the economy. This will increase growth, but equally, as th more jobs and reduced unemployment.
   - Rate of Inflation: If the pound depreciates and the demand for exp goods increases, then aggregate demand will increase and cause h
   - FDI Flows: A devalued currency will mean investors will gain a great country. This will mean there will be a greater inflow of foreign dire

8. a) **What is meant by international competitiveness?**
Competitiveness is the ability of a country or firm to compete and provi
This is usually measured in price and so competitiveness measures the p
goods. International competitiveness looks at the price of goods across

b) **What three factors influence a country's international competitiven**
Relative unit labour costs (productivity and wages), relative non-wage co

9. **Explain three benefits of being internationally competitive**
- Greater Exports: A country that is more internationally competitive will s exports and a reduction in demand for its imports. Exporting firms will e
- Job Creation and Economic Growth: An increase in exports will increase aggregate demand indicates a growth in the economy. Although initially found in the exporting markets, the overflow of the injection of income economy, causing widespread economic growth and job creation.
- Improve a Current Account Deficit: An increase in exports and a decreas deficit a country may have.

10. **Explain two costs of being internationally competitive**
- Worsen a Current Account Surplus: If a country has a trade surplus, then competitive will only worsen the trade surplus.
- Inflation: If goods become more competitive then exports will increase a demand. Increased aggregate demand can increase prices and cause inf

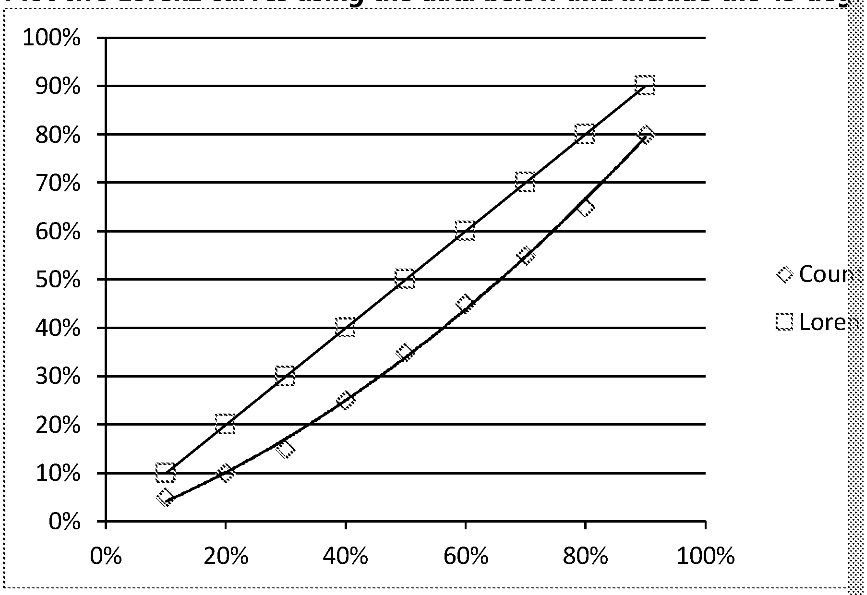
Poverty and Inequality

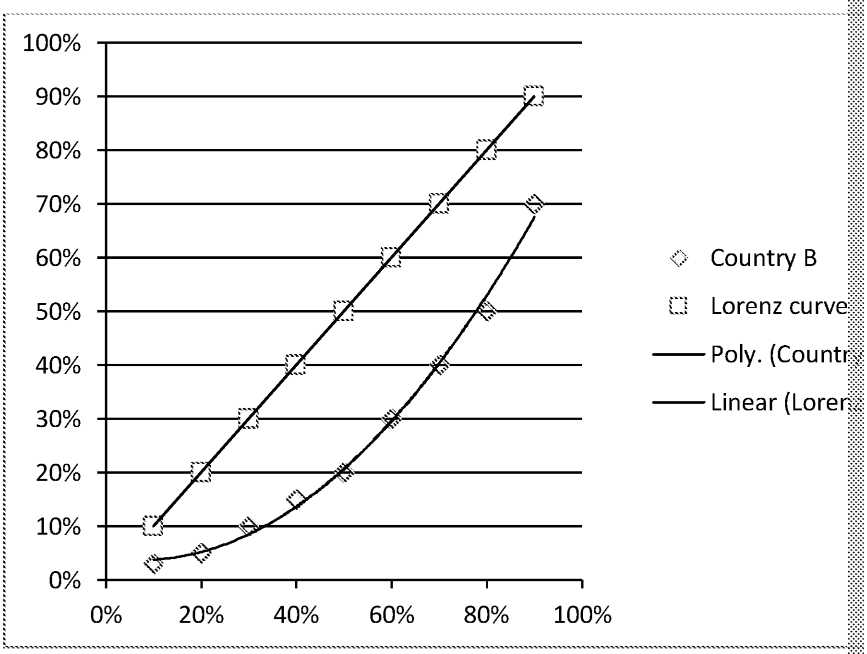
1. **What is absolute poverty?**
   When a person is unable to afford their basic needs
   a) **How is it measured?**
   By using a boundary mark to see if people fall above or below

2. a) **What is relative poverty?**
   When a person has relatively less than others
   b) **How is it measured?**
   By looking at the lower proportion of median income

3. **How do wealth and income differ?**
   Wealth is static, 'stock' concept of money whereas income is 'flow' concept o

4. a) **Plot two Lorenz curves using the data below and include the 45 deg**





b) **What is the equation for the Gini coefficient?**

$$\text{Gini Coefficient} = \frac{\text{Area A}}{\text{Area A} + \text{Area B}}$$

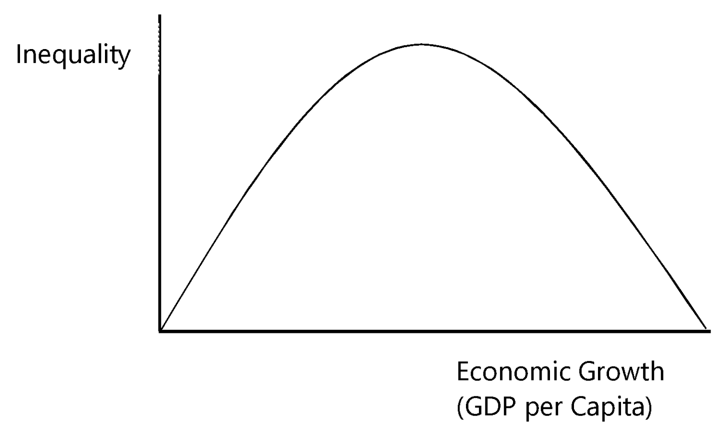
c) **Without calculating, which country would have a higher Gini coeffi**
Country B, because the Area A is bigger for Country B than it is for Coun

d) **Which country has higher levels of inequality?**
Country B, because it has a higher Gini coefficient

5. **Explain five causes of inequality within countries**
Any five of the following:
- Education and Training: A labour with greater human capital will have a higher wage. Those workers with an increased human capital will have a obtain a job with a higher income. Equally, those countries that have litt will have workers with less human capital and lower incomes than those capital.
- Wage Rate (Minimum Wage): A minimum wage ensures workers earn ab Countries with a national minimum wage rate will generally have less ine national minimum wage rate. Largely varying wage rates can cause ineq
- Strength of Trade Unions: Trade unions can help provide workers with t their wage rates and reduce any income inequalities. A lack of trade unio
- Degree of Employment Protection: Employment protection policies can rates.
- Social Benefits: Social benefits can be given to support those in absolute of social benefits can mean inequality may occur.
- Progression of the Tax System: The progression of tax system can chang country or can explain the differences across countries. The theory is tha the higher earners, the top range of income earners can be restricted an tax can be distributed to the low earners in order to bring the two ends
- Pension Entitlements: Pensioners no longer have a steady income, as the but still needing to cover living costs can push some people into povert
- Ownership of Assets and Inheritance: Wealth, due to its characteristics, t economy and instead stays within the same households. Assets are pass so those with little wealth are unlikely to own assets.

6. a) **Draw the Kuznets curve**

b) **Explain the relationship economic growth has on inequality depicte**
To start, there is very little inequality because all economic agents have the economy begins to grow and jobs are created, everybody benefits a through the economy. However, some will have greater incomes than ot economy will be exaggerated. Once the economy gets to the peak of th gained enough revenue to begin to invest in inequality policies and redu



Emerging and Developing Economies

1. **What are the three measures in the Human Development Index?**
   Education, Health, Real GNI per Capita

2. **Name and explain four other indicators for development.**
   Any four from the following:
   - Economic Indicators: There is often a correlation between growth and de national income in an economy, it can indicate the ability of an economy However, economic measures are not accurate at showing development large economy has a progressed society with high living standards and
   - Inequality: Because development is looking at people and not figures, a significant but unfortunately ignored. The Lorenz curve and Gini coeffici ranges, and focus on what proportion of the population actually are and development averages.
   - Inequality-adjusted Human Development Index: IHDI attempts to take in of inequality. It does this by altering the averages that were calculated a within the country. If inequality is high, then the averages will be lowere
   - Multidimensional Poverty Index: MPI looks at not only an income-based variety of measures, such as sanitation, and considers a person to be in p one-third or more of the items measured.
   - Access to Clean Water: Clean water is a basic human right and the acces country to satisfy these needs, thus it indicates a country's level of devel

3. **Name and explain five factors that influence growth and development.**
   Any five from the following:
   - Primary Product Dependency: Primary products generally have little retu sometimes called 'low-value-added goods'. This means the value of exp only a small inflow of income into the economy. Equally, commodity pri in a country's revenue, aggregate demand and exchange rate which can limit the ability to grow. Lastly, primary products are income-elastic, so a little change to the demand for these products.
   - Volatility of Commodity Prices: Commodity price volatility can create ec fluctuations and commodity producers varying revenue. This will deter p and thus prevent countries gaining the influx of income they may need
   - Harrod-Domar Model (Savings Gap): There are two factors that affect th of a country: the savings ratio and the capital-output ratio. The capital-o of capital to produce goods; the more productive capital is, the more go produce and so the quicker they will grow. The savings ratio looks at the higher the savings rate the easier it is for banks to lend money, and then grow.
   - Foreign Currency Gap: This occurs when an economy is a net importer. T must pay in foreign currencies. If exports do not generate enough foreig have a 'foreign currency gap'. To pay for imports in the case of a foreign either borrow the amounts required in the foreign currency or draw fro currency reserves. Both are only short-term options.
   - Capital Flight: When investors rapidly withdraw their investments and sa perhaps because of unfavourable tax changes or economic instability.
   - Demographic Factors: Countries with an ageing population are likely to because a lot of the population will not be part of the workforce becaus
   - Debt: If countries are spending money to repay old debts, then they are growth or development policies. Debt repayments represent an outflow
   - Access to Credit and Banking: If the people in a country do not have acc store their money safely, then they will not be able to protect and grow start businesses. Low accessibility can prevent a country from growing a

- Infrastructure: Infrastructure will prevent businesses from transporting th trade, and from acquiring the resources they need for production, there manufacturing. These barriers will prevent a country from developing an economy.
- Education and Skills: Countries who invest in human-capital-increasing p development rates will increase as they have a better and improved wor
- Absence of Property Rights: If people cannot secure their right to a prop from obtaining a loan and hence a country's growth and development ra

4. a) **What are market-orientated strategies?**
   Policy strategies that use the market to promote development
   b) **Can you describe five market-orientated strategies?**
   Any five of the following:
   - Trade Liberalisation: By reducing trade barriers and liberalising trad from trade and specialisation.
   - Promotion of FDI: Foreign multinational companies can bring an in via investment, which can boost economic growth and developmen
   - Removal of Government Subsidies: Although inefficient industries w the long run, it is hoped that removing subsidies will improve resou
   - Floating Exchange Rate Systems: Countries that have spent money currency high will benefit from changing to a floating exchange rat currency to appreciate and depreciate in line with change in deman depreciate from its artificially high value and there will be a boost i This inflow of money will boost the economy.
   - Microfinance Schemes: By providing finance to those who lack the can find a positive impact on its growth and development levels.
   - Privatisation: Any resources a government had spent on the organi development and growth policies. The private firm that took on the profits, which will be taxed and add to the inflow of money to the g

5. a) **What are interventionist strategies?**
   The government directly changes the market in order to promote develo
   b) **Can you describe five interventionist strategies?**
   - Human Capital: By increasing the human capital of a country, throu country's workforce will be more productive and efficient, thus bein growth.
   - Protectionism: By protecting infant industries, an economy can gro policies will also keep industries in business and any income genera multiplied to boost the whole economy.
   - Managed Exchange Rates: A government can depreciate the value exports. The inflow of income from greater exports can increase ec
   - Infrastructure Development: Good infrastructure will remove ineffic businesses, an economy can grow.
   - Promoting Joint Venture with Global Companies: A country can be direct investment which can inject money into the economy for gro new jobs and provide incomes to the people within the country, wh rates through increased aggregate demand, but will improve devel able to afford the goods and service they require.
   - Buffer Stock Schemes: Agricultural goods and commodities are sub stocks are designed to mitigate these fluctuations and allow farmer grow.

6. a) **What is a dual economy?**
An economy that has two sectors, typically agricultural and manufacturi
b) **Explain how a country industrialises using the Lewis model**
A country that has both an expanding manufacturing sector and a large economy. People from the agricultural sector will be attracted to the hig manufacturing sector. An expanding manufacturing sector and a diminis an economy slowly industrialises into a manufacturing economy.

7. **There are other methods a country can adopt to develop…**
a) **Evaluate the use of tourism as a strategy for development**
Tourism can represent an inflow of income into an economy and a boo is especially noticeable as holidaymakers tend to have inelastic demand labour-intensive sector, it is a good strategy of development for labour- often resources are used to accommodate holidaymakers rather than lo negative externalities such as environmental damage and location degr transportation and litter.
b) **How do fair trade schemes affect development?**
These are schemes set out by the WTO who aim to increase the ability o compete on the global market.
i. **What is the negative aspect of fair trade schemes?**
Fair trade schemes can represent a misallocation of resources.

c) **Explain two other strategies for development**
Aid: There is a divide of opinions when it comes to the effectiveness of a funds can be used to promote growth and development, whereas other influence of aid can encourage ineffective policies.
Debt Relief: By relieving countries from repaying the interest on their de freed up and can be allocated to promoting growth and development.

8. a) **What is the WTO?**
The World Trade Organisation
b) **What are the WTO's aims?**
The WTO aims to increase competition within the global market and res
c) **How does the WTO achieve these aims**?
The WTO increases competition by removing trade barriers. It also provi countries to negotiate.

9. a) **What is the IMF?**
International Monetary Fund
b) **What are the IMF aims?**
The IMF aims to achieve macroeconomic stability and reduce poverty.
c) **What is the role of the IMF in achieving these aims?**
The IMF do this by providing cheap loans or grants to countries pursuin policies. They also collect worldwide data on a variety of measures in or shocks.

10. a) **What is the World Bank?**
The World Bank is a collection of five institutions: the IBRC, the IDA, the
b) **What are the World Bank aims?**
The WTO aims to end absolute poverty.
c) **What is the role of the World Bank in achieving these aims?**
The WTO invests in policies that improve human capital, resource mana to stimulate the economy. This will then increase wage growth and impr provides loans and grants to struggling countries. The WTO collects and economic understanding and from this it is able to provide policy advice

Financial Sector

1. **What are the four roles of the financial market?**
   To facilitate saving, to lend to businesses and individuals, to provide a marke goods, to provide markets in currencies and commodities, and to facilitate th services.

2. a) **How does asymmetric information present a problem in the financi**
   Borrowers have more information on themselves than the lenders do an exists within the financial sector. This imperfect information means lende decisions and lend money to people who are unlikely to pay it off. This c collapse as people default on their loans.
   b) **What is market rigging?**
   When two or more people/organisations 'collude' together in order to n own gain.
   c) **Explain three market failures in the financial sector**
   - Externalities: The financial market can adversely affect the whole ec not included within the risk calculations made by lenders.
   - Moral Hazard: The banking system may be more careless when ma they know they can rely on government bailouts.
   - Speculation: Investors act on instinct and predictions. Speculations, and so investors may act irrationally in order to avoid potential loss as such create bubbles.

3. a) **What is the role of the Bank of England to the government?**
   The Bank of England is the banker to the government. This means it hol provides the government with loans. Equally, the Bank of England is a ba provides them with loans and a method of making transactions between
   b) **What are the two roles the Bank of England takes in the banking in**
   The Bank of England (now in conjunction with the FCA) regulates the ba regulations that aim to ensure the banking system runs smoothly. The B commercial banks and provides them with loans when banks run into liq
   c) **What policy does the Bank of England implement?**
   Monetary policy
   i. **What are the two tools the Bank of England uses to implement**
   Interest rates and money supply
   ii. **How are each of these tools used?**
   - Interest rates: Influence the level of investment and consumpti determine the cost of borrowing and the return on savings. By consumption, the Bank of England is able to adjust aggregate inflation.
   - Money supply: Quantitative easing will increase the money sup economy out of a liquidity trap by providing banks with the fu

Role of the State in the Macroeconomy

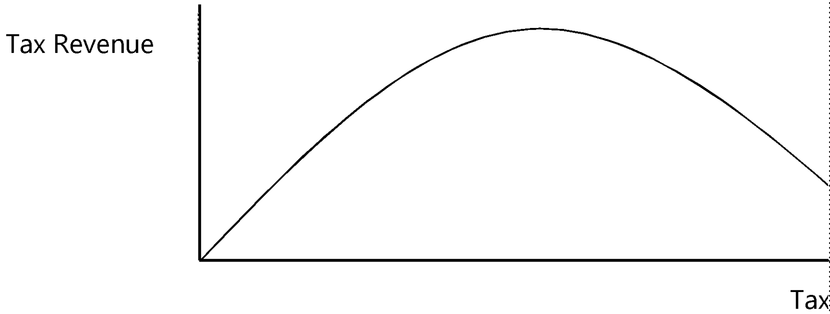
1. **What is…**
   a) **capital expenditure?**
   Expenditure on capital, such as infrastructure, machinery or buildings
   b) **current expenditure?**
   The government's everyday expenditure on things such as bills, salaries,
   production for a functioning government)
   c) **a transfer payment?**
   Payments that are given without the return of a good or service

2. **What four reasons (or factors) are there that may change the size or con**
   expenditure?
   - Incomes: People of different incomes need different things; as incomes
   public services (state-provided services), instead people may pay for priv
   - Demographic: Different ages require different things. An ageing populat
   public services (current and capital expenditure), whereas a baby boom
   - Expectations: Because government expenditure is subject to public opin
   expenditure can change depending on the changing expectations of the
   may increase its expenditure in certain areas depending on its expectati
   - Financial Crisis: Due to the recent bank bailouts, the government has ha
   loan repayments. The recession resulting from the banking crisis also me
   unemployment went up, which changed the size of expenditure on trans

3. **What is the effect of public expenditure on…**
   a) **productivity and growth?**
   Critics of state intervention believe that expenditure inhibits growth and
   will inefficienctly use resources that have been taken away from the priv
   intervention believe the government can use expenditure on growth and
   expenditure is an injection into the circular flow of income and so expen
   b) **living standards?**
   Expenditure improves living standards because money has been spent t
   quality of life for those who need it.
   c) **crowding out?**
   Resources are limited, and if the government increases the use of its res
   for the private sector to use.
   d) **taxation?**
   An increase in expenditure means taxes will have to increase in order to
   e) **equality?**
   Transfer payment and proportional tax systems are designed to even up
   f) **national debt?**
   Unless taxes are raised, an increase in expenditure must be funded throu

4. **What is…**
   a) **a progressive tax?**
   b) **a proportional tax?**
   A tax where the percentage paid remains the same regardless of income
   c) **a regressive tax?**
   A tax that has a larger impact on lower-income earners than on higher-i
   typically lower income earners encounter the tax more often.

5. a) **Draw a Laffer curve**



b) **Using the curve, explain the effect of changing the tax rate on the t receives**
As the government increases the tax rate, the return the government wil increase (as people are paying more tax). However, this relationship is o beyond this point will only disincentivise people to work or take promot Instead, people will be tempted to avoid paying taxes.

6. **Explain five other economic effects changing tax rates have**
Any five from the following:
- Incentive to Work: People can become discouraged if their disposable in wages are spent on taxes.
- Income Distribution: Taxing high-income earners can reduce the higher income distribution.
- Real Output and Employment: If taxes decrease the incentive to work, th people may choose to leave the labour market, and/or unemployment w may be seen as a better option. This fall in labour resources can decreas productive potential. Equally, taxes are a withdrawal from the circular flo firms spending and investing their income.
- Price Level (Inflation): Increased taxes mean a decrease in disposable inc higher wages to compensate. This will increase the costs of production, to cover the increasing tax costs. As a response, firms will increase their
- Trade Balance: An increase in the tax rate could increase the costs of pro their prices as a response. This means their goods will appear less comp exports will fall (potentially worsening a trade deficit). A rise in direct tax This will mean people reduce their spending on imports, and potentially

7. **Can you distinguish between…**
a) **automatic stabilisers and discretionary fiscal policy?**
Automatic stabilisers are counteractive actions of the economy that hap whereas discretionary fiscal policies are actions that the government hav
b) **fiscal deficits and national debt?**
Fiscal deficits are when the government has spent more money than it h a result of a persistent fiscal deficit because the government has had to deficits.
c) **structural deficits and cyclical deficits?**
Cyclical deficits are understandable deficits that exist due to recessions i structural deficits are bad because they will still exist even when the eco

8. **What three factors influence the size of a fiscal deficit?**
- State of the Economy: If the economy is booming, then the government than it is spending, then the deficit will be lower. However, during times spending often increases and tax revenue falls and so the government is
- Housing Market: Because houses represent a large proportion of tax rev market will have an influential impact on the amount of tax a governme change the size of a deficit.
- Political Priorities: Depending on the priorities of a government, the amo which will change the size of a fiscal deficit.

9. a) **What two things are impacted by fiscal deficits and national debts?**
   - Living Standards: Government spending, which is typically spent on standards of living, will need to be cut if it wishes to reduce a defici disposable income, which can reduce happiness. The government n order to prevent national debt. Debt repayments mean money is be development policies and so this will reduce living standards.
   - Credit Rating: Just like with any borrower, if the government has hig as a riskier investment. This means lenders are less likely to give mo high levels of interest repayments.

   b) **What policies could a government adopt to reduce fiscal deficits an**
   Auterity measures, tax increases and spending cuts (Deflationary fiscal p

10. a) **What policies do Keynesians and monetarists advocate?**
   Keynesians advocate fiscal policy while Monetarists advocate monetary

   b) **According to monetarists, what is the relationship between money inflation and GDP?**
   Monetarists believe that any increase in money supply can cause inflatio In the short run, monetarists believe an increase in money supply can inc inflation and as a consequence this will increase GDP.

   c) **Keynesians oppose monetarists; what do they believe the relationsh aggregate demand, inflation and GDP is?**
   Keynesians do not believe the relationship between the money supply, a simple as Monetarists do. Keynesians believe an increase in money supp because it is easier for banks to offer loans, and this *may* increase consu there is no guarantee individuals and firms will increase their consumpti dependent on confidence, expectations and 'animal spirit' over the influ

11. **What policies could a government adopt to…**

   a) **reduce poverty and inequality?**
   Making the tax system more progressive can help to even out inequality those in need can help to support people out of poverty. Similarly, supp occupational and geographical mobility can help assist people to acquir wages.

   b) **increase international competitiveness?**
   Supply-side policies can be used to improve efficiency and productivity, improve competitiveness. Reducing taxes can also reduce the cost of go international market. The government could also adopt an exchange rat its currency to make exports appear cheaper.

12. a) **What issue do global companies pose?**
   There is no authoritive body that can control global companies because can easily avoid regulations. Global companies are footloose and can be

   b) **What two limitations do governments encounter when attempting**
   Global companies are footloose, which means they can avoid regulation borders. Transfer pricing means they can transfer goods at a discount ra across countries.

13. **What three problems do policymakers face when applying policies?**
   Policymakers may create policy on incorrect and inaccurate information. Equa ineffective due to the uncertainties that exist within an economy. Lastly, polic overriding effects of globalisation and the external shocks that come from in

Answers to Exam-style Q

Exam-style Questions (1): International Economics

1. a) The main trend shown is a generally worsening balance of payments on 1970s. It was brought back to parity at the end of the 1990s but the defi greater following the 2008 financial crisis. Award 2 marks for correct inte
1. b) Since the data is shown in nominal (rather than real) terms, this means t been taken into account. The current account deficit shown in the past, t the graph. Award 2 marks for a correct interpretation. Be aware of confu constant prices. Constant prices have been adjusted for inflation (they a

2. A floating exchange rate system simply means a country allows the value of i to the free market forces of demand for its currency and the (somewhat cont Decreases and increases in a country's currency are described as depreciatio when under a floating exchange rate regime. Award 3 marks for a good ans

3. The J-Curve effect explains that the current account deficit will worsen befor the short run, both exports and imports tend to have an inelastic demand (p obligations). This means that changes in prices do not have an impact on the immediately. In the long run, however, demand for both exports and imports current account balance. Award 3 marks for a good answer.

4. Potential disadvantages of globalisation are numerous and include high inte which can cause recessions that are global in nature. It can lead to the rise of abuse their market power. It can lead to cultural homogenisation. It can mea companies can base themselves in tax havens. It can lead to a 'brain drain' fr educated people want to emigrate and work in richer countries. There are nu could be named too. Award 1 mark for identifying a disadvantage and 1 mar

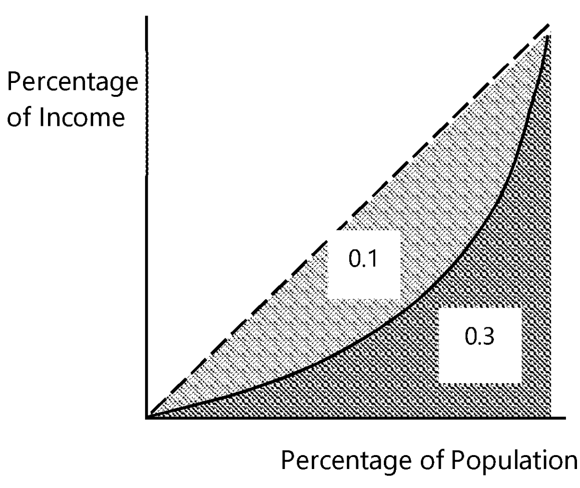
5. Describe how a non-tariff barrier can restrict trade without the use of tariffs, Governments can impose all sorts of regulations and red tape to hinder trad can stipulate that all products entering the country must adhere to certain st and promote domestic industry. Award 2 marks for correct understanding an

Exam-style Questions (2): Poverty and Inequality, Developing E

1. The correct answer is D: Romania and Greece tend to have the worst poverty time period studied. Award 1 mark.

2. a) The correct answer is C: part-time work as a share of unemployment re total employment during the period shown.
   b) There are a few things that could be discussed here. More people in par incomes are probably lower as people work fewer hours. If people are i able to claim jobseeker's allowance so the government's benefits payme between those in full-time and part-time work might widen, increasing i for sensible interpretations and discussion.

3.



a) Gini = (A/A+B) = (0.1/0.1+0.3) = 0.25

b) There are a few things that the government could do: higher benefits pa rates (progressive tax system); improving education and training to incre raising the minimum wage.
Award 1 mark for a suitable idea and 1 mark for an explanation.

4. From the text: 'William Arthur Lewis came up with a development model to e from being agricultural to becoming industrialised. He believed countries wo this he meant the economy would have a large agricultural sector and a sma model of a dual economy assumes the agricultural sector would have a surpl the manufacturing sector had higher wages, but that these would be fixed. It agricultural sector would be attracted by the higher wages and move to the r the manufacturing sector would invest their profits in expansionary projects. leaving the agricultural sector, and as firms grew, the manufacturing sector w agriculture sector diminishes the economy would become industrialised.' Aw

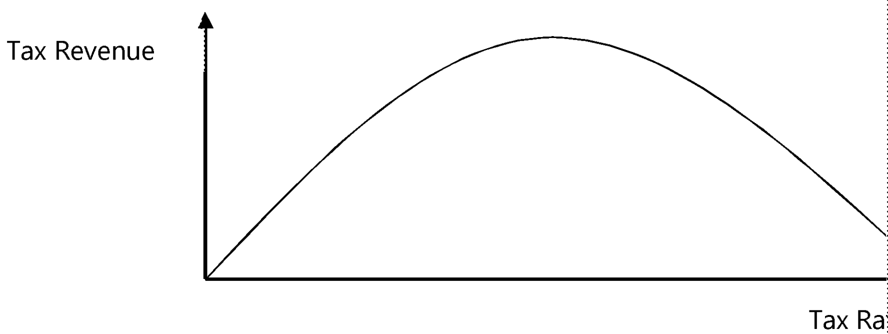
Exam-style Questions (3): The Financial Sector and the Role of t

1. If a good or service is provided by the government then there is less reason f provide it (even if it would be provided more efficiently by the private sector) offers good deals on bonds and other investments then the demand for inve banks will fall. Award up to 3 marks for correct interpretation and discussion.

2. Under a proportional taxation system the tax rate is fixed at a certain percent tax paid rises with income. Award 1 mark for a definition and 1 mark for a su

3. The key idea is that banks may behave differently if they know they have an i provided by the government. That is, if they know that the government will b differently by taking on riskier loans, holding low reserves, and so on. This is marks.

4. Award 2 marks for a diagram drawn like below:



5. Certain government payments and incomes vary automatically with the busi instance, increase during recessions as more people become unemployed. C booms because more people are working and earning. This means that the b somewhat. The government might automatically run a surplus in the good ti Award up to 3 marks for a correct answer.

Glossary

Absolute Poverty	When a person has an inability to afford basic needs. across all countries regardless of differing living costs
Asymmetric Information	When one party in a transaction knows more than th inefficiencies.
Automatic Stabilisers	Countercyclical responses that occur without guidanc government. For example, during a recession unempl people are out of work. During a boom, tax revenues more.
Balance of Trade	A comparison between the value of goods and servic those that are exported. Sometimes it will be separat goods or just services.
Brain Drain	This occurs when skilled workers leave an economy – or high unemployment. It can have long-term conse permanently.
Common Market	A **customs union** that has free movement of factors member countries.
Comparative Advantage	If an economy can produce a good at a lower opport economy.
Crowding Out	This occurs if an expansion of the public sector leads sector – for example, if the government provides goo provided by private firms.
Customs Union	A **free trade area** with common external barriers (e.g
Cyclical Deficit	A deficit that occurs due to downturns as part of the **stabilisers** are a relevant idea: tax receipts fall during unemployment payments increase, increasing the de
Depreciation	When a country's currency falls in value relative to an
Devaluation	When a country's central bank decides to decrease th relative to a different specific foreign currency.
Exchange Rate	The exchange rate shows the price of one country's c
Externalities	A cost or benefit of a transaction that affects an agen affected. Externalities can be positive or negative.
Fiscal Deficit	When the money raised from taxation is lower than t expenditure.
Fixed Exchange Rate	A fixed exchange rate is when a country's governing the value of the currency, in terms of another, at the
Floating Exchange Rate	A system which allows the value of a currency to fluct market forces of demand and supply.
Free Trade Area	A group of countries who have an agreement to allov this it is meant that there are low trade restrictions or countries involved.

Gini Coefficient	A number that is calculated from the Lorenz cur ranked according to inequality levels.
Globalisation	A broad notion referring to the idea that the wo interconnected.
Human Development Index	An index that ranks countries based on a measu education.
Infant Industries	New 'baby' industries that are undeveloped and knowledge to survive in the market. They are of the government until they have 'grown' and are
J-Curve Effect	The idea that following a change in exchange ra worsen before it improves because of inflexibilit is due to varying elasticities of demand and con negate the effect of a rate change.
Keynesian Economics	An economic school of thought that believes th determining output, especially during downturn in the effectiveness of fiscal policy measures.
Laffer Curve	The Laffer curve describes how the government rise with an increasing tax rate *up until a certain* revenue will decrease as there is less incentive f is an optimum tax rate the government can imp revenue.
Lorenz Curve	The Lorenz curve is used to show the distributio the cumulative income against the cumulative p
Managed Exchange Rate	When an exchange rate can fluctuate but the m influence the demand and supply of the country the currency itself or by changing the interest ra float'.
Market Rigging	Market rigging is similar to collusion; it occurs w market act in a way that prevents the market fro
Monetarists	Monetarists believe that using monetary policy more effective than using fiscal policy.
Monetary Union	Two or more separate countries that share a sin currency union.
Monopoly	A market structure in which there is only one fir
Monopsony	A market structure in which there is only one ***bu*** good or service.
Moral Hazard	The idea that a party might behave differently if activity themselves. For example, banks might ta that ultimately the government will bear the risk
Multinational Corporation (MNC)	A company that has assets in at least one other

National Debt	Money borrowed by the government to fund a **d** interest-paying bonds.
Progressive Taxation	Tax rates that increase as income increases. Thos *proportion* of their income in taxes than lower ea
Proportional Taxation	Taxes that are set at a constant rate regardless of £10,000 will pay the same proportion of their sala £100,000.
Quantitative Easing	A monetary tool used by central banks to increas private spending.
Quotas	A restriction or limit on how many goods and ser
Regressive Taxation	Tax rates that decrease as income increases. Thos *proportion* of their income in taxes than lower ea
Relative Poverty	When a person has relatively less in relation to ot they live.
Speculation	The act of trading on the anticipated price mover
Structural Deficit	A persistent deficit that is not caused by short-te economic cycle.
Subsidies	Grants given by the government to domestic pro of production.
Supply-side Policies	Policies that are designed to increase an econom and maximum productive potential *without causi*
Tariffs	Taxes imposed by governments on imports to an to vary depending on the type of good imported
Terms of Trade	How many import goods a country can buy for e of a country's international competitiveness.
The Capital Account	The capital account is a relatively small part of th payments such as remittances by migrants and p money received by the EU).
The Current Account	An account that measures the inflow and outflow investment, to and from an economy.
The Financial Account	The account that records transfers of financial ele property, loans, government bonds, etc. in and o
Trade Liberalisation	The reduction of barriers to trade such as tariffs,
Trading Bloc	A set of countries that have an agreement on the between each other.
Transfer Pricing	A method used by transnational companies to re accounting methods to pay corporation tax in co
WTO	The World Trade Organization. It aims to increase market and resolve trade disputes.

Exam Tips!

Edexcel has designed this specification to create critical and broad-thinking econ
objectives when you write your answers because these are the skills they will be
your exam papers.

Edexcel wants you to…

- be critical
- understand the economic concepts and be able to apply them to various sit
- understand the theories and ideologies from various schools of thought
- be able to draw on real-world examples (there is no need to remember exa knowing a few relevant case studies means you can add in a sentence or tw
- make connections and links across all the topics in each theme relevant to t

The Structure of the Exams: A Level

Paper 1: 'Markets and business behaviour' and Paper 2: 'The national an

⌛ **Time**: 2 hours per paper ✓ **Total Marks**: 100 per paper

Paper 1 looks at Themes 1 and 3, which are microeconomics. Paper 2 looks at Themes 2 and 4, which are macroeconomics. Do not confuse micro concepts with macro concepts; try to keep them clear and differentiated in your mind!

Within both papers there are three sections which all require slightly different skills…

- **Section A** includes both multiple-choice questions (1 mark) and short-answer questions (2–4 marks). This section tests a broad spectrum of your r knowledge. Questions focus on your knowledge (AO1) and application (AO2 few marks for analysis (AO3).
- **Section B** uses real-world examples and provides data for you to analyse – a is one question which is broken down into sub-questions. This section requi the ability to use higher-order skills (such as evaluating, comparing and cont this section, you should focus on providing not only AO1- and AO2- but also
- **Section C** provides two questions; you have a choice as to which one you an are 'open response' questions, which means they require an essay-style ans in the form of 'evaluating' a topic or point, or 'to what extent do you agree' question will require an AO1 and AO2 response, but do not focus too highly mainly be looking at higher-order skills and AO3- and AO4-level answers.

Paper 3: 'Microeconomics and macroeconomics'

⌛ **Time**: 2 hours ✓ **Total Marks**: 100

Paper 3 looks at all four themes. This means that the questions test a mixture of

The paper is split into two sections, and you will need to answer questions from
a 'data-response' question which will be split into sub-questions. Also in each se
response' questions and you can choose which one you answer. Each section be
which you should remember to analyse and refer to in your answers, as required
questions asking you to refer to the data, and references in the questions such a
make sure you only answer questions you need to where there is an either/or ch

How the Examiner Awards Marks

Show the examiner you know your stuff and how to make it easy for them to give

This section will guide you on how best to present your answers in a way that th knowing what the examiner is looking for, what the question is asking and what Economics student will mean you are better able to demonstrate you know your easier for the marker to award you more marks!

Some of this stuff may seem like common sense – but read it and remember it w will help you to organise your thoughts and get into the mindset Edexcel are look

Assessment Objectives

Assessment Objectives, or AOs, determine the level of your answers and show th should award. Not all questions will require all the levels; make sure you have fu gain the highest marks, without wasting time on answers that go above and beyo

AO1
Knowledge!
Identify and explain concepts, theories, and models.

AO2
Application!
Explain how the concepts work in relation to the situation or example provided.

A
Anal
Inspect and exar the pros and co the relevant conc and the pos outcome with reg to the situation example provi

Meaning of the Command Words (Taxonomy)

It may seem obvious to some of you that when the question asks you to examine kind of answer they are looking for. But the exam board have tried to stick to the questions to suggest the structure and answers on the mark scheme. This sectio meaning of the words, but about ensuring you know exactly what Edexcel are ge same wavelength.

These are the key command words for the longer questions:

- **'Examine…'**
  This kind of question is looking for you to answer, 'why does the topic of the an informed judgment, which is a chance for you as a student to express yo opinion. But you will not <u>need</u> to give a decision.
- **'Assess…'**
  This kind of question wants you to give both sides of the topic. You will need points and concepts but identify which are most relevant. Provide your judg decision.
- **'Discuss…'**
  This question will require you to identify the topic in question, consider and then debate the relevance or importance of these ideas. Again, you will nee decision is not needed.
- **'Evaluate…' / 'To what extent…'**
  For this question, you will need to consider the information provided, then d relevant concepts and the provided data. You should give your judgment an the topic in question, in an all-inclusive conclusion.

Be Careful and Remember

How to Tackle a Question

It's a good idea to underline the key words while you're reading a question. This points and skills the question is testing. This also means that when you come bac quickly recognise what you're supposed to be checking for.

Essay-style and long-answer questions will require an answer that is succinct, str seem like a waste of time, but spending just a few minutes brainstorming and pl your response, save time in the long run and make it easier for the examiner ma examiner's life easy by showing them what you know – remember that this is yo knowledge! By planning what you are going to say and in what order, you will m Equally, this gives you a chance to trawl through your memory and draw upon re through writing and forgotten the other point you were going to mention, or tho have to tack on? If you have a plan, it can guide you through all the points you th

Timing

In the **A Level** exams you have two hours (120 minutes) to answer the questions time up and calculating how long you should spend on each question will mean y and give yourself time to check. Equally, if you know you have a limit, and keep t going too in-depth on a question that won't reward you for it.

Split the time using the marks as a weighting:

- 2 hours = 120 minutes
- Take out 20 minutes for reading the data, planning and checking at the end, minutes to write 100 marks (20 minutes is only as a guide, you can adapt th calculation more rounded and easy).
- 1 mark = 1 minute
  So, if you have a 5-mark question, spend 5 minutes answering it. If you have minutes answering it.

If you have extra time:

- 2 hours + 25% = 150 minutes
- 150 minutes to make 100 marks, excluding checking time, isn't such an easy minutes for checking and this leaves you with 120 minutes to write 100 mar
- 1 mark = 1.2 minutes, or, 5 marks = 6 minutes
  So, if you have a 15-mark question, $\left(\frac{15}{5}\right) \times 6$, spend 18 minutes answering i spend 30 minutes answering it.

Things to Always Check before Finishing

- Each axis on your graph is labelled, and labelled correctly
- Lines/curves on diagrams are labelled, and labelled correctly
- Micro concepts are kept for micro questions
- Macro concepts are kept for macro questions
- Calculations are correct. Start with the end number and work through the ca checking to see whether the number you then end with, matches the origin
- You have answered all the questions you need to answer, all sub-questions looking for