

Your exam is 1 hour 30 mins long.

It is a past AS Theme 1 Paper.

Please make sure you read the question carefully.

## 1.1 Nature of Economics

### 1.1.1 Economics as a social science

- a) Thinking like an economist: the process of developing models in economics, including the need to make assumptions
- b) The use of the *ceteris paribus* assumption in building models
- c) The inability in economics to make scientific experiments

### 1.1.2 Positive and normative economic statements

- a) Distinction between positive and normative economic statements
- b) The role of value judgements in influencing economic decision making and policy

### 1.1.3 The economic problem

- a) The problem of scarcity - where there are unlimited wants and finite resources
- b) The distinction between renewable and non-renewable resources
- c) The importance of opportunity costs to economic agents (consumers, producers and government)

### 1.1.4 Production possibility frontiers

(Introduction)

- a) The use of production possibility frontiers to depict:
  - the maximum productive potential of an economy
  - opportunity cost (through marginal analysis)
  - economic growth or decline
  - efficient or inefficient allocation of resources
  - possible and unobtainable production
- b) The distinction between movements along and shifts in production possibility curves, considering the possible causes for such changes
- c) The distinction between capital and consumer goods

	<p>If there is time, could consider actual growth versus potential growth and look at growth figures in the UK economy.</p> <p><b>1.1.5 Specialisation and the division of labour</b></p> <p>a) Specialisation and the division of labour: reference to Adam Smith</p> <p>b) The advantages and disadvantages of specialisation and the division of labour in organising production</p> <p>c) The advantages and disadvantages of specialising in the production of goods and services to trade</p> <p>d) The functions of money (as a medium of exchange, a measure of value, a store of value, a method of deferred payment)</p>
<p><b>1.2 How markets work</b></p>	<p><b>1.2.2 Demand</b></p> <p>a) The distinction between movements along a demand curve and shifts of a demand curve</p> <p>b) The factors that may cause a shift in the demand curve (the conditions of demand)</p> <p>c) The concept of diminishing marginal utility and how this influences the shape of the demand curve</p> <p><b>1.2.4 Supply</b></p> <p>a) The distinction between movements along a supply curve and shifts of a supply curve</p> <p>b) The factors that may cause a shift in the supply curve (the conditions of supply)</p> <p><b>1.2.6 Price determination</b></p> <p>(See also reference to price determination in week 7)</p> <p>a) Equilibrium price and quantity and how they are determined</p> <p>b) The use of supply and demand diagrams to depict excess supply and excess demand</p> <p>c) The operation of market forces to eliminate excess demand and excess supply</p> <p>d) The use of supply and demand diagrams to show how shifts in demand and supply curves cause the equilibrium price and quantity to change in real-world situations</p> <p><b>1.2.7 Price mechanism</b></p>

	<p>a) Functions of the price mechanism to allocate resources:</p> <ul style="list-style-type: none"><li>• rationing</li><li>• incentive</li><li>• signalling</li></ul> <p>b) The price mechanism in the context of different types of markets, including local, national and global markets</p> <p><b>1.2.3 Price, income and cross elasticities of demand</b></p> <p>a) Understanding of price, income and cross elasticities of demand</p> <p>b) Use formulae to calculate price, income and cross elasticities of demand.</p> <p><b>1.2.3 Price, income and cross elasticities of demand</b></p> <p>c) Interpret numerical values of</p> <ul style="list-style-type: none"><li>• price elasticity of demand: unitary elastic, perfectly and relatively elastic, and perfectly and relatively inelastic</li><li>• income elasticity of demand: inferior, normal and luxury goods; relatively elastic and relatively inelastic</li><li>• cross elasticity of demand: substitutes, complementary and unrelated goods</li></ul> <p>d) The factors influencing elasticities of demand</p> <p>e) The significance of elasticities of demand to firms and government in terms of:</p> <ul style="list-style-type: none"><li>• changes in real income</li><li>• changes in the prices of substitute and complementary goods</li></ul> <p>(Note: the significance of elasticities of demand to firms and the government, in terms of the imposition of indirect taxes and subsidies, could be taught following 1.2.9)</p> <p>f) The relationship between price elasticity of demand and total revenue (including calculation)</p> <p><b>1.2.5 Elasticity of supply</b></p> <p>a) Understanding of price elasticity of supply</p> <p>b) Use formula to calculate price elasticity of supply</p>
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c) Interpret numerical values of price elasticity of supply: perfectly and relatively elastic, and perfectly and relatively inelastic

d) Factors that influence price elasticity of supply

e) The distinction between short run and long run in economics and its significance for elasticity of supply

### **1.2.6 Price determination**

Return to this topic (started in week 5). Highlight how equilibrium price and quantity changes will depend upon both:

- how much a demand or supply curve shifts in a given situation

the PED or PES on the curve in which there is a movement along

### **1.2.8 Consumer and producer surplus**

a) The distinction between consumer and producer surplus

b) The use of supply and demand diagrams to illustrate consumer and producer surplus

c) How changes in supply and demand might affect consumer and producer surplus

### **1.2.9 Indirect taxes and subsidies**

a) Supply and demand analysis, elasticities, and:

- the impact of indirect taxes on consumers, producers and government
- the incidence of indirect taxes on consumers and producers
- the impact of subsidies on consumers, producers and government
- the area that represents the producer subsidy and consumer subsidy

### **1.2.3 Price, income and cross elasticities of demand**

e) The significance of elasticities of demand to firms and government in terms of:

- the imposition of indirect taxes and subsidies

### **1.1.6 Free market economies, mixed economy and command economy**

Revisit 1.2.7 here as functions of price mechanism leads nicely into advantages of free market economies.

	<p>a) The distinction between free market, mixed and command economies: reference to Adam Smith, Friedrich Hayek and Karl Marx</p> <p>b) The advantages and disadvantages of a free market economy and a command economy</p> <p>c) The role of the state in a mixed economy</p> <p>Note: The discussions in general on advantages and disadvantages of free market will help to lead fluently onto the topic of market failure</p>
<p><b>1.3 Market failure</b></p>	<p><b>1.3.1 Types of market failure</b></p> <p>a) Understanding of market failure</p> <p>b) Types of market failure (quick introduction):</p> <ul style="list-style-type: none"> <li>• externalities</li> <li>• under-provision of public goods</li> <li>• information gaps</li> </ul> <p><b>1.3.2 Externalities</b></p> <p>a) Distinction between private costs, external costs and social costs</p> <p>b) Distinction between private benefits, external benefits and social benefits</p> <p>c) Use of a diagram to illustrate:</p> <ul style="list-style-type: none"> <li>• the external costs of production using marginal analysis</li> <li>• the distinction between market equilibrium and social optimum position</li> <li>• identification of welfare loss area</li> </ul> <p>d) Use of a diagram to illustrate:</p> <ul style="list-style-type: none"> <li>• the external benefits of consumption using marginal analysis</li> <li>• the distinction between market equilibrium and social optimum position</li> <li>• identification of welfare gain area</li> </ul> <p>e) The impact on economic agents of externalities and government intervention in various markets. Finish externalities</p> <p><b>1.3.3 Public goods</b></p> <p>a) Distinction between public and private goods using the concepts of non-rivalry and non-excludability</p> <p>b) Why public goods may not be provided by the private sector: the free rider problem</p> <p><b>1.3.4 Information gaps</b></p> <p>a) The distinction between symmetric and asymmetric information</p>

	b) How imperfect market information may lead to a misallocation of resources
1.4 Government intervention	<p><b>1.4.1 Government intervention in markets</b></p> <p>a) Purpose of intervention with reference to market failure and using diagrams in various contexts:</p> <ul style="list-style-type: none"> <li>• indirect taxation (ad valorem and specific)</li> <li>• subsidies</li> <li>• maximum and minimum prices</li> </ul> <p>b) Other methods of government intervention:</p> <ul style="list-style-type: none"> <li>• trade pollution permits</li> <li>• state provision of public goods</li> <li>• provision of information</li> <li>• regulation</li> </ul> <p>If there is additional time here, consolidate recent work</p>
	<p><b>1.4.2 Government failure</b></p> <p>a) Understanding of government failure as intervention that results in a net welfare loss</p> <p>b) Causes of government failure:</p> <ul style="list-style-type: none"> <li>• distortion of price signals</li> <li>• unintended consequences</li> <li>• excessive administrative costs</li> <li>• information gaps</li> </ul> <p>c) Government failure in various markets</p>

You can find all the answers sample questions etc. at:

**The Textbook:** Pearson ActiveLearn

Username: MARCHESSCHOOL Password: Marches1

**EzyEconomics:** EzyEconomics.co.uk

**Tutor2U:**

**Revision Guides:** Revision Express Economics AS & A2.

**You should be able to:**

Build Economics into the revision schedule, produce written timetable

## A Level Economics Mock Revision

Create high quality revision materials to include mind maps, revision cards

Complete activities in text book

Be able to explain key terms as listed in the text book