

Revision Guide



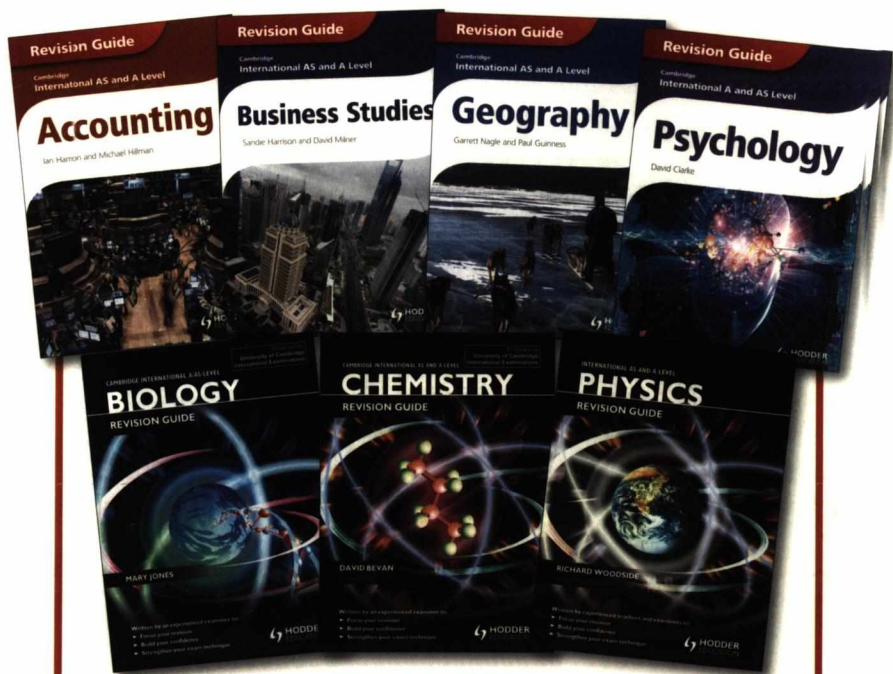
Cambridge
International AS and A Level

Economics

Terry Cook



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Cambridge

International AS and A Level

Economics

Terry Cook

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Hachette UK's policy is to use papers that are natural, renewable and recyclable products and made from wood grown in sustainable forests. The logging and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

Get the most from this book

Everyone has to decide his or her own revision strategy, but it is essential to review your work, learn it and test your understanding. This Revision Guide will help you to do that in a planned way, topic by topic. Use this book as the cornerstone of your revision and don't hesitate to write in it — personalise your notes and check your progress by ticking off each section as you revise.

✓ Tick to track your progress

Use the revision planner on pages 4–6 to plan your revision, topic by topic. Tick each box when you have:

- revised and understood a topic
- tested yourself
- practised the exam-style questions

You can also keep track of your revision by ticking off each topic heading in the book. You may find it helpful to add your own notes as you work through each topic.

My revision planner

AS topics

1 Basic economic ideas

- | | Revised | Tested | Exam ready |
|--|--------------------------|--------------------------|--------------------------|
| 8 Scarcity, choice and resource allocation | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9 Different allocative mechanisms | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 10 Problems of transition | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 11 Production possibility curves | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Individual and market demand curves

Individual demand curves

Revised ☐

An individual demand curve shows the quantity of a product that a particular consumer is willing and able to buy at each and every price in a given period of time, ceteris paribus (i.e. all other things unchanged). The individual demand curve will slope downwards from left to right, indicating that a consumer will be more likely to buy a product at a lower price than a higher price.

demand: the quantity of a product that consumers are willing to buy at a given price in a given period of time

law of demand: a law (or theory) which states that there is an inverse relationship between the quantity demanded of a product and the price of the product, ceteris paribus

Expert tips

Throughout the book there are tips from the experts on how to maximise your chances.

Definitions and key words

Clear and concise definitions of the essential key terms from the syllabus are given on the page where they appear. The key terms are highlighted in bold and a glossary is provided at the back of the book.

Revision activities

The activities will help you to understand each topic in an interactive way.

Now test yourself

These short, knowledge-based questions provide the first step in testing your learning. Answers are at the back of the book.

Tested ☐

Questions and answers

Use the exam-style questions and answers to consolidate your revision and practise your exam skills.

AS topics

1 Basic economic ideas

	Revised	Tested	Exam ready
8 Scarcity, choice and resource allocation.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 Different allocative mechanisms.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10 Problems of transition.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11 Production possibility curves.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13 Decision making at the margin.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13 Positive and normative statements.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14 Ceteris paribus.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14 Factors of production.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15 Division of labour.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15 Money: its functions and characteristics.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2 The price system and the theory of the firm

18 Individual and market demand curves.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22 Price, income and cross elasticities of demand.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25 Firms' supply curves.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
29 Price elasticity of supply.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
31 Interaction of demand and supply.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
33 Consumer and producer surplus.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
35 Prices as rationing and allocative mechanisms.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3 Government intervention in the price system

36 Externalities.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
39 Social costs and social benefits.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
40 Decision making using cost-benefit analysis.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
41 Private and public goods.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
42 Merit and demerit goods.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
43 Examples of government intervention.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4 International trade

46 Principles of absolute and comparative advantage.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
49 Arguments for free trade and motives for protection.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
50 Types of protection and their effects.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
53 Terms of trade.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
53 Components of the balance of payments.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



5 Theory and measurement in the macroeconomy

Revised

Tested

Exam
ready

- | | | | | |
|----|--|--------------------------|--------------------------|--------------------------|
| 56 | Employment statistics..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 58 | General price level: price indices..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 59 | Money and real data..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 60 | Aggregate demand (AD) and aggregate supply (AS)..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 62 | Interaction of AD and AS..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

6 Macroeconomic problems

- | | | | | |
|----|---|--------------------------|--------------------------|--------------------------|
| 63 | Inflation..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 67 | Balance of payments problems..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 68 | Fluctuations in foreign exchange rates..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

7 Macroeconomic policies

- | | | | | |
|----|--|--------------------------|--------------------------|--------------------------|
| 72 | Policies designed to correct balance of payments disequilibrium..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 73 | Policies to influence the exchange rate..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 73 | Possible conflicts between macroeconomic policy objectives..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

74 AS questions and answers

A level topics

8 Basic economic ideas

Revised

Tested

Exam
ready

- | | | | | |
|----|-------------------------------------|--------------------------|--------------------------|--------------------------|
| 79 | Efficient resource allocation..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 79 | Concept of economic efficiency..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

9 The price system and the theory of the firm

- | | | | | |
|-----|---|--------------------------|--------------------------|--------------------------|
| 82 | Law of diminishing marginal utility..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 83 | Budget lines..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 84 | Short-run and long-run production and cost functions..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 90 | Types of cost, revenue and profit..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 92 | Differing objectives of a firm..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 93 | Different market structures..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 99 | Contestable markets..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 100 | Conduct and performance of firms..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 101 | Growth and survival of firms..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 103 | Demand and supply for labour..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 105 | Wage determination..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |



	Revised	Tested	Exam ready
10 Government intervention in the price system			
109 Sources of market failure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
111 Additional policies to correct market failure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
112 Objectives of government microeconomic policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
112 Effectiveness of government policies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
113 Privatisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(There are no additional international trade topics at A level)

11 Theory and measurement in the macroeconomy

114 National income statistics	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
118 The money supply	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
119 The circular flow of income	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
120 Keynesian and Monetarist schools	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
121 The aggregate expenditure function	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
127 Sources of money supply and the quantity theory of money	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
129 The demand for money	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

12 Macroeconomic problems

132 Economic growth and development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
136 Unemployment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
138 Inter-connectedness of problems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13 Macroeconomic policies

140 Objectives of macroeconomic policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
140 Types of policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
145 Evaluating policy options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
145 Policies towards economically developing economies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

148 A level questions and answers

154 Now test yourself answers

160 Key terms



6–8 weeks to go

- Start by looking at the syllabus — make sure you know exactly what material you need to revise and the style of the examination. Use the revision planner on pages 4–6 to familiarise yourself with the topics.
- Organise your notes, making sure you have covered everything on the syllabus. The revision planner will help you to group your notes into topics.
- Work out a realistic revision plan that will allow you time for relaxation. Set aside days and times for all the subjects that you need to study, and stick to your timetable.
- Set yourself sensible targets. Break your revision down into focused sessions of around 40 minutes, divided by breaks. This Revision Guide organises the basic facts into short, memorable sections to make revising easier.

Revised ☐

1 week to go

- Try to fit in at least one more timed practice of an entire past paper and seek feedback from your teacher, comparing your work closely with the mark scheme.
- Check the revision planner to make sure you haven't missed out any topics. Brush up on any areas of difficulty by talking them over with a friend or getting help from your teacher.
- Attend any revision classes put on by your teacher. Remember, he or she is an expert at preparing people for examinations.

Revised ☐

The day before the examination

- Flick through this Revision Guide for useful reminders, for example the expert tips and key terms.
- Check the time and place of your examination.
- Make sure you have everything you need — extra pens and pencils, tissues, a watch, bottled water, sweets.
- Allow some time to relax and have an early night to ensure you are fresh and alert for the examination.

Revised ☐

4–6 weeks to go

- Read through the relevant sections of this book and refer to the expert tips and key terms. Tick off the topics as you feel confident about them. Highlight those topics you find difficult and look at them again in detail.
- Test your understanding of each topic by working through the 'Now test yourself' questions in the book. Look up the answers at the back of the book.
- Make a note of any problem areas as you revise, and ask your teacher to go over these in class.
- Look at past papers. They are one of the best ways to revise and practise your exam skills. Write or prepare planned answers to the exam-style questions provided in this book. Check your answers with your teacher.
- Use the revision activities to try different revision methods. For example, you can make notes using mind maps, spider diagrams or flash cards.
- Track your progress using the revision planner and give yourself a reward when you have achieved your target.

Revised ☐

My exams

Paper 1

Date:

Time:

Location:

Paper 2

Date:

Time:

Location:

Paper 3

Date:

Time:

Location:

Paper 4

Date:

Time:

Location:

Scarcity, choice and resource allocation

Scarcity refers to the fact that at any moment in time, the output that an economy is able to produce will be limited by the resources and technology available. People's **wants** and **needs**, however, will always exceed the **resources** available to satisfy them, i.e. these wants and needs are unlimited. This is known as the **economic problem**.

As a result of this condition of scarcity, choices must be made. In all economies, therefore, there is an inevitability of choice at all levels of decision making, i.e. at the level of the individual, the firm and the government.

This focus on choice stresses the need to recognise the implications of not only choosing one thing, but also of *not* choosing something else. This is known as **opportunity cost**. For example, using a piece of land for farming purposes or to build a factory on.

wants: things that are not essential, e.g. a new car or television

needs: things that are essential for human survival, e.g. food or shelter

resources: the inputs available to an economy for use in the production of goods and services

economic problem: a situation where there are not enough resources to satisfy all human needs and wants

opportunity cost: the benefit foregone from not choosing the next best alternative

Expert tip

It is important that candidates fully understand the difference between a *want* and a *need*, and can clearly demonstrate this understanding to the examiner.

Expert tip

Candidates sometimes define opportunity cost as the benefit that is foregone as a result of taking a decision. But it is not the result of any random choice; it is the cost of the next best alternative foregone.

The emphasis on choice focuses on three basic economic questions:

- what will be produced
- how it will be produced
- for whom it will be produced

Expert tip

Candidates should emphasise the importance of needing to make a choice as a result of the condition of scarcity, and although choice can apply to various areas of economic activity, these three basic economic questions are the three most fundamental ones.

Now test yourself

- 1 Define what is meant by the 'economic problem'.
- 2 Explain what is meant by the term 'opportunity cost'.

Answers on p.154

Tested