GCSE Economics Revision Guide

Economics GCSE – Key words and summaries

Assessment Objectives This Economics specification requires candidates to:

a. **Demonstrate knowledge** and understanding of the specified subject content;
b. **Apply knowledge** and understanding using appropriate terms, concepts, theories and methods effectively to address problems and issues;
c. **Select, organise interpret** and use information from various sources to **analyse** problems and issues;
d. **Evaluate** evidence; make reasoned judgements and present conclusions accurately and appropriately.

Overall Key Definitions

- **Efficiency:** a measure of how well workers, businesses, government or a country produce goods and services.
- **Profitability:** a measure of business success through comparing profit made with the amount sold or invested;
- **Sustainability:** a way of considering economic activities in terms of their impact on future welfare and resources;
- **Quality of life:** a measure of welfare beyond the standard of living which includes a consideration of non-monetary factors;
- **Equity:** a way of considering fairness in the distribution of income and wealth and in the outcome of economic activities.

Syllabus content

1. Basic Economic Problems and Decisions

- **Opportunity cost**: The cost of passing up the next best choice when making a decision
- **Rationalality:** a thought process based on sane and logical reasoning
- **Resource allocation:** The process of allocating resources in an economy, or between economies
- **Scarcity:** Not having sufficient resources to produce enough to fulfill unlimited wants
- **Scarce resources:** Goods and services which are scarce because of the limited availability of the factors of production
- **Factors of production:** The resources of land, labour, capital and enterprise
- **Specialisation:** The separation of tasks within a system, could be an individual, company or country who specialises
- **Division of Labour:** is a system whereby workers concentrate on performing a few tasks and then exchange their production for other goods and services

Opportunity cost

VS

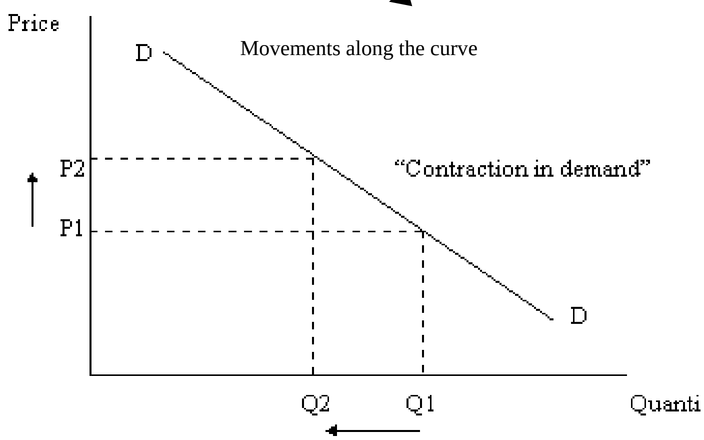
20 new hospitals

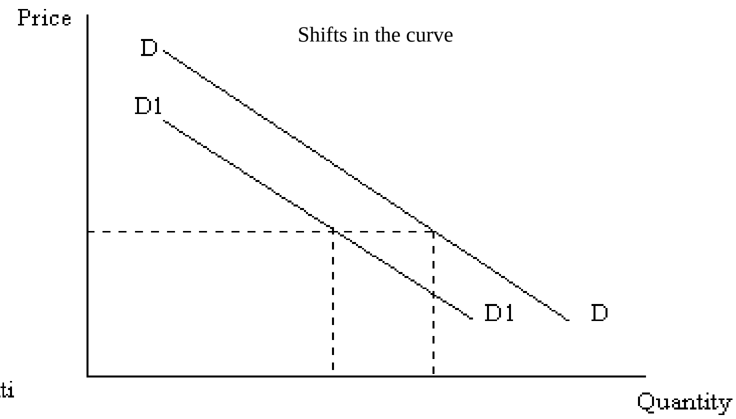
2. Market Systems

2.1: Demand

- **Demand:** The quantity of a good that consumers are willing to purchase at a given price.
- **Effective demand:** demand matched by a willingness to pay
- **The demand curve:** Shows the relationship between the amount demanded and price
- **Shift in demand:** A change in quantity demanded caused by something other than price
- **Movements along the demand curve:** A change in quantity demanded caused by a change in price.
- **Elasticity:** A measure of responsiveness
- **Price elasticity:** A measure of responsiveness of quantity demanded to a change in price.
- **Income elasticity:** A measure of responsiveness of quantity demanded to a change in income
- **Cross elasticity:** Measures the responsiveness of the quantity demanded of a good to a change in the price of another good.

The demand curve





Caused by

- Change in price

Caused by

- Good becomes more popular
- Increase in advertising
- Substitutes increase in price
- Quality improves
- Increase in incomes

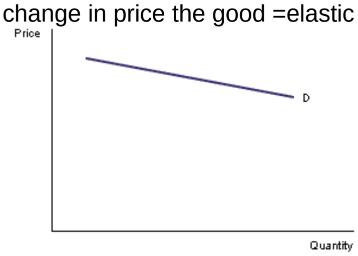
*Any factor **other** than a change in price*

Elasticity

A measure of how much demand changes when there is a:

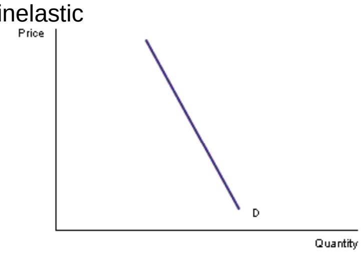
Change in price

If change in demand is greater than change in price the good =elastic



- Lots of substitutes
- Luxury
- Little loyalty to the product
- Often expensive

If change in demand is less than the change in the price of the good = inelastic



- Very few substitutes
- Necessity or addictive
- Strong brand loyalty
- Usually not too expensive

Change in income

Your income goes up, but by how much will demand go up, (if at all)

Normal goods:
If an increase in income causes an increase in demand then the good is normal

Inferior goods
If an increase in income causes a fall in demand then the good is classed as inferior

Change in the price of another good

A change in the price of another good may affect the demand for a good, but by how much?

Substitute goods
If price goes up of Burger King Whoppers demand for Big Macs goes up

Price of BK ↑

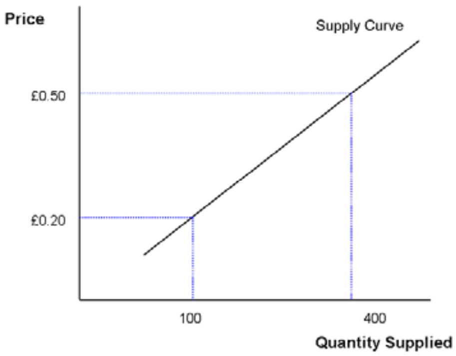
Demand for Mc ↑

Compliment goods
If the price goes up of iTunes downloads, the demand for iPods will go down

2.2: Supply

- **Supply:** the quantity that producers are willing to sell at a given price.
- **Profit:** the difference between revenue less costs; accounting definitions are **not** required. Candidates
- **Fixed costs**: are expenses whose total does not change in proportion to the activity of a business
- **Variable costs**: are expenses whose total does change in proportion to the activity of a business
- **Total costs:** the sum of variable and fixed costs.
- **Average costs**: the cost of making all of the goods divided by the number of goods made
- **Short run costs**: at least one factor of production cost is fixed
- **Long run costs:** All factor of production costs are variable
- **Economies of scale:** the cost *per unit* made declines with an increase in the number of units produced.
- **Diseconomies of scale:** the cost *per unit* increases with an increase in the number of units produced.
- **The supply curve:** Shows the relationship between the amount supplied and price

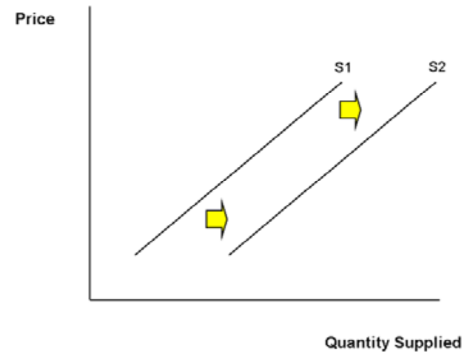
- **Shift in supply:** A change in quantity supply caused by something other than price
- **Movements along the supply curve:** A change in quantity supply caused by a change in price.
- **Price Elasticity of supply:** the rate of response of quantity supplied due to a change in price



Caused by

↓

- Change in price



Caused by

↓

- Cheaper raw materials
- More efficient production
- Better productivity
- New technology

Costs

Fixed costs

+

Variable costs

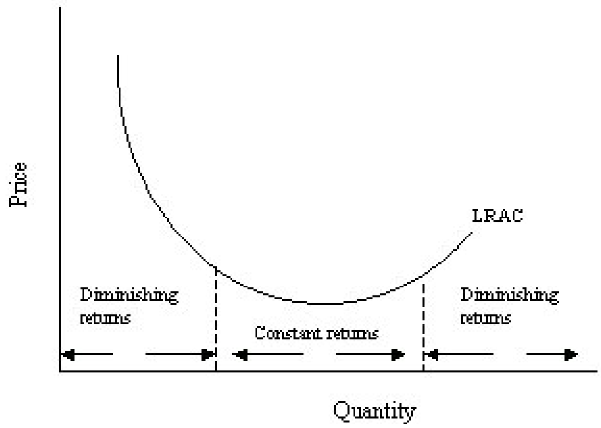
= **Total costs**

Average costs: Total costs / number of goods made

Short run costs
At least one *factor of production* cost is fixed

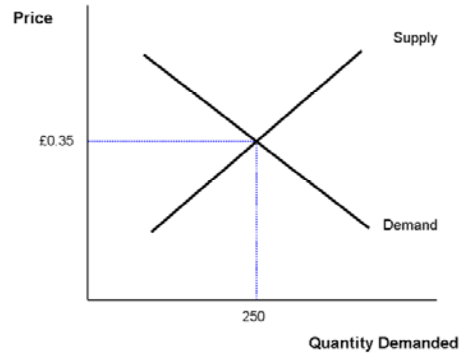
Long run costs
All factor of production costs are variable

Economies of scale



2.3: The Market Mechanism

- **Equilibrium:** a balance of supply and demand, the point where both sellers and buyers are happy with the price and quantity.



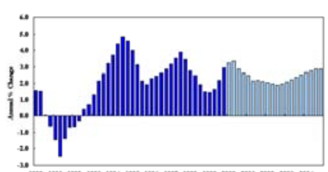
2.4: Labour markets

- **Trade unions:** An organization of workers formed for the purpose of serving the members' interests with respect to wages and working conditions
- **Labour market:** Only includes those who are able and willing to work, does not include full-time students, the retired, and children.
- **Unemployment:** someone who is able and willing to work but cannot find a job
- **Minimum wage**: the minimum rate a worker can legally be paid (often per hour) as set by government, currently £4.25 per hour in the UK
- **Supply of labour:** the number of workers willing to work at each wage rate
- **Demand for labour:** The number of workers required at each wage rate

Types of Unemployment

Structural
Reduction in demand for certain types of industries.

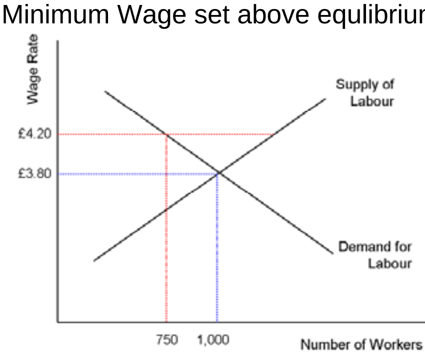
Cyclical
Jobs are lost in the country due to a recession.



Frictional
People may be between jobs.

Seasonal
People may be out of work because of the seasons

Minimum Wage set above equlibrium



3. Business Behaviour

3.1: Business objectives and ownership

- **Profit maximisation**: The process by which a firm determines the price and output level that returns the greatest profit.
- **Market share:** the percentage of the total available market, that a company has
- **Sales growth**: trying to achieve a large amount of sales
- **Public sector:** The part of the economy concerned with providing basic government services
- **Private sector:** The part of a nation's economy which is not controlled by the government
- **Privatisation:** The return of state enterprises to private ownership and control.
- **Nationalisation:** changing something from private to state ownership
- **PFI:** Private Finance Initiative provides financial support for public-private partnerships
- **Deregulation:** The removal of government controls from an industry or sector, to allow for a free and efficient marketplace
- **Competitive tendering:** providers competing against each other to deliver a service

Types of ownership

Public sector

Private sector

➪➪➪➪➪➪Privatisation➪➪➪➪➪➪

←←←←Nationalisation←←←←

3.2 Growth of business

- **Mergers**: occur when two firms agree to form a new company.
- **Take-overs:** The acquisition of one company by another.
- **Horizontal merger:** A merger between two firms that produce the same or similar products.
- **Vertical mergers**: Merging with companies up or down the production process
- **Economies of scale:** Costs of producing one unit goes down as a company gets bigger
- **Diseconomies of scale:** Costs of producing one unit goes up as a company gets bigger
- **Productivity:** The amount of physical output for each unit of productive input.
- **Stakeholders:** Individuals, groups or organisations that are affected by and/or have an interest in an organisaton

Mergers

Vertical merger

Horizontal merger

Economies of scale

As production goes up the average cost goes down

Managerial
Employ specialist managers.

Financial
Easier to get a loan from the bank

Bulk buying
Buyer in big quantities and getting discounts

Mass production
Production in large quantities helping spread fixed costs

Diversify
Sell a range of products. Reduces the risk of failure

Advertising
They can afford to advertise on bigger formats and more often

3.3 Business competition and market structure

- **Competition:** the thing that should encourage innovation, efficiency, or drive down prices.

4. Market Failure and Policies

4.1 Market failure

- **Monopoly:** where there is only one provider of a kind of product or service
- **Cartels**: producers whose goal it is to fix prices, to limit supply and to limit competition.
- **External costs**: the negative side-effect of an economic transaction
- **External benefit**: the positive side-effect of an economic transaction
- **Externalities:** costs (or benefits) arising from the decisions of an individual which impact on people other than that individual
- **Social costs**: the costs of a company's impacts on the environment and society for which the business is not financially responsible.
- **Social benefits:** the benefits from a company on the environment and society for which the business is not financially responsible
- **Private costs:** The costs received by the firm that produces the good or service
- **Private benefits:** The benefits received by the firm that produces the good or service

Costs and benefits

Private costs

Shell's costs

Private benefits

Shell's profits

Social costs/externalities

Shell's pollution in Nigeria

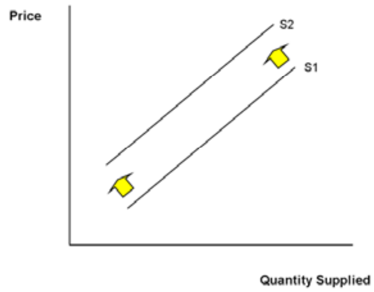
Social benefits

McDonald's work with community sport

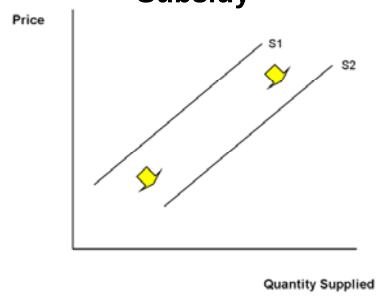
4.2 Market policies

- **Taxes:** charge or other levy imposed on an individual or business by the government
- **Subsidies:** Grants of money made by the government to either a seller or a buyer of a certain product
- **Price controls:** Putting an upper limit on market prices
- **Competition Commission:** independent body responsible for investigating mergers, market shares
- **Regulation**: A legal restriction imposed by the government
- **Regional policy:** the means by which governments and the EU seek to reduce geographical inequalities.

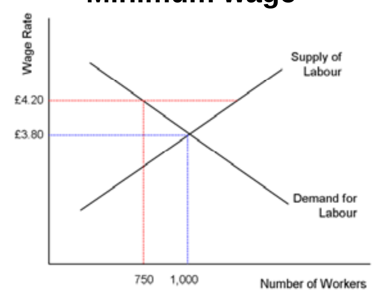
Tax



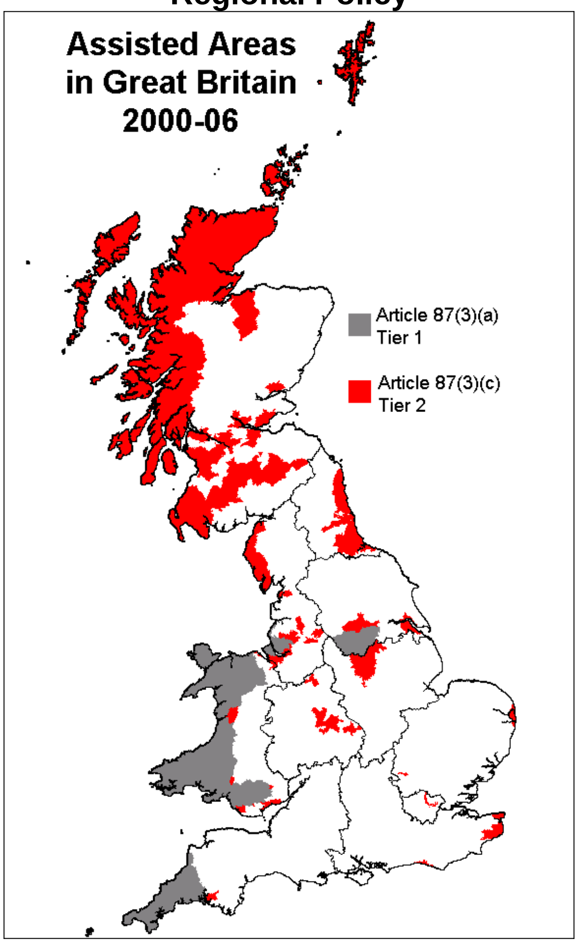
Subsidy



Minimum wage



Regional Policy



5. *Macroeconomic Concepts*

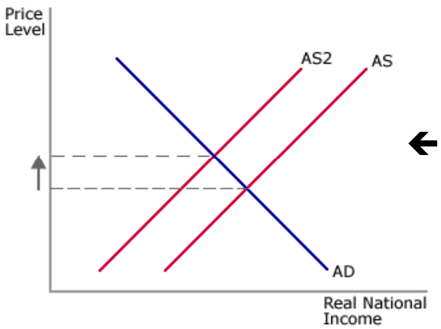
5.1 GDP and national income

- **Real GDP:** Inflation-adjusted value of GDP; the value of output measured in constant prices.
- **Nominal GDP:** Total value of goods and services produced within a nation's borders, measured in current prices.
- **Standard of living:** A level of material comfort as measured by the goods, services, and luxuries available to an individual, group, or nation.
- **Quality of life indicators:** the well-being of individuals, including standard of living, and other measures such as health, education, freedom, environmental conditions.

5.2 Inflation

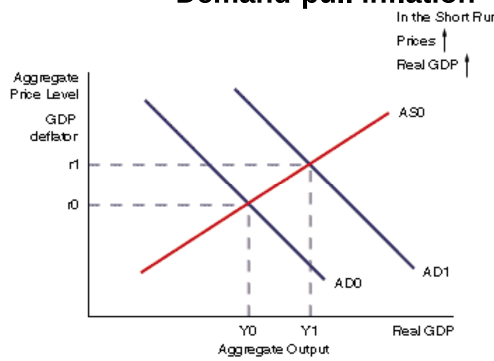
- **Inflation:** an increase in the price of a basket of goods and services that is representative of the economy as a whole.
- **Cost push inflation:** an increase in prices caused by an increase in costs.
- **Demand pull inflation:** prices rise when aggregate demand in an economy outpaces aggregate supply.

Cost-push inflation

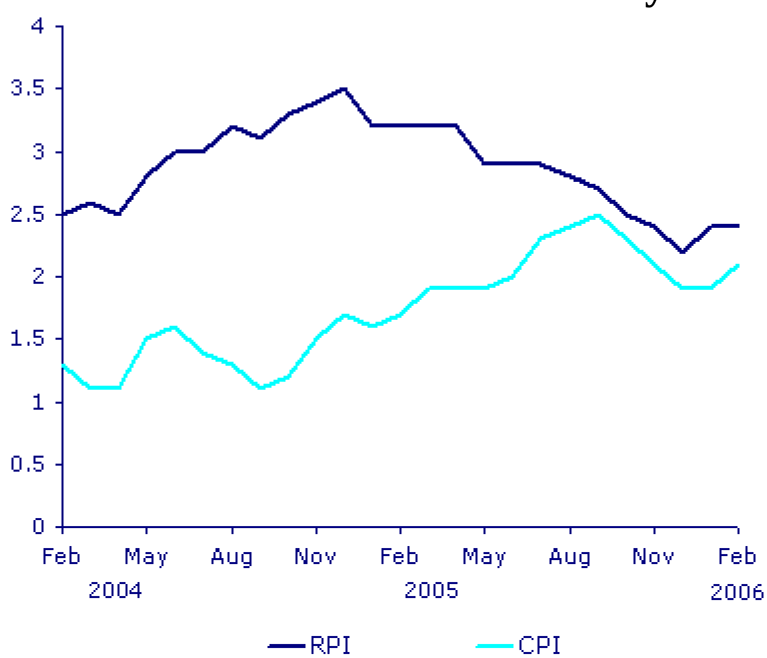


← Prices going up →

Demand-pull inflation



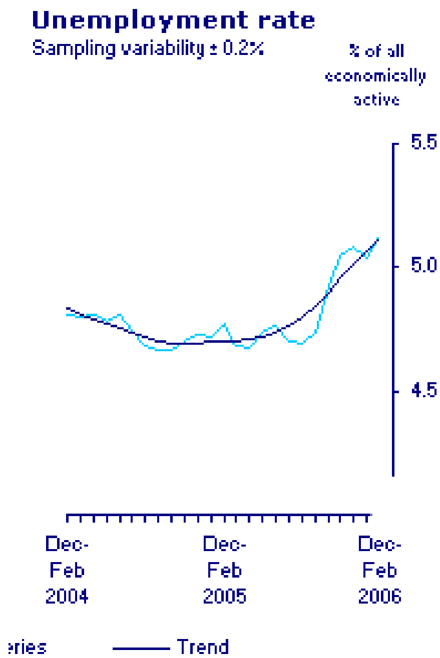
Inflation numbers steady



5.3 Unemployment

- **Unemployment:** someone who is able and willing to work but cannot find a job
- **Structural unemployment:** Reduction in demand for workers in certain industries, which are in decline
- **Cyclical unemployment:** Jobs are lost in the country due to a recession.
- **Frictional unemployment:** Workers who are between jobs
- **Seasonal unemployment:** People may be out of work because of the seasons

On the way up



5.4 Balance of payments

- **Visible trade:** Trade in goods
- **Invisible trade**: Trade in services
- **The current account:** contains the import and export items of goods and services as well as transfer payments including net investment income.
- **Trade deficits:** Importing more than we export
- **Trade surpluses**: Exporting more than we import

Balance of payments – Current account

Visible exports and imports

Goods

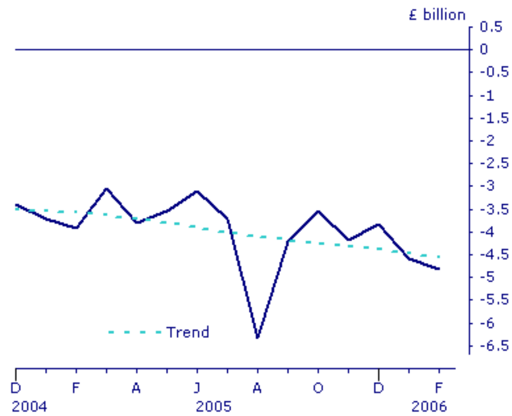
UK not good at

Invisible exports and imports

Services

UK good at

Trade deficit grows to £4.8bn in Feb 2006



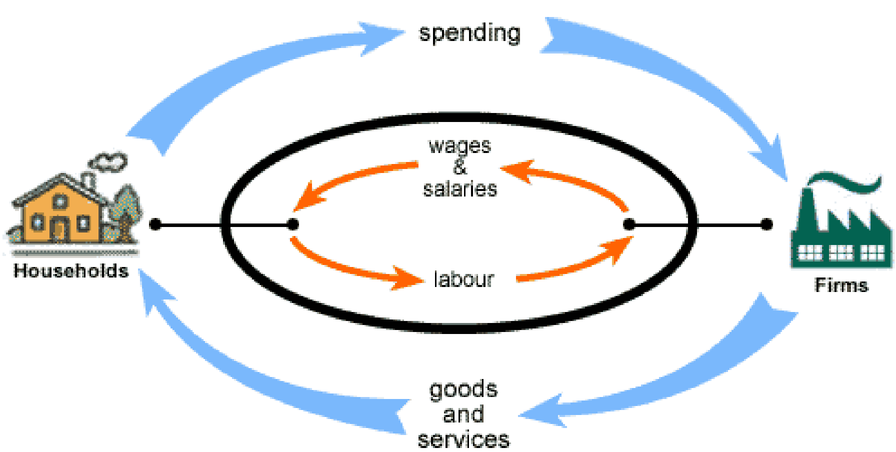
5.5 Money Supply

- **The money supply:** the quantity of money available within the economy.

6. Macroeconomic systems

6.1 Flow system

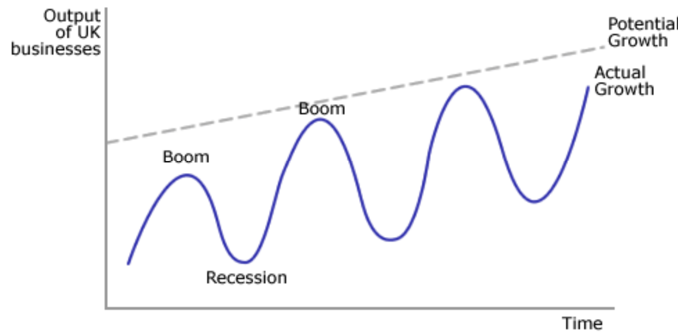
- **Circular flow of income:** simple economic model showing the relationship between money income and spending for the economy as a whole



6.2 The economic cycle

- **Economic cycle:** The ups and downs in growth of the economy over a period of time
- **Boom: a** time of rapid growth in wealth
- **Recession:** a fall of a country's GDP in two or more successive quarters of a year.
- **Slump:** A downturn in the economy

- **Recovery:** An upturn in the economy



6.3 Exchange rates

- **Floating exchange rate:** exchange rate which is determined by free market forces**,**
- **Fixed exchange rate:** exchange rate regime where a currency's value is matched to the value of another single currency or to a basket of other currencies by the government or central bank
- **The single currency.** the euro is the official currency of 12 member states of the European Union

Sales

IF **£200 Dyson vacuum cleaner**
£1 = \$2: price of cleaner in US is \$400
£1 = \$4: price of cleaner in US is \$800

→ ↓

IF **\$200 Dell computer**
£1 = \$2: price of computer in UK £100
£1 = \$4: price of computer in UK £50

→ ↑

Strong
Pound
Imports
Cheap
Exports
Dear

7. Macroeconomic objectives and policies

7.1 The objectives of macroeconomic policy

- **Macroeconomic objectives:** full employment, low inflation, economic growth and a positive balance of payments

7.2 The nature and effects of macroeconomic policies

- **The new deal:** Government scheme to encourage the unemployed back to work, through restricted benefits and increased training
- **Fiscal policy:** the setting of the level of public expenditure and how that expenditure is funded (tax & spend)
- **Monetary policy:** changing interest rates, money supply and exchange rates to control the supply of money
- **Interest rates:** The cost of money which are set via the base rate by the Monetary Policy Committee of the Bank of England
- **Supply side policies:** Government attempts to increase supply in the economy

Government attempts to control and influence the economy

Fiscal policy
Taxation Government spending

Monetary policy
Interest rates Exchange rates

Supply Side policies
Attempts to increase production

7.3 Interest rates

- **Interest rates:** the price a borrower pays for the use of money
- **Transmission mechanism**: the effects a change of interest rates have on an economy

BANK OF ENGLAND

Current Interest Rate View decisions and minutes	**4.5%** Next due: 4 May '06
Current Inflation (CPI)	**2.0%** Next due: 20 Apr '06
Inflation Target More information	**2.0%**
Latest Inflation Report View report and webcast	**Feb '06** Next due: 10 May '06

7.4 Government income and expenditure

- **Fiscal policy:** The use of government spending and taxation to try to influence the level of economic activity.
- **Expansionary fiscal policy:** means lower taxes and higher government spending.
- **Budget deficit:** The amount by which government spending exceeds government revenues.
- **Budget surplus:** tax revenues exceed spending

7.5 The exchange rate as a policy instrument and a policy objective

- **Depreciation/devaluation:** The official lowering of the £ against one or more foreign currencies, with the aim to make exports more competitive and imports more expensive
- **Appreciation:** A rise in the value of £ in relation to other currencies

The current £/$ exchange rate is 1.775, down from nearly 1.92 last year – good news for exporters, but imports dearer

7.6 Trade policy and protection

- **Protectionism:** The restriction of imports into a country by government
- **Tariffs:** tax on imported goods
- **Quotas:** limits on the quantity of a product that can be imported into a country
- **Free trade:** Trade between countries without barriers

7.7 The European Union

- **The single market.** The free movement of goods, services, capital and labour within member states.
- **The Euro**: the official currency of the European Union
- **European Central Bank (ECB)**: Has the job of setting interest rates for Europe
- **Common Agricultural Policy (CAP)**: a system of European Union agricultural subsidies
- **Enlargement:** The expansion of Europe from 15 to 25 countries in 2004


ÍSLAND
NORGE
SVERIGE
SUOMI
FINLAND
EESTI
LATVIJA
LIETUVA
UNITED
KINGDOM
IRELAND
ÉIRE
DANMARK
NEDERLAND
DEUTSCHLAND
POLSKA
BELGIË
BELGIQUE
LUXEMBOURG
ČESKÁ
REPUBLIKA
SLOVENSKO
FRANCE
SUISSE
SCHWEIZ
SVIZZERA
ÖSTERREICH
LIECH.
MAGYARORSZÁG
SLOVENIJA
HRVATSKA
ROMÂNIA
MOLDOVA
BELARUS
RUSSIJA
UKRAÏNA
QAZAQSTAN
PORTUGAL
ANDORRA
ESPAÑA
MONACO
SAN MARINO
ITALIA
BOSNA I
HERCEGOVINA
SRBIJA I
CRNA GORA
BĂLGARIJA
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HAIASTAN
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SOURIYA
LIBNAN
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