

SYLLABUS

**Cambridge International AS & A Level
Economics**

9708

For examination in June and November 2019, 2020 and 2021.
Also available for examination in March 2019, 2020 and 2021
for India only.

Changes to the syllabus for 2019, 2020 and 2021

The latest syllabus is version 1, published September 2016

There are no significant changes which affect teaching.

You are strongly advised to read the whole syllabus before planning your teaching programme.

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Welcome

Cambridge International AS & A Level Economics encourages learners to explore their subject in depth. The syllabus has been designed, in consultation with teachers and universities, to help learners develop not only subject knowledge, but also a strong understanding of some of the key concepts that are critical to mastering the subject.

All our syllabuses are reviewed and updated regularly so that they reflect the latest thinking of international experts and practitioners, and take account of the different national contexts in which they are taught. Consultation is an important part of the way we develop our syllabuses.

Consulting teachers

Teachers at Cambridge schools worldwide help us to shape our Cambridge International AS & A Level syllabuses. The feedback contributes to the development of syllabus content, assessments and support materials. Consulting teachers ensures that our materials are designed carefully around their needs and the needs of their learners.

Consulting universities

Like teachers, universities help to shape our Cambridge International AS & A Level syllabuses. We consult with leading higher education institutions to make sure the syllabuses encourage learners to get a firm grasp of the subject's key concepts and develop the skills necessary for success at university.

Key concepts

Key concepts are essential ideas, theories, principles or mental tools that help learners to develop a deep understanding of their subject and make links between the different topics. The key concepts that this syllabus is designed to develop are detailed on page [X].

Teacher support

Our comprehensive teacher support will help you deliver the syllabus confidently and effectively. The support includes resources for teaching and learning as well as exam preparation. The teaching support package helps teachers integrate the key concepts into their teaching, showing how they fit into the overall syllabus and suggesting ways to teach them with each topic. Learn more on page [x].

“ Cambridge International AS and A Levels prepare students well for university because they've learnt to go into a subject in considerable depth. There's that ability to really understand the depth and richness and the detail of a subject. It's a wonderful preparation for what they are going to face at university. ”

Christoph Guttentag, Dean of Undergraduate Admissions, Duke University, USA

Why choose Cambridge International Examinations?

Cambridge International Examinations prepares school students for life, helping them develop an informed curiosity and a lasting passion for learning. We are part of Cambridge Assessment, a department of the University of Cambridge.

Our international qualifications are recognised by the world's best universities and employers, giving students a wide range of options in their education and career. As a not-for-profit organisation, we devote our resources to delivering high-quality educational programmes that can unlock learners' potential.

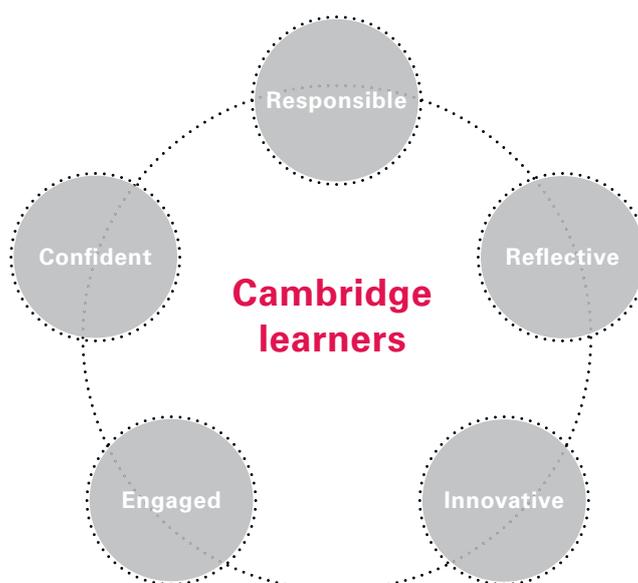
Our programmes and qualifications set the global standard for international education. They are created by subject experts, rooted in academic rigour and reflect the latest educational research. They provide a strong platform for learners to progress from one stage to the next, and are well supported by teaching and learning resources.

Every year, nearly a million Cambridge learners from 10 000 schools in 160 countries prepare for their future with an international education from Cambridge.

Cambridge learners

Our mission is to provide educational benefit through provision of international programmes and qualifications for school education and to be the world leader in this field. Together with schools, we develop Cambridge learners who are:

- **confident** in working with information and ideas – their own and those of others
- **responsible** for themselves, responsive to and respectful of others
- **reflective** as learners, developing their ability to learn
- **innovative** and equipped for new and future challenges
- **engaged** intellectually and socially ready to make a difference.



Learn more about the Cambridge learner attributes in Chapter 2 of our *Implementing the curriculum with Cambridge* guide at www.cie.org.uk/curriculumguide

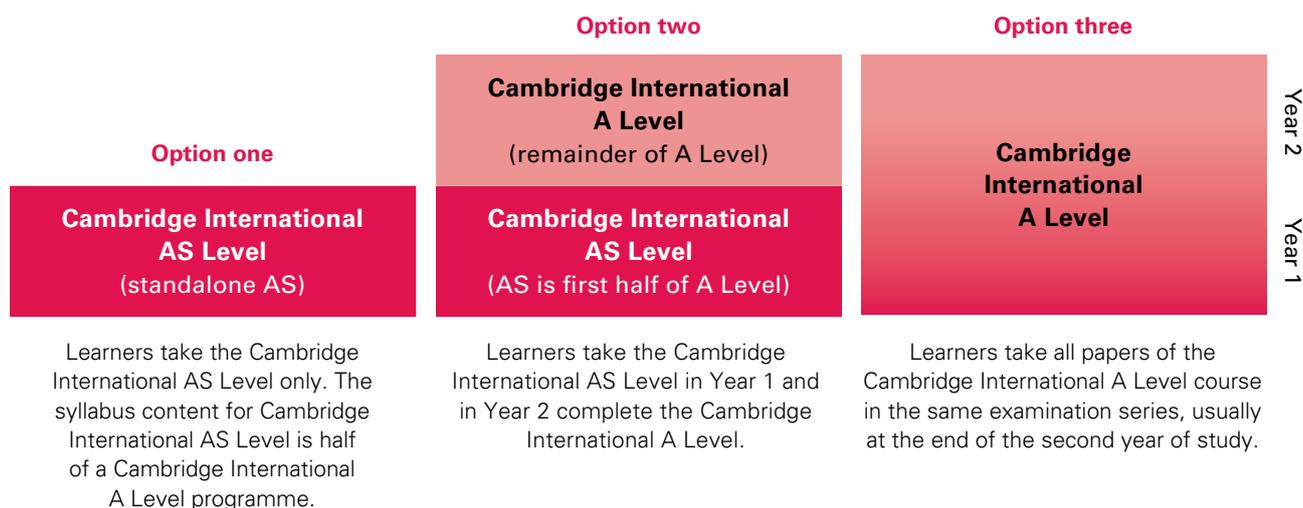
Why Cambridge International AS & A Levels?

Cambridge International AS & A Levels are international in outlook, but retain a local relevance. The syllabuses provide opportunities for contextualised learning and the content has been created to suit a wide variety of schools, avoid cultural bias and develop essential lifelong skills, including creative thinking and problem-solving.

Our aim is to balance knowledge, understanding and skills in our qualifications to enable students to become effective learners and to provide a solid foundation for their continuing educational journey. Cambridge International AS & A Levels give learners building blocks for an individualised curriculum that develops their knowledge, understanding and skills.

Cambridge International AS & A Level curricula are flexible. It is possible to offer almost any combination from a wide range of subjects. Cambridge International A Level is typically a two-year course, and Cambridge International AS Level is typically one year. Some subjects can be started as a Cambridge International AS Level and extended to a Cambridge International A Level.

There are three possible assessment approaches for Cambridge International AS & A Level:



Every year thousands of learners with Cambridge International AS & A Levels gain places at leading universities worldwide. Cambridge International AS & A Levels are accepted and valued by top universities around the world including those in the UK, US (including Ivy League universities), European nations, Australia, Canada and New Zealand. Learners should check the university website for specific entry requirements before applying.

Did you know?

In some countries universities accept Cambridge International AS Levels in their own right as qualifications counting towards entry to courses in the same or other related subjects. Many learners who take Cambridge International AS Levels also choose to progress to Cambridge International A Level.

Learn more

For more details go to www.cie.org.uk/recognition

Why Cambridge International AS & A Level Economics?

The study of Cambridge International AS & A Level Economics allows learners to explore concepts and theories which can be applied to the way that modern economies work.

Cambridge learners develop the ability to explain, evaluate and analyse economic issues and arguments. They gain lifelong skills and a solid foundation for further study.

About the syllabus

Through the Cambridge International AS and A Level Economics syllabus, learners study how to explain and analyse economic issues and arguments, evaluate economic information, and organise, present and communicate ideas and judgements clearly.

The syllabus covers a range of basic economic ideas, including an introduction to the price system and government intervention, international trade and exchange rates, the measurement of employment and inflation, and the causes and consequences of inflation. Learners also study the price system, the theory of the firm, market failure, macroeconomic theory and policy, and economic growth and development.

Key concepts

The key concepts on which this syllabus is built are set out below. These key concepts can help teachers think about how to approach each syllabus topic in order to encourage learners to make links between topics and develop a deep overall understanding of the subject.

As a teacher, you will refer again and again to these concepts, which can serve as tools when considering both familiar and unfamiliar issues and contexts in economics.

- **Scarcity and choice**
The fundamental problem in economics is that resources are scarce and wants are unlimited, so there is always a choice required between competing uses for the resources.
- **The margin and change**
Decision-making by individuals, firms and governments is based on choices at the margin; that is, once behaviour has been optimised, any change will be detrimental as long as conditions remain the same.
- **Equilibrium and efficiency**
Prices are set by markets, are always moving in to and out of equilibrium, and can be both efficient and inefficient in different ways and over different time periods.
- **Regulation and equity**
There is a trade-off between, on the one hand, freedom for firms and individuals in unregulated markets and, on the other hand, greater social equality and equity through the government regulation of individuals and markets.
- **Progress and development**
Economics studies how societies can progress in measurable money terms and develop in a wider more normative sense.

Guided learning hours

Guided learning hours give an indication of the amount of contact time teachers need to have with learners to deliver a particular course. Our syllabuses are designed around 180 guided learning hours for Cambridge International AS Level, and around 360 guided learning hours for Cambridge International A Level.

These figures are for guidance only. The number of hours needed to gain the qualification may vary depending on local practice and the learners' previous experience of the subject.

Prior learning

Candidates beginning this course are not expected to have studied economics previously.

Progression

Cambridge International A Level Economics provides a suitable foundation for the study of Economics or related courses in higher education. Equally it is suitable as part of a course of general education.

Cambridge International AS Level Economics is the first half of Cambridge International A Level Economics. Depending on local university entrance requirements, the qualification may permit or assist progression directly to university courses in Economics or some other subjects.

We recommend learners check the Cambridge recognitions database and the university websites to find the most up-to-date entry requirements for courses they wish to study.

How can I find out more?

If you are already a Cambridge school

You can make entries for this qualification through your usual channels. If you have any questions, please contact us at info@cie.org.uk

If you are not yet a Cambridge school

Learn more about the benefits of becoming a Cambridge school from our website at www.cie.org.uk/startcambridge

Email us at info@cie.org.uk to find out how your organisation can register to become a Cambridge school.

Cambridge AICE

Cambridge AICE Diploma is the group award of the Cambridge International AS & A Level. It gives schools the opportunity to benefit from offering a broad and balanced curriculum by recognising the achievements of candidates who pass examinations from different curriculum groups.

Learn more

For more details go to www.cie.org.uk/aice

“ Our research has shown that students who came to the university with a Cambridge AICE background performed better than anyone else that came to the university. That really wasn't surprising considering the emphasis they have on critical research and analysis, and that's what we require at university. ”

John Barnhill, Assistant Vice President for Enrollment Management, Florida State University, USA

Teacher support

We offer a wide range of practical and innovative support to help teachers plan and deliver our programmes and qualifications confidently.

The support package for our Cambridge International AS & A Levels will help teachers integrate key concepts into their teaching, showing how they fit into the overall syllabus and suggesting ways to teach them within each topic. It also gives teachers access to a worldwide teaching community enabling them to connect with other teachers, swap ideas and share best practice.

Teaching and learning

- Support materials provide teachers with ideas and planning resources for their lessons.
- Endorsed textbooks, ebooks and digital resources are produced by leading publishers. We have quality checked these materials to make sure they provide a high level of support for teachers and learners.
- Resource lists to help support teaching, including textbooks and websites.

Exam preparation

- Past question papers and mark schemes so teachers can give learners the opportunity to practise answering different questions.
- Example candidate responses help teachers understand exactly what examiners are looking for.
- Principal examiner reports describing learners' overall performance on each part of the papers. The reports give insight into common misconceptions shown by learners, which teachers can address in lessons.

Cambridge International AS & A Level support for teachers

Professional development

Face-to-face training

We hold workshops around the world to support teachers in delivering Cambridge syllabuses and developing their skills.

Online training

We offer self-study and tutor-led online training courses via our virtual learning environment. A wide range of syllabus-specific courses and skills courses is available. We also offer training via video conference and webinars.

Qualifications

We offer a wide range of practice-based qualifications at Certificate and Diploma level, providing a framework for continuing professional development.

Learn more

Find out more about support for this syllabus at www.cie.org.uk/alevel

Visit our online resource bank and community forum at <https://teachers.cie.org.uk>

Useful links

Customer Services www.cie.org.uk/help

LinkedIn <http://linkd.in/cambridgeteacher>

Twitter [@cie_education](https://twitter.com/cie_education)

Facebook www.facebook.com/cie.org.uk

1 Syllabus overview

1.1 Content

This table gives an overview of the syllabus content for Cambridge International AS and A Level Economics.

| | All candidates study these AS Level topics | A Level candidates also study these additional topics |
|------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 Basic economic ideas and resource allocation | <ul style="list-style-type: none"> • Scarcity, choice and opportunity cost • Positive and normative statements • Factors of production • Resource allocation in different economic systems and issues of transition • Production possibility curves • Money • Classification of goods and services | <ul style="list-style-type: none"> • Efficient resource allocation • Externalities and market failure • Social costs and benefits; cost-benefit analysis |
| 2 The price system and the micro economy | <ul style="list-style-type: none"> • Demand and supply curves • Price elasticity, income elasticity and cross-elasticities of demand • Price elasticity of supply • Interaction of demand and supply • Market equilibrium and disequilibrium • Consumer and producer surplus | <ul style="list-style-type: none"> • Law of diminishing marginal utility • Indifference curves • Budget lines • Types of cost, revenue and profit, short-run and long-run production • Different market structures • Growth and survival of firms • Differing objectives of a firm |
| 3 Government microeconomic intervention | <ul style="list-style-type: none"> • Maximum and minimum prices • Taxes (direct and indirect) • Subsidies • Transfer payments • Direct provision of goods and services • Nationalisation and privatisation | <ul style="list-style-type: none"> • Policies to achieve efficient resource allocation and correct market failure • Equity and policies towards income and wealth redistribution • Labour market forces and government intervention: <ul style="list-style-type: none"> – Demand and supply of labour – Wage determination in perfect markets – Wage determination in imperfect markets • Government failure in microeconomic intervention |

| | All candidates study these AS Level topics | A Level candidates also study these additional topics |
|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4 The macro economy | <ul style="list-style-type: none"> • Aggregate Demand and Aggregate Supply analysis • Inflation • Balance of payments • Exchange rates • The terms of trade • Principles of absolute and comparative advantage • Protectionism | <ul style="list-style-type: none"> • Economic growth, economic development and sustainability • National Income statistics • Classification of countries • Employment/unemployment • The circular flow of income • Money supply (theory) • Keynesian and Monetarist schools • The demand for money and interest rate determination • Policies towards developing economies; policies of trade and aid |
| 5 Government macro intervention | <ul style="list-style-type: none"> • Types of policy: fiscal, monetary and supply side policy • Policies to correct balance of payments disequilibrium • Policies to correct inflation and deflation | <ul style="list-style-type: none"> • Government macro policy aims • Inter-connectedness of problems • Effectiveness of policy options to meet all macroeconomic objectives |

1.2 Assessment

For Cambridge International AS & A Level Economics, candidates:

- take Papers 1 and 2 only (for the Cambridge International AS Level qualification)
 - or
- follow a staged assessment route by taking Papers 1 and 2 (for the Cambridge International AS Level qualification) in one series, then Papers 3 and 4 (for the Cambridge International A Level qualification) in a later series
 - or
- take Papers 1, 2, 3 and 4 in the same examination series (for the Cambridge International A Level qualification).

All components are externally assessed.

| Component | Weighting | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|---------|
| | AS Level | A Level |
| Paper 1 Multiple Choice 1 hour 30 multiple choice questions based on the AS Level syllabus content 30 marks | 40% | 20% |
| Paper 2 Data Response and Essay 1 hour 30 minutes Section A: one data response question (20 marks) Section B: one structured essay from a choice of three (20 marks) Based on the AS Level syllabus content 40 marks | 30% | 15% |
| Paper 3 Multiple Choice 1 hour 15 minutes 30 multiple choice questions based on the A Level syllabus content 30 marks | | 15% |
| Paper 4 Data Response and Essays 2 hours 15 minutes Section A: one data response question (20 marks) Section B: two essays from a choice of six (50 marks) Based on the A Level syllabus content 70 marks | | 10% |
| | | 25% |

Note: Papers 3 and 4 test the additional syllabus content for A Level, but also require a knowledge and understanding of the AS Level syllabus content.

Availability

This syllabus is examined in the June and November examination series. This syllabus is also available for examination in March for India only.

This syllabus is available to private candidates.

Detailed timetables are available from www.cie.org.uk/timetables

Centres in the UK that receive government funding are advised to consult the Cambridge website www.cie.org.uk for the latest information before beginning to teach this syllabus.

Combining this with other syllabuses

Candidates can combine this syllabus in an examination series with any other Cambridge syllabus, except:

- syllabuses with the same title at the same level.

2 Syllabus aims and assessment objectives

2.1 Syllabus aims

The syllabus aims to enable candidates to develop:

- an understanding of the factual knowledge of economics
- a facility for self-expression, not only in writing but also in using additional aids, such as statistics and diagrams, where appropriate
- the habit of using works of reference as sources of data specific to economics
- the habit of reading critically to gain information about the changing economy we live in
- an appreciation of the methods of study used by the economist, and of the most effective ways economic data may be analysed, correlated, discussed and presented.

2.2 Assessment objectives

AO1 Knowledge and understanding

Demonstrate knowledge and understanding.

AO2 Application

Interpret and apply knowledge and understanding to information presented in written, numerical or graphical form.

AO3 Analysis

Analyse economic issues and arguments, using relevant economic concepts, theories and information, and communicate conclusions in a clear, reasoned manner.

AO4 Evaluation

Critically evaluate economic information, arguments, proposals and policies, taking into consideration relevant information and economic principles and distinguishing facts from hypothetical statements and value judgements.

2.3 Relationship between assessment objectives and components

The approximate weightings allocated to each of the assessment objectives are summarised below.

The table shows the assessment objectives (AO) as a percentage of each component.

| Component | AO1 % | AO2 % | AO3 % | AO4 % |
|----------------|----------|----------|----------|----------|
| Paper 1 | 40 | 25 | 25 | 10 |
| Paper 2 | 25 | 20 | 30 | 25 |
| Paper 3 | 40 | 25 | 25 | 10 |
| Paper 4 | 25 | 15 | 30 | 30 |

2.4 Relationship between assessment objectives and qualifications

The approximate weightings allocated to each of the assessment objectives are summarised below.

The table shows the assessment objectives (AO) as a percentage of each qualification.

| Assessment objective | Weighting in AS Level % | Weighting in A Level % |
|----------------------|----------------------------|---------------------------|
| AO1 | 30 | 30 |
| AO2 | 20 | 20 |
| AO3 | 30 | 30 |
| AO4 | 20 | 20 |

3 Syllabus content

Candidates for Cambridge International AS Level should study the AS Level content for Paper 1 and Paper 2. Candidates for Cambridge International A Level should study all the syllabus content.

The AS & A Level syllabus content is divided into five topic areas:

- 1 Basic economic ideas and resource allocation
- 2 The price system and the micro economy
- 3 Government microeconomic intervention
- 4 The macro economy
- 5 Government macroeconomic intervention

3.1 AS Level content – Paper 1 and Paper 2

| 1 Basic economic ideas and resource allocation (AS Level) | |
|-------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a) Scarcity, choice and opportunity cost | <ul style="list-style-type: none"> • the fundamental economic problem • the meaning of scarcity and the inevitability of choices at all levels (individual, firms, governments) • the basic questions of what will be produced, how and for whom • the meaning of the term, '<i>ceteris paribus</i>' • the margin and decision making at the margin • short run, long run, very long run |
| b) Positive and normative statements | <ul style="list-style-type: none"> • the distinction between facts and value judgements |
| c) Factors of production | <ul style="list-style-type: none"> • the rewards to the factors of production: land, labour, capital and enterprise • specialisation and division of labour |
| d) Resource allocation in different economic systems and issues of transition | <ul style="list-style-type: none"> • decision making in market, planned and mixed economies • the role of the factor enterprise in a modern economy |
| e) Production possibility curves | <ul style="list-style-type: none"> • shape and shifts of the curve • constant and increasing opportunity costs |
| f) Money | <ul style="list-style-type: none"> • functions and characteristics in a modern economy • barter, cash and bank deposits, cheques, near money, liquidity |
| g) Classification of goods and services | <ul style="list-style-type: none"> • free goods, private goods (economic goods) and public goods • merit goods and demerit goods as the outcome of imperfect information by consumers. |

| 2 The price system and the micro economy (AS Level) | |
|---------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a) Demand and supply curves | <ul style="list-style-type: none"> • effective demand • individual and market demand and supply • factors influencing demand and supply |
| b) Price elasticity, income elasticity and cross-elasticities of demand | <ul style="list-style-type: none"> • the meaning and calculation of elasticity of demand • the range of elasticities of demand • the factors affecting elasticity of demand • the implications for revenue and business decisions of price, income and cross-elasticities of demand |
| c) Price elasticity of supply | <ul style="list-style-type: none"> • meaning and calculation of elasticity of supply • the range of elasticities of supply • the factors affecting elasticity of supply • implications for speed and ease with which businesses react to changed market conditions |
| d) Interaction of demand and supply e) Market equilibrium and disequilibrium | <ul style="list-style-type: none"> • meaning of equilibrium and disequilibrium • effects of changes in supply and demand on equilibrium price and quantity • applications of demand and supply analysis • movements along and shifts of the demand and supply curves • joint demand (complements) and alternative demand (substitutes) • joint supply • the workings of the price mechanism; rationing, signalling and the transmission of preferences |
| f) Consumer and producer surplus | <ul style="list-style-type: none"> • meaning and significance • how these are affected by changes in equilibrium price and quantity |

| 3 Government microeconomic intervention (AS Level) | |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a) Maximum and minimum prices | <ul style="list-style-type: none"> meaning and effect on the market |
| b) Taxes (direct and indirect) | <ul style="list-style-type: none"> impact and incidence of taxes specific and <i>ad valorem</i> taxes average and marginal rates of taxation proportional, progressive and regressive taxes the Canons of Taxation |
| c) Subsidies | <ul style="list-style-type: none"> impact and incidence of subsidies |
| d) Transfer payments | <ul style="list-style-type: none"> meaning and effect on the market |
| e) Direct provision of goods and services | <ul style="list-style-type: none"> meaning and effect on the market |
| f) Nationalisation and privatisation | <ul style="list-style-type: none"> meaning and effect on the market |

| 4 The macro economy (AS Level) | |
|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a) Aggregate Demand (AD) and Aggregate Supply (AS) analysis | <ul style="list-style-type: none"> the shape and determinants of AD and AS curves; $AD = C + I + G + (X - M)$ the distinction between a movement along and a shift in AD and AS the interaction of AD and AS and the determination of the level of output, prices and employment |
| b) Inflation | <ul style="list-style-type: none"> the definition of inflation; degrees of inflation and the measurement of inflation; deflation and disinflation the distinction between money values and real data the causes of inflation (cost-push and demand-pull inflation) the consequences of inflation |
| c) Balance of payments | <ul style="list-style-type: none"> the components of the balance of payments accounts (using the IMF/OECD definition): current account; capital and financial account; balancing item meaning of balance of payments equilibrium and disequilibrium causes of balance of payments disequilibrium in each component of the accounts consequences of balance of payments disequilibrium on domestic and external economy |

| 4. The macro economy (AS Level) cont. | |
|-----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| d) Exchange rates | <ul style="list-style-type: none"> • definitions and measurement of exchange rates – nominal, real, trade-weighted exchange rates • the determination of exchange rates – floating, fixed, managed float • the factors underlying changes in exchange rates • the effects of changing exchange rates on the domestic and external economy using AD, Marshall-Lerner and J curve analysis • depreciation/appreciation • devaluation/revaluation |
| e) The terms of trade | <ul style="list-style-type: none"> • the measurement of the terms of trade • causes of changes in the terms of trade • the impact of changes in the terms of trade |
| f) Principles of absolute and comparative advantage | <ul style="list-style-type: none"> • the distinction between absolute and comparative advantage • free trade area, customs union, monetary union, full economic union • trade creation and trade diversion • the benefits of free trade, including the trading possibility curve |
| g) Protectionism | <ul style="list-style-type: none"> • the meaning of protectionism in the context of international trade • different methods of protection and their impact, for example, tariffs, import duties and quotas, export subsidies, embargoes, voluntary export restraints (VERs) and excessive administrative burdens ('red tape') • the arguments in favour of protectionism |

| 5 Government macroeconomic intervention (AS Level) | |
|----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a) Types of policy: fiscal policy, monetary policy, and supply side policy | <ul style="list-style-type: none"> instruments of each policy |
| b) Policies to correct balance of payments disequilibrium | <ul style="list-style-type: none"> assessment of the effectiveness of fiscal, monetary and supply side policies to correct a balance of payments disequilibrium expenditure-reducing and expenditure-switching |
| c) Policies to correct inflation and deflation | <ul style="list-style-type: none"> assessment of the effectiveness of fiscal, monetary and supply side policies to correct inflation and deflation |

3.2 Additional A Level content – Paper 3 and Paper 4

The content of the AS Level is assumed knowledge for the assessment of Paper 3 and Paper 4. However, the AS Level content will not be the direct focus of questions in Paper 3 and Paper 4.

| 1 Basic economic ideas and resource allocation (A Level) | |
|----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a) Efficient resource allocation | <ul style="list-style-type: none"> productive and allocative efficiency Pareto optimality dynamic efficiency |
| b) Externalities and market failure | <ul style="list-style-type: none"> reasons for market failure positive and negative externalities for both consumers and firms inefficient resource allocation |
| c) Social costs and benefits; cost-benefit analysis | <ul style="list-style-type: none"> social costs as the sum of private costs and external costs social benefits as the sum of private benefits and external benefits use of cost-benefit analysis in decision-making |

| 2 The price system and the micro economy (A Level) | |
|-------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a) Law of diminishing marginal utility | <ul style="list-style-type: none"> • its relationship to derivation of an individual demand schedule • equi-marginal principle • limitations of marginal utility theory; rational behaviour versus behavioural economic models |
| b) Indifference curves and budget lines | <ul style="list-style-type: none"> • income, substitution and price effects for various types of goods |
| c) Types of cost, revenue and profit, short-run and long-run production | <ul style="list-style-type: none"> • short-run production function: fixed and variable factors of production, total product, average product and marginal product <ul style="list-style-type: none"> – law of diminishing returns (law of variable proportions) – marginal cost and average cost – short-run cost function – fixed costs versus variable costs – explanation of shape of Short-Run Average Cost (SRAC) • long-run production function <ul style="list-style-type: none"> – returns to scale – long-run cost function – explanation of shape of Long-Run Average Cost (LRAC) – relationship between economies of scale and decreasing costs – internal and external economies of scale and diseconomies of scale • revenue: total, average and marginal • profit: normal and abnormal (supernormal) |
| d) Different market structures | <ul style="list-style-type: none"> • perfect competition, imperfect competition (monopoly, monopolistic competition, oligopoly, natural monopoly) • structure of markets as explained by number of buyers and sellers, nature of product, degree of freedom of entry and nature of information • contestable markets and their implications • concentration ratio |
| e) Growth and survival of firms | <ul style="list-style-type: none"> • reasons for small firms • integration, diversification, mergers, cartels |

2 The price system and the micro economy (A Level) cont.

| | |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| f) Differing objectives of a firm | <ul style="list-style-type: none"> • traditional profit maximising objective of firm: <ul style="list-style-type: none"> – normal and abnormal profit – relation between elasticity and revenue • an understanding of other objectives of the firm: <ul style="list-style-type: none"> – survival, strategic, satisficing, sales maximisation – principal agent problem, for example the divorce of ownership from control – behavioural analysis approach to the decision-making of a firm; the Prisoner's Dilemma, 2 player Pay-off Matrix, kinked demand curve • pricing policy: <ul style="list-style-type: none"> – including price discrimination, limit pricing, price leadership and mutual interdependence in the case of oligopoly (including game theory) • comparisons of performance of firms: <ul style="list-style-type: none"> – revenue, output, profits, efficiency, X-inefficiency, barriers to entry and exit, price competition, non-price competition and collusion |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

3 Government microeconomic intervention (A Level)

| | |
|---------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a) Policies to achieve efficient resource allocation and correct market failure | <ul style="list-style-type: none"> • application of indirect taxes and subsidies • price and output decisions under nationalisation and privatisation • prohibitions and licences • property rights • information • regulatory bodies, deregulation and direct provision of goods and services • pollution permits • behavioural insights and 'nudge' theory |
| b) Equity and policies towards income and wealth redistribution | <ul style="list-style-type: none"> • equity versus efficiency • price stabilisation • means tested benefits • transfer payments • progressive income taxes, inheritance and capital taxes • negative income tax • poverty trap analysis • Gini coefficient and the Lorenz curve • inter-generational equity |

| 3 Government microeconomic intervention (A Level) cont. | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>c) Labour market forces and government intervention:</p> <p style="margin-left: 20px;">(i) demand for and supply of labour</p> <p style="margin-left: 20px;">(ii) wage determination in perfect markets</p> <p style="margin-left: 20px;">(iii) wage determination in imperfect markets</p> | <ul style="list-style-type: none"> • factors affecting demand for labour • derivation of individual firm's demand for using marginal revenue product theory • factors affecting supply for labour • net advantages and the long-run supply of labour • competitive product and factor market forces determining wage differentials, transfer earnings and economic rent • influence of trades unions on wage determination • influence of government on wage determination • monopsony |
| <p>d) Government failure in microeconomic intervention</p> | <ul style="list-style-type: none"> • effectiveness of government policies |

| 4 The macro economy (A Level) | |
|-------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a) Economic growth, economic development and sustainability | <ul style="list-style-type: none"> • definition of economic growth, economic development and sustainability • actual versus potential growth in national output; output gap; business (trade) cycle • factors contributing to economic growth • costs and benefits of growth, including using and conserving resources |
| b) National Income statistics | <ul style="list-style-type: none"> • use of National Income statistics as measures of economic growth and living standards • Gross Domestic Product (GDP)/Gross National Product (GNP)/Gross National Income (GNI) • national debt (government or public sector debt) |
| c) Classification of countries | <ul style="list-style-type: none"> • indicators of living standards and economic development, monetary, non-monetary, Human Development Index (HDI), Measure of Economic Welfare (MEW), Human Poverty Index (HPI), later supplanted by the Multidimensional Poverty Index (MPI), and the Kuznets curve • characteristics of developed, developing and emerging (BRICS) economies: by population growth and structure, income distribution, economic structure, employment composition, external trade and urbanisation in developing economies – comparison of economic growth rates and living standards over time and between countries |
| d) Employment/unemployment | <ul style="list-style-type: none"> • size and components of labour force • labour productivity • full employment and natural rate of unemployment • causes of unemployment • consequences of unemployment • types of unemployment • unemployment rate; patterns and trends in (un)employment • difficulties involved in measuring unemployment • policies to correct unemployment |

| 4 The macro economy (A Level) cont. | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| e) The circular flow of income | <ul style="list-style-type: none"> • closed and open economies • the circular flow of income between households, firms, government and the international economy: the multiplier, average and marginal propensities to save and consume • Aggregate Expenditure (AE) function <ul style="list-style-type: none"> – meaning, components of AE and their determinants – income determination using AE and income approach; and withdrawal (leakage) and injection approach – inflationary and deflationary gaps; full employment level of income and equilibrium level of income – autonomous and induced investment; the accelerator |
| f) Money supply (theory) | <ul style="list-style-type: none"> • Quantity theory of money ($MV = PT$) • broad and narrow money supply • sources of money supply in an open economy (commercial banks and credit creation, role of central bank, deficit financing, quantitative easing, total currency flow) • transmission mechanism of monetary policy |
| g) Keynesian and Monetarist schools | <ul style="list-style-type: none"> • different theoretical approaches to how the macro economy functions |
| h) The demand for money and interest rate determination | <ul style="list-style-type: none"> • Liquidity Preference theory |
| i) Policies towards developing economies; policies of trade and aid | <ul style="list-style-type: none"> • types of aid, nature of dependency • trade and investment, role of multinationals and Foreign Direct Investment (FDI) • external debt, role of IMF and World Bank • impact of corruption, and importance of the legal framework in an economy |

| 5 Government macroeconomic intervention (A Level) | |
|-------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a) Government macro policy aims | <ul style="list-style-type: none"> • on inflation, balance of payments, exchange rates, unemployment, growth and development |
| b) Inter-connectedness of problems | <ul style="list-style-type: none"> • links between macroeconomic problems and their interrelatedness, for example: <ul style="list-style-type: none"> – relationship between internal and external value of money – relationship between balance of payments and inflation – trade-off between inflation and unemployment; Phillips curve |
| c) Effectiveness of policy options to meet all macroeconomic objectives | <ul style="list-style-type: none"> • problems arising from conflicts between policy objectives on inflation, unemployment, economic growth, balance of payments, exchange rates and the redistribution of income and wealth • existence of government failure in macroeconomic policies • Laffer curve analysis |

4 Glossary of command words

This glossary should prove helpful to candidates as a guide, although it is not exhaustive and it has deliberately been kept brief. The number of marks allocated for any part of a question is a guide to the depth required for the answer.

| Command word | What it means |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Calculate | Work out using the information provided |
| Define | Give the exact meaning of |
| Describe | Give a description of, explain the main features of |
| Identify | Name the key knowledge point |
| Illustrate | Give examples, use a diagram |
| Outline | Describe the key points without detail |
| State | Give a concise answer with little or no supporting argument required |
| Analyse | Explain the main points in detail, examine closely, separate into parts and show how all the parts connect and link |
| Compare | Explain the similarities and differences between |
| Explain/how | Give clear reasons or make clear the meaning of, use examples and explain the theory behind the question. This command word requires 'Knowledge and Understanding' as well as 'Application' |
| Consider | Give your thoughts about, with some justification |
| Assess | Show how important something is, give your judgement on |
| Comment upon | Give your reasoned opinion on, with explanations |
| Criticise | Give an opinion but support it with evidence |
| Discuss | Give the important arguments for and against, often requires a conclusion. This command word requires 'Analysis' and 'Evaluation' |
| Justify | Explain why the arguments for an opinion are stronger than the arguments against |
| Evaluate | Discuss the importance of, judge the overall worth of, make an attempt to weigh up your opinions |
| To what extent | Give reasons for and against, come to a conclusion with a justification of which arguments are strongest and which are weakest |

5 Other information

Equality and inclusion

Cambridge International Examinations has taken great care in the preparation of this syllabus and related assessment materials to avoid bias of any kind. To comply with the UK Equality Act (2010), Cambridge has designed this qualification with the aim of avoiding direct and indirect discrimination.

The standard assessment arrangements may present unnecessary barriers for candidates with disabilities or learning difficulties. Arrangements can be put in place for these candidates to enable them to access the assessments and receive recognition of their attainment. Access arrangements will not be agreed if they give candidates an unfair advantage over others or if they compromise the standards being assessed. Candidates who are unable to access the assessment of any component may be eligible to receive an award based on the parts of the assessment they have taken.

Information on access arrangements is found in the *Cambridge Handbook*, which can be downloaded from the website www.cie.org.uk/examsOfficers

Language

This syllabus and the associated assessment materials are available in English only.

Grading and reporting

Cambridge International A Level results are shown by one of the grades A*, A, B, C, D or E, indicating the standard achieved, A* being the highest and E the lowest. 'Ungraded' indicates that the candidate's performance fell short of the standard required for grade E. 'Ungraded' will be reported on the statement of results but not on the certificate. The letters Q (result pending), X (no result) and Y (to be issued) may also appear on the statement of results but not on the certificate.

Cambridge International AS Level results are shown by one of the grades a, b, c, d or e, indicating the standard achieved, 'a' being the highest and 'e' the lowest. 'Ungraded' indicates that the candidate's performance fell short of the standard required for grade 'e'. 'Ungraded' will be reported on the statement of results but not on the certificate. The letters Q (result pending), X (no result) and Y (to be issued) may also appear on the statement of results but not on the certificate.

If a candidate takes a Cambridge International A Level and fails to achieve grade E or higher, a Cambridge International AS Level grade will be awarded if both of the following apply:

- the components taken for the Cambridge International A Level by the candidate in that series included all the components making up a Cambridge International AS Level
- the candidate's performance on these components was sufficient to merit the award of a Cambridge International AS Level grade.

Entry option codes

To maintain the security of our examinations, we produce question papers for different areas of the world, known as 'administrative zones'. Where the entry option code has two digits, the first digit is the component number given in the syllabus. The second digit is the location code, specific to an administrative zone.

Entry option codes and instructions for making entries can be found in the *Cambridge Guide to Making Entries*. Other exams administration documents, including timetables and administrative instructions, can be found at www.cie.org.uk/examsOfficers

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