1.1 – The market system

<table>
<tr><th>Subject content</th><th colspan="2">What students need to learn:</th></tr>
<tr><td rowspan="5">1.1.1 The economic problem</td><td>a)</td><td>The problem of scarcity – where there are unlimited wants and finite resources, leading to the need to make choices.</td></tr>
<tr><td>b)</td><td>Opportunity cost and its effect on economic agents (consumers, producers and government).</td></tr>
<tr><td>c)</td><td>The use of diagrams to show production possibility curve.</td></tr>
<tr><td>d)</td><td>Production possibility curve diagram should be used to show:
the maximum productive potential of an economy
fully employed or unemployed resources
opportunity cost
positive or negative economic growth that shifts the production possibility frontier (PPF) outwards and inwards
possible and unobtainable production.</td></tr>
<tr><td>e)</td><td>Possible causes of positive or negative economic growth.</td></tr>
<tr><td rowspan="3">1.1.2 Economic assumptions</td><td>a)</td><td>The underlying assumptions that:
consumers aim to maximise their benefit
businesses aim to maximise their profit.</td></tr>
<tr><td>b)</td><td>Reasons why consumers may not maximise their benefit:
consumers are not always good at calculating their benefits
consumers have habits that are hard to give up
consumers sometimes copy others’ behaviour.</td></tr>
<tr><td>c)</td><td>Reasons why producers may not maximise their profit:
producers may have managers that revenue maximise or sales maximise
producers may prioritise caring for customers
producers may complete charitable work.</td></tr>
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Subject content	What students need to learn:
1.1.3 Demand, supply and market equilibrium	Demand a) Definition of demand. b) The use of demand curve diagram to show: • changes in price causing movements along a demand curve • shifts indicating increased and decreased demand. c) Factors that may cause a shift in the demand curve, including: • advertising • income • fashion and tastes • price of substitute goods • price of complementary goods • demographic changes. Supply d) Definition of supply. e) The use of supply curve diagram to show: • changes in price causing movements along a supply curve • shifts indicating increased and decreased supply. f) Factors that may cause a shift in the supply curve, including: • costs of production • changes in technology • indirect taxes • subsidies • natural factors (natural disasters and weather). Market equilibrium g) Equilibrium price and quantity and how they are determined. h) The use of diagrams to show: • how shifts in supply and demand affect equilibrium price and quantity in real-world situations • excess demand • excess supply. i) Define, calculate and draw excess demand and excess supply. j) The use of market forces to remove excess supply or excess demand.

Subject content	What students need to learn:
1.1.4 Elasticity	Price elasticity of demand (PED) a) Definition of PED. b) Formula of PED. c) Calculate the PED using given percentage changes in quantity demanded and percentage changes in price. d) The use of diagrams to show price elastic and price inelastic demand. e) Interpret numerical values of PED that show: • perfect price inelasticity • price inelasticity • unitary price elasticity • price elasticity • perfect price elasticity. f) The factors influencing PED, including: • substitutes • degree of necessity • percentage of income spent on goods or service • time. g) Use of total revenue calculations to show the relationship between a change in price and the change in total revenue, to determine whether demand is price elastic or price inelastic. Price elasticity of supply (PES) h) Definition of PES. i) Formula of PES. j) Calculate the PES using given percentage changes in quantity supplied and percentage changes in price. k) The use of diagrams to show price elastic and price inelastic supply. l) Interpret numerical values of PES that show: • perfect price inelasticity • price inelasticity • unitary price elasticity • price elasticity • perfect price elasticity.

Subject content	What students need to learn:
	m) The factors influencing PES, including: • factors of production • availability of stocks • spare capacity • time. n) Use examples to show the likely PES for manufactured and primary products. Income elasticity of demand o) Definition of income elasticity of demand. p) Formula of income elasticity of demand. q) Calculate the income elasticity of demand using given percentage changes in quantity demanded and percentage changes in income. r) Interpret numerical values of income elasticity of demand that show: • luxury goods • normal goods • inferior goods. s) The significance of price and income elasticities of demand to businesses and the government, in terms of: • the imposition of indirect taxes and subsidies • changes in income.
1.1.5 The mixed economy	a) Definition of mixed economy. b) Definition of public and private sector. c) Difference between public and private sectors in terms of ownership, control and aims. d) How the problems of what to produce, how to produce and for whom to produce are solved in the mixed economy. e) Concept of market failure – linked to inefficient allocation of resources. f) Why governments might need to intervene because of market failure. g) Definition of public goods – non-excludability, non-rivalry and how this causes the free rider problem. h) The role of the public sector and private sectors in the production of goods and services. i) The relative importance of public sector and private sector in different economies. j) Definition of privatisation.

Subject content	What students need to learn:
	k) Effects of privatisation on: • consumers • workers • businesses • government.
1.1.6 Externalities	External costs of production a) Definition of external costs. b) Examples of external costs, including pollution, congestion and environmental damage. External benefits of consumption c) Definition of external benefits. d) Examples of external benefits, including education, healthcare and vaccinations. e) Definition and formula for: • social costs = private costs + external costs • social benefits = private benefits + external benefits.

1.2 – Business economics

Subject content	What students need to learn:
1.2.1 Production	a) The factors of production: • land • labour • capital • enterprise. b) Sectors of the economy: • primary • secondary • tertiary. c) Changes in the importance of these sectors in terms of employment and output over time in developing and developed economies.
1.2.2 Productivity and division of labour	a) Definition of productivity. b) Factors affecting productivity: • land – use of fertiliser, drainage, irrigation, reclamation • labour – quality of labour, including improved human capital through education and training and impact of migration • capital – increased quantity and technological advances. c) Definition of division of labour. d) Advantages and disadvantages of the division of labour to workers and businesses.

Subject content	What students need to learn:
1.2.3 Business costs, revenues and profit	a) Definition and use of formulae to calculate: • total revenue • total costs • total fixed costs • total variable costs • average (total) costs • profit. b) Economies of scale: • definition of economies of scale • definition of internal economies of scale • types of internal economies of scale: o purchasing (bulk buying) o marketing o technical o financial o managerial o risk bearing. • definition of external economies of scale • types of external economies of scale: o skilled labour o infrastructure o access to suppliers o similar businesses in area. c) Diseconomies of scale: • definition of diseconomies of scale • types of diseconomies of scale: o bureaucracy o communication problems o lack of control o distance between top management and workers at bottom of the organisation • the use of long run average cost (LRAC) curve diagram, annotated to show internal economies of scale and diseconomies of scale and where the business will be most efficient.

Subject content	What students need to learn:
1.2.4 Business competition	Competition a) Advantages and disadvantages of competition to firms, consumers and the economy, including: • efficiency • choice • quality • innovation • price. b) Advantages and disadvantages of large firms and small firms. c) Factors influencing the growth of firms: • government regulation • access to finance • economies of scale • the desire to spread risk • the desire to take over competitors. d) Reasons firms stay small: • size of market • nature of market – niche • lack of finance • aims of the entrepreneur. Monopoly e) Definition of monopoly. f) Main features of monopoly: • one business dominates the market • unique product • price-maker • barriers to entry: o legal barriers o patents o marketing budgets o technology o high start-up costs.

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<tr><th>Subject content</th><th>What students need to learn:</th></tr>
<tr><td></td><td>g) Advantages and disadvantages of monopoly:
• efficiency
• choice
• quality
• innovation
• price
• economies of scale.
Oligopoly
h) Definition of oligopoly.
i) Main features of oligopoly:
• few firms
• large firms dominate
• different products
• barriers to entry
• collusion
• non-price competition
• price competition.
j) Advantages and disadvantages of oligopoly:
• choice
• quality
• innovation
• collusion and cartels fixing high prices
• price wars between oligopolies.</td></tr>
<tr><td>1.2.5 The labour market</td><td>a) Factors affecting the demand for labour:
• demand for the final product (derived demand)
• availability of substitutes, including machines
• productivity of workforce.
b) Factors affecting the supply of labour:
• population size
• migration
• age distribution of population
• retirement age
• school-leaving age
• female participation
• skills and qualifications
• ability to move geographic locations/move to different types of employment.</td></tr>
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Subject content	What students need to learn:
	c) Importance of the quantity and quality of labour to business. d) Impact of education and training on human capital and quality of labour. e) The use of labour market diagrams showing: • supply of labour, demand for labour, market equilibrium wage and quantity of labour (employment) • effect of shifts in demand for labour and supply of labour. f) Trade union involvement in the labour market: • impact of trade union activity to improve working conditions and increase wages.
1.2.6 Government intervention	a) Government policy to deal with externalities: • taxation • subsidies • fines • regulation • pollution permits. b) Advantages and disadvantages of each government policy. c) Government regulation of competition to: • promote competition • limit monopoly power • protect consumer interests • control mergers and takeovers. d) Government intervention in the labour market: • reasons for minimum wage • advantages and disadvantages of minimum wage • the use of diagrams to show impact of the introduction of a minimum wage and the increase of a minimum wage.