

EA Articles = orange	Research papers = green	Blogs = blue	IEATV = purple
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Themes	EA Articles	Research	Blogs	ieaTV
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1.1 Nature of economics

1.1.1

Economics as a social science

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

1.1.2

Positive and normative economic statements

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

1.1.3

The economic problem

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

[‘Water: Supply, Prices, Scarcity and Regulation’, Sir Ian Byatt](#)

[‘Competition is not unique to capitalism – it exists in all economic systems’, Steven Horwitz](#)

[The opportunity cost of explaining opportunity costs’, Christopher Snowden](#)

1.1.4

Production possibility frontiers

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

1.1.5

Specialisation and the division of labour

- a) Specialisation and the division of labour: reference to Adam Smith
- b) The advantages and disadvantages of specialisation and the division of labour in organising production
- c) The advantages and disadvantages of specialising in the production of goods and services to trade
- d) The functions of money (as a medium of exchange, a measure of value, a store of value, a method of deferred payment)

1.1.6 -Free market economies, mixed economy and command economy

[‘The Fallacy of the Mixed Economy’, S.C. Littlechild](#)

[‘A U-Turn on the Road to Serfdom’, Grover Norquist](#)

[‘Why privatization always trumps nationalization’, Philip Booth](#)

[‘The Legal Foundations of Free Markets’, Dr Stephen Copp](#)

- a) The distinction between free market, mixed and command economies: reference to Adam Smith, Friedrich Hayek and Karl Marx
- b) The advantages and disadvantages of a free market economy and a command economy
- c) The role of the state in a mixed economy

[‘Ludwig Erhard’s social market economy – a liberal, not a social democratic concept’, Razeen Sally](#)

1.2 How markets work

1.2.1

Rational decision making

- a) The underlying assumptions of rational economic decision making:
 - consumers aim to maximise utility
 - firms aim to maximise profits

[‘The Profit Motive in Education: Continuing the Revolution’, James B. Stanfield](#)

[Behavioral economics and mainstream economics: friends or foes?’, Paul Ormerod](#)

1.2.2

Demand

- a) **The distinction between movements along a demand curve and shifts of a demand curve**
- b) **The factors that may cause a shift in the demand curve (the conditions of demand)**
- c) **The concept of diminishing marginal utility and how this influences the shape of the demand curve**

1.2.3

Price, income and cross elasticities of demand

- a) Understanding of price, income and cross elasticities of demand
- b) Use formulae to calculate price, income and cross elasticities of demand
- c) Interpret numerical values of
 - price elasticity of demand: unitary elastic, perfectly and relatively elastic, and perfectly and relatively inelastic
 - income elasticity of demand: inferior, normal and luxury goods; relatively elastic and relatively inelastic

[‘The perils and pitfalls of sin taxes’, Christopher Snowden](#)

- cross elasticity of demand: substitutes, complementary and unrelated goods
- d) The factors influencing elasticities of demand
- e) The significance of elasticities of demand to firms and government in terms of:
 - the imposition of indirect taxes and subsidies
 - changes in real income
 - changes in the prices of substitute and complementary goods
- f) The relationship between price elasticity of demand and total revenue (including calculation)

1.2.4

Supply

a) The distinction between movements along a supply

b) The factors that may cause a shift in the supply curve (the conditions of supply)

1.2.5

Elasticity of supply

- a) Understanding of price elasticity of supply
- b) Use formula to calculate price elasticity of supply
- c) Interpret numerical values of price elasticity of supply: perfectly and relatively elastic, and perfectly and relatively inelastic
- d) Factors that influence price elasticity of supply
- e) The distinction between short run and long run in economics and its significance for elasticity of supply

1.2.6

Price determination

'Abundance of land, shortage of housing',
Kristian Niemietz

Flaws and Ceilings, Ch. 2

- a) Equilibrium price and quantity and how they are determined**
- b) The use of supply and demand diagrams to depict excess supply and excess demand**
- c) The operation of market forces to eliminate excess demand and excess supply**
- d) The use of supply and demand diagrams to show how shifts in demand and supply curves cause the equilibrium price and quantity to change in real-world situations**

1.2.7

Price mechanism

['Forever Contemporary - The Economics of Ronald Coase', Cento Veljanovski](#)

- a) Functions of the price mechanism to allocate resources:

- rationing
- incentive
- signalling

- b) The price mechanism in the context of different types of markets, including local, national and global markets

[Flaws and Ceilings, Ch. 2](#)

1.2.8

Consumer and producer surplus

- a) The distinction between consumer and producer surplus**
- b) The use of supply and demand diagrams to illustrate consumer and producer surplus**
- c) How changes in supply and demand might affect consumer and producer surplus**

1.2.9

Indirect taxes and subsidies

[Sin Taxes](#)

- a) Supply and demand analysis, elasticities, and:
 - the impact of indirect taxes on consumers, producers and government

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

1.2.10

Alternative views of consumer behaviour

a) The reasons why consumers may not behave rationally:

- consideration of the influence of other people's behaviour
- the importance of habitual behaviour
- consumer weakness at computation

['Behavioural economics and mainstream economics: friends or foes?', Paul Ormerod](#)

[Behavioural economics and human imperfection: A bad case for government control](#)

1.3 Market failure

1.3.1

Types of market failure

a) Understanding of market failure

b) Types of market failure

- externalities
- under-provision of public goods
- information gaps

['Why a war on markets is no substitute for a war on poverty', Kristian Niemietz](#)

['The Future of the Commons', Elinor Ostrom](#)

['Sweet Truth – Is there a market failure in sugar?', Rob Lyons and Christopher Snowden](#)

1.3.2

Externalities

- a) Distinction between private costs, external costs and social costs
- b) Distinction between private benefits, external benefits and social benefits
- c) Use of a diagram to illustrate:
 - the external costs of production using marginal analysis
 - the distinction between market equilibrium and social optimum position
 - identification of welfare loss area

['Behavioural economics and human imperfection: A bad case for government control', Steven Horwitz](#)

d) Use of a diagram to illustrate:

- the external benefits of consumption using marginal analysis
- the distinction between market equilibrium and social optimum position
- identification of welfare gain area

e) The impact on economic agents of externalities and government intervention in various markets

1.3.3

Public goods

a) Distinction between public and private goods using the concepts of non-rivalry and non-excludability

b) Why public goods may not be provided by the private sector: the free rider problem

1.3.4

Information gaps

a) The distinction between symmetric and asymmetric information

b) How imperfect market information may lead to a misallocation of resources

1.4 Government intervention

1.4.1

Government intervention in markets

a) Purpose of intervention with reference to market failure and using diagrams in various contexts:

- indirect taxation (ad valorem and specific)
- subsidies
- maximum and minimum prices

b) Other methods of government intervention:

- trade pollution permits
- state provision of public goods

['Alcohol and the Public Purse: do Drinkers Pay their Way?', Christopher Snowden](#)

[Fifty Economic Fallacies Exposed, Ch. 1](#)

- provision of information
- regulation

1.4.2

Government failure

a) Understanding of government failure as intervention that results in a net welfare loss

b) Causes of government failure:

- distortion of price signals
- unintended consequences
- excessive administrative costs
- information gaps

c) Government failure in various markets

[‘They Meant Well’, D. R. Myddelton](#)

[‘Prohibitions’, John Meadowcroft](#)

[‘Public Choice – A Primer’, Dr Eamonn Butler](#)

Theme 2: The UK economy – performance and policies

2.1 Measures of economic performance

2.1.1

Economic growth

a) Rates of change of real Gross Domestic Product (GDP) as a measure of economic growth

b) Distinction between:

- real and nominal
- total and per capita
- value and volume

c) Other national income measures:

- Gross National Product (GNP)
- Gross National Income (GNI)

d) Comparison of rates of growth between countries and over time

e) Understanding of Purchasing Power Parities (PPPs) and the use of PPP-adjusted figures in international comparisons

[‘Missing the point’](#)

[‘Government can make us happy’](#)

[‘...and the Pursuit of Happiness’, Philip Booth](#)

[‘Taxation, Government Spending and Economic Growth’, Philip Booth](#)

[GDP figures: how the financial times gets it wrong’, David Henderson](#)

[What Does Nominal GDP Targeting Entail?](#)

f) The limitations of using GDP to compare living standards between countries and over time

g) National happiness:

- UK national wellbeing
- The relationship between real incomes and subjective happiness

2.1.2

Inflation

['The Hard facts About Hard Money'](#)

[Fifty Economics Fallacies Exposed, Ch. 3](#)

[Through the Roof](#)

a) Understanding of:

- inflation
- deflation
- disinflation

b) The process of calculating the rate of inflation in the UK using the Consumer Prices Index (CPI)

c) The limitations of CPI in measuring the rate of inflation

d) The Retail Prices Index (RPI) as an alternative measure of the rate of inflation

e) Causes of inflation:

- demand pull
- cost push
- growth of the money supply

f) The effects of inflation on consumers, firms, the government and workers

['Denationalisation of Money', F. A. Hayek](#)

['Money and Micro-Economics', Pascal Salin](#)

2.1.3

Employment and unemployment

['The EU Jobs Myth', Ryan Bourne](#)

a) Measures of unemployment:

- the claimant count
- the International Labour Organisation (ILO) and the UK Labour Force Survey

b) The distinction between unemployment and under-employment

c) The significance of changes in the rates of:

- employment

['Taxing Problem, Ryan Bourne'](#)

- unemployment
- inactivity
- d) The causes of unemployment:
 - structural unemployment
 - frictional unemployment
 - seasonal unemployment
 - demand deficiency and cyclical unemployment
 - real wage inflexibility
- e) The significance of migration and skills for employment and unemployment
- f) The effects of unemployment on consumers, firms, workers, the government and society

2.1.4

Balance of payments

- a) Components of the balance of payments, with particular reference to the current account, and the balance of trade in goods and services
- b) Current account deficits and surpluses
- c) The relationship between current account imbalances and other macroeconomic objectives
- d) The interconnectedness of economies through international trade

['From Crisis to Confidence Macroeconomics after the Crash', Roger Koppl](#)

['Trade Policy, New Century', Razeen Sally](#)

2.2 Aggregate demand (AD)

2.2.1

The characteristics of AD

- a) Components of AD: $C+I+G+(X-M)$
- b) The relative importance of the components of AD
- c) The AD curve
- d) The distinction between a movement along, and a shift of, the AD curve of, the AD curve

2.2.2

Consumption (C)

- a) Disposable income and its influence on consumer spending
- b) An understanding of the relationship between savings and consumption
- c) Other influences on consumer spending:
 - interest rates
 - consumer confidence
 - wealth effects

2.2.3

Investment (I)

[‘Running on Empty’](#)

[Fifty Economic Fallacies Exposed, Ch. 9](#)

[‘Keynes’s disastrous contribution to economic theory’, Steven Kates](#)

- a) Distinction between gross and net investment
- b) Influences on investment:
 - the rate of economic growth
 - business expectations and confidence
 - Keynes and ‘animal spirits’
 - demand for exports
 - interest rates
 - access to credit
 - the influence of government and regulations

2.2.4

Government expenditure (G)

- a) The main influences on government expenditure:
 - the trade cycle
 - fiscal policy

2.2.5

Net trade (X-M)

- a) The main influences on the (net) trade balance:
 - real income

[Why is Picketty so certain about things which are probably completely wrong?', Philip Booth](#)

- exchange rates
- state of the world economy
- degree of protectionism
- non-price factors

[The renminbi depreciation - a small step towards liberalisation', Felix Nozon](#)

[Protectionism will do nothing for the UK - or the quality of football', Ryan Bourne](#)

2.3 Aggregate supply (AS)

2.3.1

The characteristics of AS

- a) The AS curve
- b) The distinction between movement along, and a shift of, the AS curve
- c) The relationship between short-run AS and long-run AS

2.3.2

Short-run AS

- a) Factors influencing short-run AS:
 - changes in costs of raw materials and energy
 - changes in exchange rates
 - changes in tax rates

[The 'soft renationalisation' of the energy sector', Carlo Stagnaro](#)

2.3.3

Long-run AS

- a) Different shapes of the long-run AS curve:
 - Keynesian
 - classical
- b) Factors influencing long-run AS:
 - technological advances
 - changes in relative productivity
 - changes in education and skills
 - changes in government regulations
 - demographic changes and migration
 - competition policy

[‘Clouding the Future’ \(Pg.4\)](#)

[‘The Big Chill’](#)

[‘Square Peg Round Hole’ \(Pg.34\)](#)

[‘Do we really want to make the broadband sector more like the postal service?’, Diego Zuluaga](#)

[‘Liberating farming from the CAP’, Sean Rickard](#)

[‘The Challenge of Immigration – a Radical Solution’, Gary S. Becker](#)

[‘Setting up the next Keynesian bubble and bust?’, G. R. Steele](#)

[‘Europe’s digital economy needs tax competition’, Massimiliano Trovato and Diego Zuluaga](#)

[THINK - The Economics of Change](#)

[Annual Hayek Memorial Lecture 2010 – prof Gary Becker](#)

2.4 National income

2.4.1

National income

a) The circular flow of income

b) The distinction between income and wealth

2.4.2

Injectors and withdrawals

a) The impact of injections into, and withdrawals from, the circular flow of income

2.4.3

Equilibrium levels of real national output

a) The concept of equilibrium real national output

b) The use of AD/AS diagrams to show how shifts in AD or AS cause changes in the equilibrium price level and real national output

2.4.4

The multiplier

a) The multiplier ratio

b) The multiplier process

c) Effects of the economy on the multiplier

d) Understanding of marginal propensities and their effects on the multiplier:

- the marginal propensity to consume (MPC)
- the marginal propensity to save (MPS)
- the marginal propensity to tax (MPT)
- the marginal propensity to import (MPM)

e) Calculations of the multiplier using the formulae $1/(1-MPC)$ and $1/MPW$, where $MPW=MPS+MPT+MPM$

f) The significance of the multiplier to shifts in AD

2.5 Economic growth

2.5.1

Causes of growth

- a) Factors which could cause economic growth
- b) The distinction between actual and potential growth
- c) The importance of international trade for (export-led) economic growth

[William Easterly, 'The Economics of International Development](#)

[Infrastructure investment and economic growth', David Starkie](#)

[Fifty Economic Fallacies Exposed, Ch. 2](#)

2.5.2

Output gaps

- a) Distinction between actual growth rates and long-term trends in growth rates
- b) Understanding of positive and negative output gaps and the difficulties of measurement
- c) Use of an AD/AS diagram to illustrate an output gap (level of spare capacity) in an economy

2.5.3

Trade (business) cycle

- a) Understanding of the trade (business) cycle
- b) Characteristics of a boom
- c) Characteristics of a recession

['Causes and Cures of the Great Recession', Steven Horwitz](#)

['What Austrian business cycle theory does and does not claim as true', Anthony J Evans](#)

2.5.4

The impact of economic growth

- a) The benefits and costs of economic growth and the impact on:
 - consumers
 - firms
 - the government
 - current and future living standards

['Unaffordable housing: Causes, consequences and solutions', Kristian Niemietz](#)

2.6 Macroeconomic objectives and policies

2.6.1

Possible macroeconomic objectives

- a) Economic growth
- b) Low unemployment
- c) Low and stable rate of inflation
- d) Balance of payments equilibrium on current account
- e) Balanced government budget
- f) Protection of the environment
- g) Greater income equality

'Stagnations – Has Growth Gone for Good?' (Pg.41)

'Will flat-lining become normal?'

'Climate Change Policy: Challenging the Activists', Colin Robinson

2.6.2

Demand-side policies

- a) Distinction between monetary and fiscal policy
- b) Monetary policy instruments:
 - interest rates
 - asset purchases to increase the money supply (quantitative easing)
- c) Fiscal policy instruments:
 - government spending and taxation
- d) Distinction between government budget (fiscal) deficit and surplus
- e) Distinction between, and examples of, direct and indirect taxation
- f) Use of AD/AS diagrams to illustrate demand-side policies
- g) The role of the Bank of England:
 - the role and operation of the Bank of England's Monetary Policy Committee
- h) Awareness of demand-side policies in the Great Depression and the Global Financial Crisis of 2008
 - different interpretations
 - policy responses in the US and UK

'Fifty Economic Fallacies Exposed, Ch. 4

Verdict on the Crash: Causes and Policy Implications'

'Causes and Cures of the Great Recession', Steven Horwitz

'Crises of Governments', Robert Barro

'Monetarists' blind spot on quantitative easing', Anthony J Evans

'Monetary Policy Decision' - Andrew Sentance

Financial Risk and Quantitative Easing

Verdict on the Crash

Strengths and weaknesses of demand-side policies

2.6.3

Supply-side policies

- a) Distinction between market-based and interventionist methods
- b) Market-based and interventionist policies:
 - to increase incentives
 - to promote competition
 - to reform the labour market
 - to improve skills and quality of the labour force
 - to improve infrastructure
- c) Use of AD/AS diagrams to illustrate supply-side policies
- d) Strengths and weaknesses of supply-side policies

['Low Pay and the Cost of Living: a Supply-Side Approach', Ryan Bourne](#)

[The supply side needs love too', Joshua Woods](#)

['Transforming welfare - incentives, localisation and non-discrimination', Kristian Niemietz](#)

['Understanding the Labour Market for Older Workers John S. Heywood and W. Stanley Siebert,](#)

['Transport Infrastructure: Adding Value', David Starkie](#)

['Low Pay and the Cost of Living: a Supply-Side Approach', Ryan Bourne](#)

2.6.4

Conflicts and tradeoffs between objectives and policies

- a) Potential conflicts and trade-offs between the macroeconomic objectives
- b) Short-run Phillips curve
- c) Potential policy conflicts and trade-offs

['The Living Wage: beware the trade-off deniers', Ryan Bourne](#)

Theme 3: Business behaviour and the labour market

3.1 Business growth

3.1.1

Sizes and types of firms

[‘Self Employment, Small Firms and Enterprise’, Peter Urwin](#)

- a) Reasons why some firms tend to remain small and why others grow
- b) Significance of the divorce of ownership from control: the principal-agent problem
- c) Distinction between public and private sector organisations
- d) Distinction between profit and not-for-profit organisations

3.1.2

Business growth

[‘Hung up on Red Tape’](#)

[‘The Flaws in Rent Ceilings’, Ryan Bourne](#)

a) How businesses grow:

- organic growth
- forward and backward vertical integration
- horizontal integration
- conglomerate integration

b) Advantages and disadvantages of:

- organic growth
- vertical integration
- horizontal integration
- conglomerate integration

c) Constraints on business growth:

- size of the market
- access to finance
- owner objectives
- regulation

3.1.3

Demergers

- a) Reasons for demergers
- b) Impact of demergers on businesses, workers and consumers

3.2 Business objectives

3.2.1

Business objectives

a) Different business objectives and reasons for them:

- profit maximisation
- revenue maximisation
- sales maximisation
- satisficing

b) Diagrams and formulae to illustrate the different business objectives:

- profit maximisation
- revenue maximisation
- sales maximisation

[‘A Brief on Business Ethics - The Essential Ideas’, Tibor R. Machan](#)

[‘The burden of ‘too much choice’’, Mark Pennington](#)

3.3 Revenues, costs and profits

3.3.1

Revenue

a) Formulae to calculate and understand the relationship between:

- total revenue
- average revenue
- marginal revenue

b) Price elasticity of demand and its relationship to revenue concepts (calculation required)

3.3.2

Costs

a) Formulae to calculate and understand the relationship between:

- total cost
- total fixed cost
- total variable cost
- average (total) cost
- average fixed cost
- average variable cost
- marginal cost

b) Derivation of short-run cost curves from the assumption of diminishing marginal productivity

c) Relationship between short-run and long-run average cost curves

3.3.3

Economies and diseconomies of scale

a) Types of economies and diseconomies of scale

b) Minimum efficient scale

c) Distinction between internal and external economies of scale

3.3.4

Normal profits, supernormal profits and losses

[‘Fifty Economic Fallacies Exposed’, Ch. 1](#)

a) Condition for profit maximisation

b) Normal profit, supernormal profit and losses

c) Short-run and long-run shut-down points: diagrammatic analysis

3.4 Market structures

3.4.1

Efficiency

a) Allocative efficiency

b) Productive efficiency

c) Dynamic efficiency

d) X-inefficiency

e) Efficiency/inefficiency in different market structures

3.4.2

Perfect competition

[Free Market Masters: Friedrich Hayek](#)

a) Characteristics of perfect competition

b) Profit maximising equilibrium in the short run and long run

c) Diagrammatic analysis

3.4.3

Monopolistic run

a) Characteristics of monopolistically competitive markets

b) Profit maximising equilibrium in the short run and long run

c) Diagrammatic analysis

3.4.4

Oligopoly

a) Characteristics of oligopoly

- high barriers to entry and exit
- high concentration ratio
- interdependence of firms
- product differentiation

b) Calculation of n-firm concentration ratios and their significance

c) Reasons for collusive and non-collusive behaviour

d) Overt and tacit collusion; cartels and price leadership

e) Simple game theory: the prisoner's dilemma in a simple two firm/two outcome model

f) Types of price competition:

- price wars
- predatory pricing
- limit pricing

g) Types of non-price competition

3.4.5

Monopoly

a) Characteristics of monopoly

b) Profit maximising equilibrium

c) Diagrammatic analysis

d) Third degree price discrimination:

[‘Don't just blame energy giants: government is blunting competition’, Philip Booth](#)

[Lifestyle Economics](#)

- necessary conditions
- diagrammatic analysis
- costs and benefits to consumers and producers
- e) Costs and benefits of monopoly to firms, consumers, employees and suppliers
- f) Natural monopoly

3.4.6

Monopsony

- a) Characteristics and conditions for a monopsony to operate
- b) Costs and benefits of a monopsony to firms, consumers, employees and suppliers

3.4.7

Contestability

'Markets in the Firm', Tyler Cowen and David Parker

- a) Characteristics of contestable markets
- b) Implications of contestable markets for the behaviour of firms
- c) Types of barrier to entry and exit
- d) Sunk costs and the degree of contestability

3.5 Labour market

3.5.1

Demand for labour

- a) Factors that influence the demand for labour
- b) Demand for labour as a derived demand

3.5.2

Supply of labour

- a) Factors that influence the supply of labour to a particular occupation
- b) Market failure in labour markets: the geographical and occupational mobility and immobility of labour

3.5.3

Wage determination in competitive and non-competitive markets

- a) Diagrammatic analysis of labour market equilibrium
- b) Understanding of current labour market issues
- c) Government intervention in the labour market:
 - maximum and minimum wages
 - public sector wage setting
 - policies to tackle labour market immobility
- d) The significance of the elasticity of demand for labour and the elasticity of supply of labour

[‘The Wage Flaw’](#)

[‘The Minimum Wage: Silver Bullet or Poisoned Challace?’, Ryan Bourne and J. R. Shackleton](#)

[‘The minimum Wage – will job losses be minimal?’, Daniel Aaronson, Eric French and Isaac Sorkin](#)

[Does the Minimum Wage Hurt Workers?](#)

[‘And How Much Do You Earn?’, Ryan Bourne and J. R. Shackleton](#)

3.6 Government intervention

3.6.1

Government intervention

[Thatcher: The Myth of Deregulation’, Philip Booth](#)

- a) Government intervention to control mergers
- b) Government intervention to control monopolies:
 - price regulation
 - profit regulation
 - quality standards
 - performance targets
- c) Government intervention to promote competition and contestability:
 - enhancing competition between firms through promotion of small business
 - deregulation
 - competitive tendering for government contracts
 - privatisation
- d) Government intervention to protect suppliers and employees:

- **restrictions on monopsony power of firms**
- **nationalization**

3.6.2

The impact of government intervention

a) The impact of government intervention on:

- prices
- profit
- efficiency
- quality
- choice

b) Limits to government intervention:

- regulatory capture
- asymmetric information

Theme 4: A global perspective

4.1.1

Globalisation

[Believe it or not: the world is becoming more equal', Marian L. Tupy](#)

a) Characteristics of globalisation

b) Factors contributing to globalisation in the last 50 years

c) Impacts of globalisation and global companies on individual countries, governments, producers and consumers, workers and the environment

4.1.2

Specialisation and trade

a) Absolute and comparative advantage (numerical and diagrammatic): assumptions and limitations relating to the theory of comparative advantage

b) Advantages and disadvantages of specialisation and trade in an international context

4.1.3

Pattern of trade

- a) Factors influencing the p countries and changes in trade flows between countries
- pattern of trade between
 - comparative advantage
 - impact of emerging economies
 - growth of trading blocs and bilateral trading agreements
 - changes in relative exchange rates

4.1.4

Terms of trade

- a) Calculation of terms of trade
- b) Factors influencing a country's terms of trade
- c) Impact of changes in a country's terms of trade

4.1.5

Trading blocs and the World Trade Organisation (WTO)

['Swiss role: what the euro could learn from Switzerland'](#)

[Britain and the EU – Roger Bootle](#)

- a) Types of trading blocs (regional trade agreements and bilateral trade agreements):
 - free trade areas
 - customs unions
 - common markets
 - monetary unions: conditions necessary for their success with particular reference to the Eurozone
- b) Costs and benefits of regional trade agreements
- c) Role of the WTO in trade liberalisation
- d) Possible conflicts between regional trade agreements and the WTO

4.1.6

Restrictions on free trade

- a) Reasons for restrictions on free trade
- b) Types of restrictions on trade:

[Free trade, not sanctions, helping the world's poor', Steven Horwitz](#)

- tariffs
- quotas
- subsidies to domestic producers
- non-tariff barriers

c) Impact of protectionist policies on consumers, producers, governments, living standards, equality

4.1.7

Balance of payments

a) Components of the balance of payments:

- the current account
- the capital and financial accounts

b) Causes of deficits and surpluses on the current account

c) Measures to reduce a country's imbalance on the current account

d) Significance of global trade imbalances

4.1.8

Exchange rates

a) Exchange rate systems:

- floating
- fixed
- managed

b) Distinction between revaluation and appreciation of a currency

c) Distinction between devaluation and depreciation of a currency

d) Factors influencing floating exchange rates

e) Government intervention in currency markets through foreign currency transactions and the use of interest rates

f) Competitive devaluation/depreciation and its consequences

g) Impact of changes in exchange rates:

['The Hard facts About Hard Money'](#)

['Denationalisation of money', F.A Hayek](#)

- the current account of the balance of payments (reference to Marshall-Lerner condition and J curve effect)
- economic growth and employment/unemployment
- rate of inflation
- foreign direct investment (FDI) flows

4.1.9

International competitiveness

a) Measures of international competitiveness:

- relative unit labour costs
- relative export prices

b) Factors influencing international competitiveness

c) Significance of international competitiveness:

- benefits of being internationally competitive
- problems of being internationally competitive

4.2 Poverty and inequality

'Wealth Inequality: The Facts'

4.2.1

Absolute and relative poverty

'The rich get rich and the poor get... richer!'

'The death and rebirth of relative poverty figures', Christopher Snowden

a) Distinction between absolute poverty and relative poverty

'The Long March of the Poor'

'Redefining the Poverty Debate', Kristian Niemietz

b) Measures of absolute poverty and relative poverty

c) Causes of changes in absolute poverty and relative poverty

4.2.2

Inequality

'The Inequality Puzzle'

'Regulation not the Answer to Child Labour, Tim Congdon

'Latin America: A tale of two continents', Diego Zuluaga Laguna

How China became Capitalist

a) Distinction between wealth and income inequality

b) Measurements of income inequality:

- the Lorenz curve (diagrammatic analysis)

'The World is Becoming More Equal'

- the Gini coefficient
- c) Causes of income and wealth inequality within countries and between countries
- d) Impact of economic change and development on inequality
- e) Significance of capitalism for inequality

'Thatcherism: the rich got richer, the poor got poorer?'

4.3 Emerging and developing economies

4.3.1

Measures of development

- a) The three dimensions of the Human Development Index (HDI) (education, health and living standards) and how they are measured and combined
- b) The advantages and limitations of using the HDI to compare levels of development between countries and over time
- c) Other indicators of development

4.3.2

Factors influencing growth and development

- a) Impact of economic factors in different countries:

- primary product dependency
- volatility of commodity prices
- savings gap: Harrod-Domar model
- foreign currency gap
- capital flight
- demographic factors
- debt
- access to credit and banking
- infrastructure
- education/skills
- absence of property rights

- b) Impact of non-economic factors in different countries

'India: a recipe for growth'

'Pension Provision: Government Failure around the World', Philip Booth

'High Speed 2: the Next Government Project Disaster?', Kyn Aizlewood and Richard Wellings

'The social role of banks is banking', Philip Booth

'The economic case against patents', Mikko Arevuo

Professor Easterly discusses the role of institutions in development

Kyn Aizlewood and Richard Wellings High Speed 2: the Next Government Project Disaster?'

4.3.3

Strategies influencing growth and development

a) Market-orientated strategies:

- trade liberalisation
- promotion of FDI
- removal of government subsidies
- floating exchange rate systems
- microfinance schemes
- privatisation

b) Interventionist strategies:

- development of human capital
- protectionism
- managed exchange rates
- infrastructure development
- promoting joint ventures with global companies
- buffer stock schemes

c) Other strategies:

- industrialisation: the Lewis model
- development of tourism
- development of primary industries
- Fairtrade schemes
- aid
- debt relief

d) Awareness of the role of international institutions and non-government organisations (NGOs):

- World Bank
- International Monetary Fund (IMF)
- NGOs

4.4 The financial sector

4.4.1

Role of financial markets

'Myth conception: foreign aid is the key to well-being'

'Doing Business: Singapore Style'

'Barriers to prosperity – developing countries and the need for trade liberalisation'

'Fair Trade Without the Froth', Sushil Mohan

'Industrial Strategy: The Hand of Government or the Invisible Hand?', J. R Shackleton and Ryan Bourne

'Protectionism is an economic blind alley', Tom Papworth

'The Case Against a Financial Transactions Tax', Tim Worstall

- a) To facilitate saving
- b) To lend to businesses and individuals
- c) To facilitate the exchange of goods and services
- d) To provide forward markets in currencies and commodities
- e) To provide a market for equities

4.4.2

Market failure in the financial sector

[Fifty Economic Fallacies Exposed, Ch. 9](#)

[‘Ronald Coase: as relevant as ever’, Len Shackleton](#)

a) Consideration of:

- asymmetric information
- externalities
- moral hazard
- speculation and market bubbles
- market rigging

4.4.3

Role of central banks

[‘QE and the Rich’](#)

[‘Britain’s Baker’s Dozen of Disasters’, Peter Clarke and Robert C. B. Miller](#)

[Tim Congdon - Central Banking in a Free Society](#)

a) Key functions of central banks:

- implementation of monetary policy
- banker to the government
- banker to the banks – lender of last resort
- role in regulation of the banking industry

[Stephanie Flanders on the ECB](#)

[Making it Happen: Fred Goodwin, RBS and the men who blew up the British Economy](#)

4.5 Role of the state in the macroeconomy

[‘Sharper Axes, Lower Taxes: Big Steps to a Smaller State’, Philip Booth](#)

4.5.1

Public expenditure

[‘The UK productivity puzzle – or is it?’, J. R. Sargent](#)

a) Distinction between capital expenditure, current expenditure and transfer payments

- b) Reasons for the changing size and composition of public expenditure in a global context
- c) The significance of differing levels of public expenditure as a proportion of GDP on:
 - productivity and growth
 - living standards
 - crowding out
 - level of taxation
 - equality

4.5.2

Taxation

- a) Distinction between progressive, proportional and regressive taxes
- b) The economic effects of changes in direct and indirect tax rates on other variables:
 - incentives to work
 - tax revenues: the Laffer curve
 - income distribution
 - real output and employment
 - the price level
 - the trade balance
 - FDI flows

[‘Aggressively Regressive: The 'sin taxes' that make the poor poorer’, Chris Snowden](#)

4.5.3

Public sector finances

- a) Distinction between automatic stabilisers and discretionary fiscal policy
- b) Distinction between a fiscal deficit and the national debt
- c) Distinction between structural and cyclical deficits
- d) Factors influencing the size of fiscal deficits
- e) Factors influencing the size of national debts
- f) The significance of the size of fiscal deficits and national debts

[Diffusing the debt time bomb: challenges and solutions’, Philip Booth and Ryan Bourne](#)

[Diffusing the debt time bomb: the challenge’, Ryan Bourne](#)

[The Government Debt Iceberg’, Jagadeesh Gokhale](#)

4.5.4

Macroeconomic policies in a global context

'The Poverty Industry Trap'

a) Use of fiscal policy, monetary policy, exchange rate policy, supply-side policies and direct controls in different countries, with specific reference to the impact of:

- measures to reduce fiscal deficits and national debts
- measures to reduce poverty and inequality
- changes in interest rates and the supply of money
- measures to increase international competitiveness

b) Use and impact of macroeconomic policies to respond to external shocks to the global economy

c) Measures to control global companies' (transnationals') operations:

- the regulation of transfer pricing
- limits to government ability to control global companies

d) Problems facing policymakers when applying policies:

- inaccurate information
- risks and uncertainties
- inability to control external shocks