STRIVE

FOR A

9

THIS SUMMER

Year 10 Economics Exam Preparation Pack

How will my paper Year 10 paper be structured?

➔ **60 Marks**

➔ **60 Minutes**

➔ **One Minute a mark**

Section A: 10 MCQs

Section B : A short case study with 2 mark, 4 mark and 6 mark questions.

Short Questions
2/4 mark Questions

Sample Questions

- Explain two reasons why individuals might specialise.
- Explain how the weak pound will affect the current account.

How to structure

- **Knowledge**: Define any key terms (if possible)
- **Application** : Apply to the case (if possible)
- **Analysis** : Use of connectives
  e.g. because…which means….
  Therefore…. leading to

Do you think/To what extent
6 mark questions

Sample Questions

- To what extent to the pros of economic growth outweigh the cons.
- To what extent do the benefits of specialisation outweigh the costs?
- Do you think the pros of competition outweigh the cons for consumers?

How to structure

Definition	NOT ESSENTIAL
	Because… wmt… therefore…
	Because… wmt… therefore…
Conclusion	Follow tips

Hot Tips

What will I do if I have no time to complete the long questions?

1. State Pro
2. State Con
3. CONCLUDE (See below)

Conclusion can you gain you up to 3/4 marks if completed well

How do I write a conclusion?

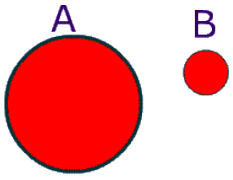
1. **Agree with statement**: Yes, effective/Yes, pros outweigh cons
2. **HIDO**: What does your point depend on?
3. **Recognise the problem:**
   Option 1**:** There is a problem however it is not significant because…
   Option 2**:** There is a problem however the government can resolve this by doing XYZ

Magnitude as an evaluation point

- Magnitude can often be used as an evaluation point.

Example; It depends on the extent of the competition/monopoly power, the extent of the increase, the extent of the decrease.

Sample Ans: If interest rates decrease by 0.01%, government will see little change in AD and therefore GDP. However if interest rates decrease by 10%, government will see a significant change in AD and therefore GDP. If confidence is high.



Other HIDO points that can be used throughout Paper 1 and Paper 2 depending on question

1. Elasticity
2. Consumer and Business Confidence
3. Brexit and uncertainty
4. SR vs LR effects
5. Who are the winners and who are the losers?

Arrows

- Struggling with time? Use both arrows and words.

What do I need to know for my exams in June 2018?

1. Introduction to Economics

1.1 Main Economic Groups and Factors of Production

	Learned	Revised
I can explain the role of the main economic groups: consumers, producers and the government.		
I can explain the factors of production; Land, Labour, Capital and Enterprise		
I can explain how these FOP are combined.		

1.2 The basic economic problem

	Learned	Revised
I can explain the basic economic problem		
I can explain how resources are allocated – what, whom and how goods are produced		
I can define opportunity cost		

2. The role of markets and money

2.1 The role of markets

	Learned	Revised
I can explain what is meant by a market		
I can explain the features of the primary, secondary and tertiary sectors		
I can explain the difference the production of goods and services		
I can explain the difference between factor and product markets		
I can evaluate the pros and cons of specialisation for producers		
I can evaluate the pros and cons of specialisation for workers		
I can evaluate the pros and cons of specialisation for regions		
I can evaluate the pros and cons of specialisation for countries		

2.2 Demand

	Learned	Revised
I can explain what is meant by a demand		
I can draw a demand curve using data		
I can draw shifts and movements along the demand curve		
I can analyse the consequences to consumers for changes in demand curve		
I can explain PED		
I can draw different PED curves		
I can evaluate the importance of PED for consumers		
I can evaluate the importance of PED for producers		

2.3 Supply

	Learned	Revised
I can explain what is meant by a supply		
I can draw a supply curve using data		
I can draw shifts and movements along the supply curve		
I can analyse the consequences to consumers for changes in supply curve		
I can explain PES		
I can draw different PES curves		
I can evaluate the importance of PES for consumers		
I can evaluate the importance of PES for producers		

2.4 Price

	Learned	Revised
I can explain price as a reflection of worth and its role in determining an efficient distribution of resources		
I can explain what is meant by equilibrium price and quantity		
I can draw and analyse the interaction of demand and supply		
I can explain the role of markets in the determination of price and the allocation of resources		
I can analyse how the market forces of demand and supply affect equilibrium price and quantity		

2.5 Competition

	Learned	Revised
I can explain competition between producers in a market economy		
I can analyse how competition affects price		
I can evaluate the economic impact of competition on producers and consumers		
I can explain the meaning of monopoly and oligopoly and how they differ from competitive markets		

2.6 Production

	Learned	Revised
I can explain the role of producers, including individuals, firms and the government		
I can evaluate the importance of production and productivity for the economy		
I can calculate total cost, average cost, total revenue, average revenue, profit and loss		
I can explain total cost, average cost, total revenue, average revenue, profit and loss		
I can evaluate the importance of cost, revenue, profit and loss for producers, including how costs and revenues affect profit and supply		
I can explain what is meant by economies of scale		

2.7 The labour market

	Learned	Revised
I can explain the role and operation of the labour market, including the interaction between workers and employers		
I can analyse the determination of wages through supply and demand		
I can explain factors affecting the supply of labour		
I can explain factors affecting the demand of labour		
I can explain gross and net pay, including deductions through income tax, national insurance and pension contributions		
I can calculate gross and net pay		

2.8 The role of money and financial markets – Will not be tested in your Year 10 exam as we have not covered it.

	Learned	Revised
I can explain money as a medium of exchange		
I can explain the role of the financial sector for the economy, including financial institutions such as banks, building societies and insurance companies		
I can evaluate the importance of the financial sector for consumers, producers and government		
I can evaluate the importance of the financial sector for consumers, producers and government		
I can calculate the effect on savings and borrowings of changes in the rate of interest		

3. Economic objectives and the role of government

3.1 Economic growth

	Learned	Revised
I can explain what is meant by economic growth		
I can economic growth		
I can explain how economic growth is measured with reference to Gross Domestic Product (GDP) and GDP per capita		
I can analyse recent and historical GDP data		
I can analyse the determinants of economic growth, including investment, changes in technology, size of workforce, education and training, availability of natural resources and government policies		
I can evaluate the costs and benefits of economic growth		

3.2 Low unemployment

	Learned	Revised
I can explain what is meant by employment and unemployment		
I can explain how unemployment is measured using the Claimant Count		
I can calculate the unemployment rate		
I can analyse recent and historical unemployment figures		
I can explain the types of unemployment, including cyclical, frictional, seasonal and structural unemployment		
I can evaluate the causes and consequences of unemployment for individuals, regions and the government		

3.3 Fair distribution of income - Will not be tested in your Year 10 exam as we have not covered it.

	Learned	Revised
I can explain what is meant by the distribution of income, including different types of income and the difference between income and wealth		
I can calculate income and wealth		
I can evaluate the causes of differences in the distribution of income and wealth and the consequences for an economy		

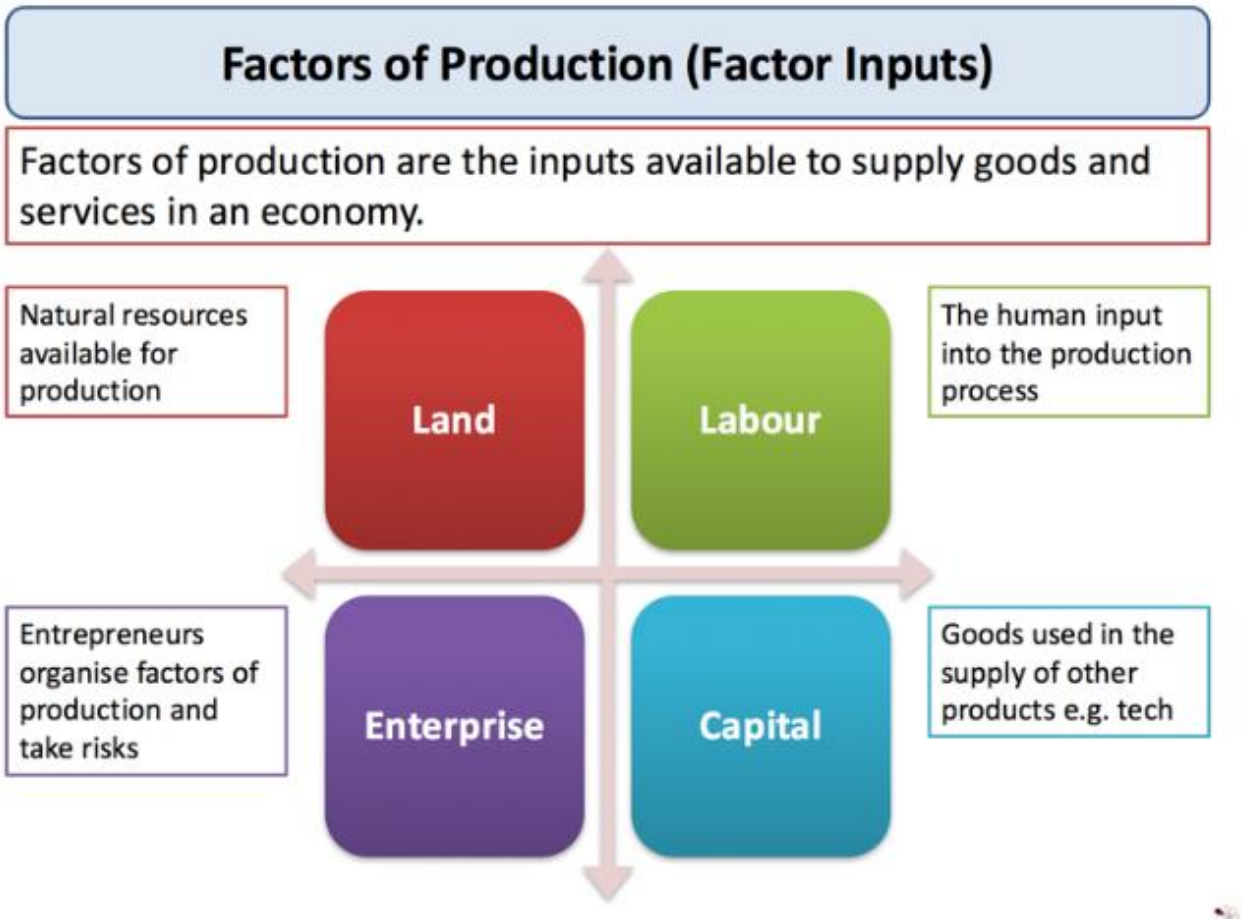
3.4Price stability

	Learned	Revised
I can explain what is meant by price stability and inflation		
I can explain the difference between nominal and real values		
I can explain how inflation is measured using the Consumer Price Index (CPI)		
I can analyse recent and historical inflation figures		
I can evaluate the causes of inflation		

REVISION GUIDE

1.1 Main Economic Groups and Factors of Production

Factors of Production



➔ LAND

Land includes all natural physical resources – e.g. fertile farm land, the benefits from a temperate climate or the harnessing of wind power and solar power and other forms of renewable energy.

➔ LABOUR

Labour is the human input into production e.g. the supply of workers available and their productivity

➔ CAPITAL

Capital goods are used to produce other consumer goods and services in the future

➔ ENTREPRENEURSHIP:

An entrepreneur is an individual who supplies products to a market to make a profit

1.2 The Basic Economic Problem

Economic Problem

→ ECONOMIC PROBLEM: There are limited resources and unlimited wants.

→ The fundamental economic problem is the issue of scarcity – but unlimited wants. Therefore, an underlying feature of economics is concerned with dealing how to allocate resources in society to make the most efficient and fair use of resources.

→ Therefore economics is concerned with:

- What to produce?
- How to produce?
- For whom to produce?

→ OPPORTUNITY COST: It measures the cost of any choice in terms of the next best alternative foregone.

➔ Examples of opportunity cost: The cost of war. If the government spends $870bn on a war, it is $870bn they cannot spend on education, health care or cutting taxes / reducing the budget deficit.

2.1 The Role of the Market

→ A MARKET: A way of bringing together buyers and sellers to buy and sell goods and services

SECTORS OF INDUSTY

➔ The primary sector involves the extraction of raw materials and natural resources. Examples of this are farming and mining, as well as the extraction of oil and gas.

→The secondary sector turns these raw materials into products. ...

→ The tertiary sector is also known as the service sector.

→ PRODUCT MARKET: The marketplace in which a final good or service is bought and sold

→ FACTOR MARKET: It refers to arrangement for buying and selling of factors of production.

SPECIALISATION

→ **SPECIALISATION**: The process by which individuals, firms and regions and whole economies concentrate on producing those products that they are best at producing.

The Effects of Specialisation on Firm

			
Higher output :	Increase specialisation → Increases productivity → Higher output per worker → Increases output	Diseconomies of Scale	Increase Output → More FOP required including workers → More coordination, control and communication required → Difficult to manage and AC rises
Economies of Scale	Increase output → Enable firms to benefit from EOS → Reduces AC (Average Cost) → Reduce Price → Increases competitiveness in domestic market and abroad	Dependency	Production of goods and services depends on all parts working well. Problems such as a technical failure or strike ca lead to the whole process stopping.

The Effects of Specialisation on workers

			
Increase Standard of Living (SOL)	Increase in earning s→ Workers can buy more goods to satisfy not only their needs, but also their wants.	Boredom	Doing the same job can be demotivating
Increase Skill	Increase specialisation → Workers become more skilful and knowledgable → Higher earnings	Deskilling	Workers can lose the skills of other types of work and are less able to respond to changes in demand

The Effects of Specialisation on Regions

			
Creates jobs for residents	Development of an industry in a particular region helps the residents of that area to find jobs near their homes	Resource exhaustion	If raw materials are no longer available then those employed in that industry will become unemployed e.g. North East → Steel
Efficient use of resources	A region could specialise in a particular industry due to availability of resource so it will be easier to use that resource efficiently	Rise of fall in demand	If demand falls due to changes in taste and fashion then the industry will collapse or shrink; leading to resource wastage.

The Effects of Specialisation on Countries

			
Economies of Scale and efficiency	Countries will specialise in what they do best → Increase efficiency → EOS → Increases countries output (Higher GDP)	Over Dependence	Countries can over specialise and become dependent on one or a very small number of products. If world demand changes then these industries and the countries' economies can collapse.
More Jobs	Increased ouput → More investment → More job creation	Negative externalities	Output may be increased → Over exploitation of resources → Unsustainable → Serious environmental damage

2.2 Demand

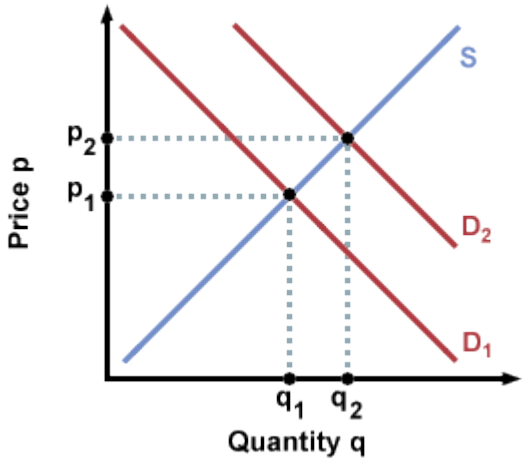
→ DEMAND: It is the quantity of a good or service that consumers are willing and able to buy at a given price in a given time period

FACTORS AFFECTING THE DEMAND OF GOODS AND SERVICES

PASIFIC

Population
Advertising
Substitutes
Income (Disposable)
Fashion and Taste
Interest Rates
Complements

E.g. An increase income will lead to an increase in demand for Coca Cola



→**PRICE ELASTICITY OF DEMAND**: Price elasticity of demand measures the responsiveness of quantity demanded for a product to a change in price.

FACTORS AFFECTING THE PED OF GOODS AND SERIVCES

Price elasticity of demand (SPLAT)

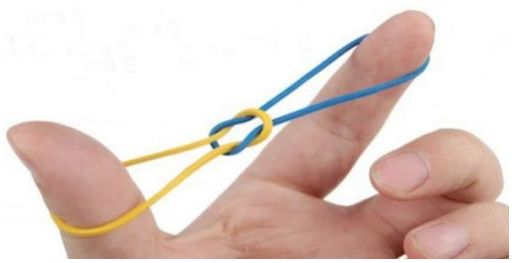
Substitutes

Percentage of income

Luxury or necessity

Addiction

Time



→The number of close substitutes for a good – the more close substitutes in the market, the more elastic is demand because consumers can easily switch their demand if the price of one product changes relative to others.

→The degree of necessity or whether the good is a luxury – goods and services deemed by consumers to be necessities tend to have an inelastic demand whereas luxuries tend to have a more elastic demand.

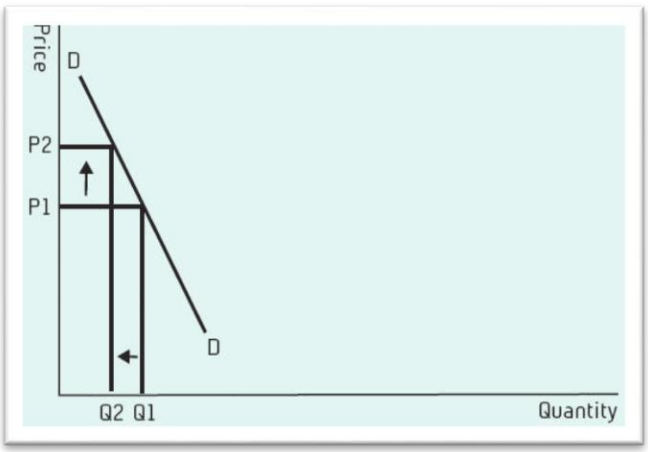
→The % of a consumer's income allocated to spending on the good – goods and services that take up a high proportion of a household's income will tend to have a more elastic demand than products where large price changes makes little or no difference to someone's ability to purchase the product.

→Whether the good is subject to habitual consumption – when this occurs, the consumer becomes less sensitive to the price of the good in question because their default position is to buy the same products at regular intervals.

→The time period allowed following a price change – demand tends to be more price elastic, the longer that we allow consumers to respond to a price change

RELATIVELY INELASTIC DEMAND

- Goods show a small response in their quantity demanded as a result of a change to their price.
- A increase in price by 10% leads to a less than proportionate (i.e. less than 10%) change in demand.

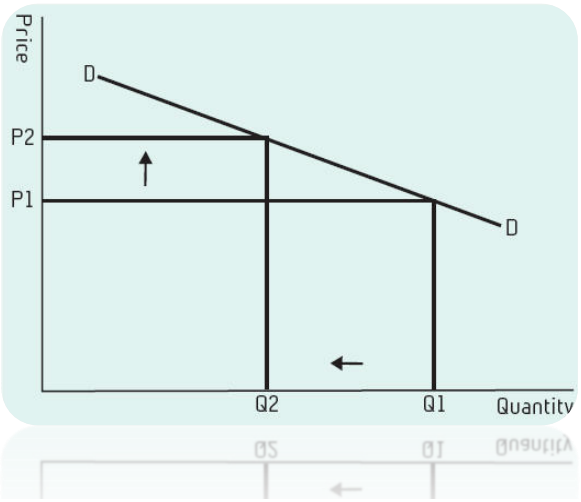


- PED = >0 but <1
  → Examples: Petrol, Tobacco, Alcohol

- TO INCREASE REVENUE → P ↑

- TO INCREASE PROFITS → P ↑

RELATIVELY ELASTIC DEMAND



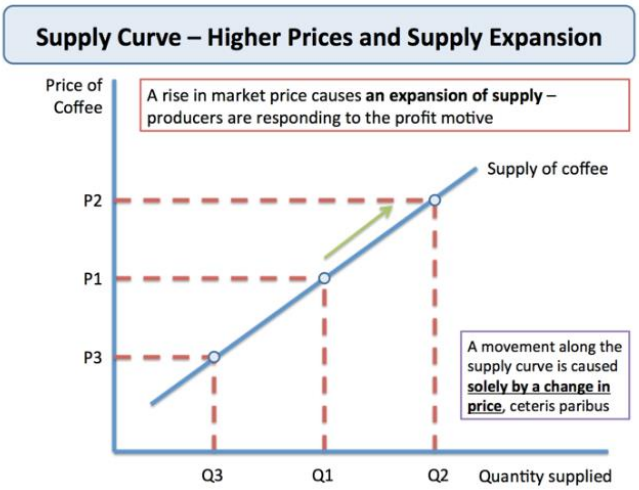
- Goods that show a significant response to their quantity demanded as a result to a change in their price.
- An increase in price by 10% leads to a more than proportionate (i.e. less than 10%) change in demand.

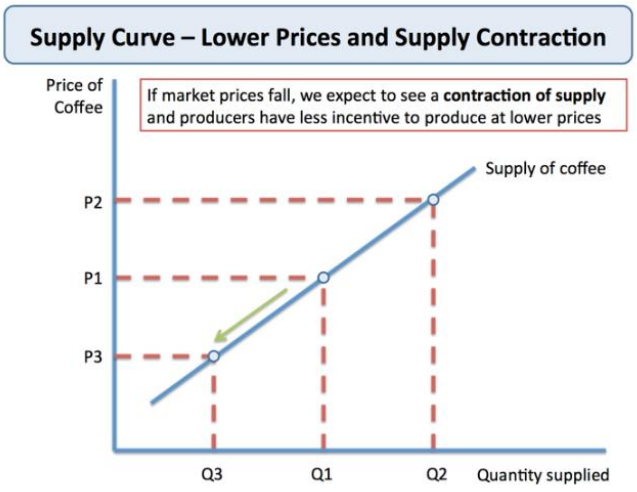
- **TO INCREASE REVENUE ↓ P**

- **TO INCREASE PROFIT ↓P** → *As much as possible without going below cost of production.*

2.3 Supply

→SUPPLY: Supply is the quantity of a product that a producer is willing and able to supply onto the market at a given price in a given time period





FACTORS AFFECTING THE SUPPLY OF GOODS AND SERIVCES

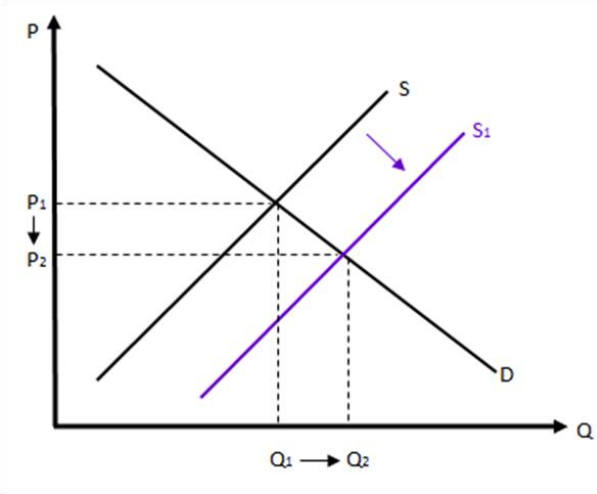
PINTSWC

Productivity

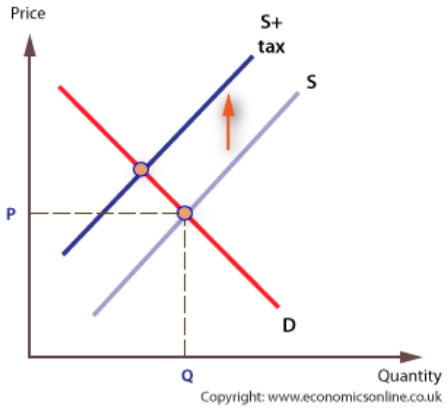
Indirect taxes
Number of firms
Technology
Subsidies
Weather
Costs of production

→SUBSIDY : A sum of money granted by the state or a public body to help an industry or business keep the price of a commodity or service low.

E.g. Government gives subsidy to firms producing electric cars



e.g. Government imposes indirect tax on cars that release X amount of Carbon



→**PRICE ELASTICITY OF SUPPLY**: Price elasticity of supply measures the responsiveness of quantity supplied for a product to a change in price.

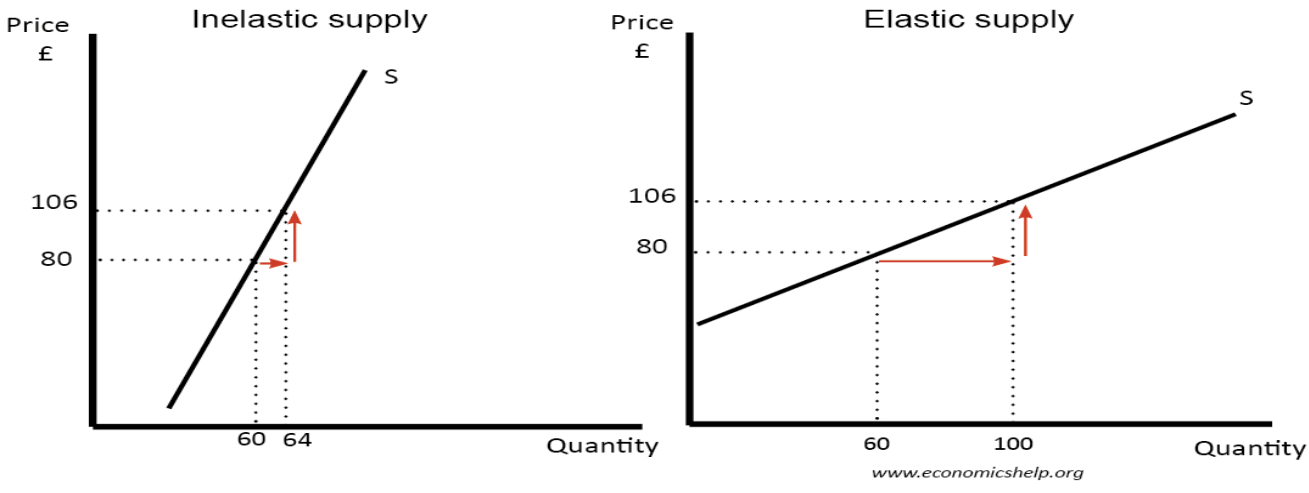
FACTORS AFFECTING THE PES OF GOODS AND SERIVCES

→Spare production capacity: If there is plenty of spare capacity then a business can increase output without a rise in costs and supply will be elastic in response to a change in demand. The supply of goods and services is most elastic during a recession, when there is plenty of spare labour and capital resources.

→Stocks of finished products and components: If stocks of raw materials and finished products are at a high level then a firm is able to respond to a change in demand - supply will be elastic. Conversely when stocks are low, dwindling supplies force prices higher because of scarcity

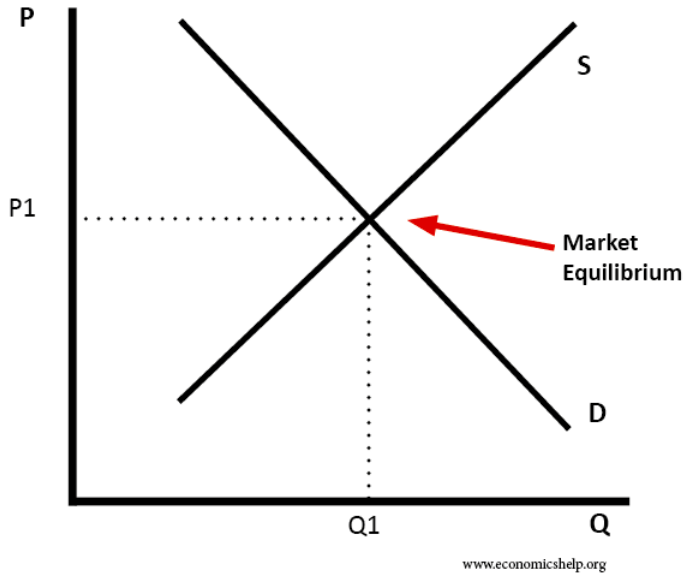
→The ease and cost of factor substitution/mobility: If both capital and labour are occupationally mobile then the elasticity of supply for a product is higher than if capital and labour cannot easily be switched. E.g. a printing press which can switch easily between printing magazines and greetings cards. Or falling prices of cocoa encourage farmers to switch into rubber production

→Time period and production speed: Supply is more price elastic the longer the time period that a firm is allowed to adjust its production levels. In some agricultural markets the momentary supply is fixed and is determined mainly by planting decisions made months before, and also climatic conditions, which affect the production yield. In contrast the supply of milk is price elastic because of a short time span from cows producing milk and products reaching the market place.



2.4 Price

➔ **PRICE**: Indicates the worth of a good/service



- → Market Clearing Price
- → Market Equilibrium
- → Market Forces
- → Invisible Hand – Adam Smith
- → Demand = Supply
- → Allocating resources efficiently

2.5 Competition

➔ COMPETITION - Where different firms are trying to sell a similar product to a consumer.

EFFECTS OF COMPETITION ON CONSUMERS AND PRODUCERS

	Consumers	High competition → Firms compete on price, quality and innovation → Increase SOL
	Consumers	Advertising can be used as method of persuasion. Customers encouraged to buy products they do not need e.g. cigarettes
	Producer	Forces firms to improve their efficiency to try drive down costs. No waste of scarce resources. More efficiency → More output → More demand → Greater profits
	Producer	Some firms, if not competitive enough will be forced out of the market

Eval: Depends on

→ Level of competition.

→ The barriers to entry

→ Objectives of firm

➔ MONOPOLY: A sole producer of seller of a good or service.

➔ OLIGOPOLY: An oligopoly is a market dominated by a few large firms. Small firms may survive by supplying market niches but most of the industry's output is supplied by a few large firms. E.g. Supermarket Industry

2.6 Production

Revenue/Costs/Profits

➔ REVENUE: It is the income earned by a business over a period of time.

- Revenue = price x quantity.

For example, the total revenue raised by selling 2,000 items priced £30 each is 2,000 x £30 = £60,000.

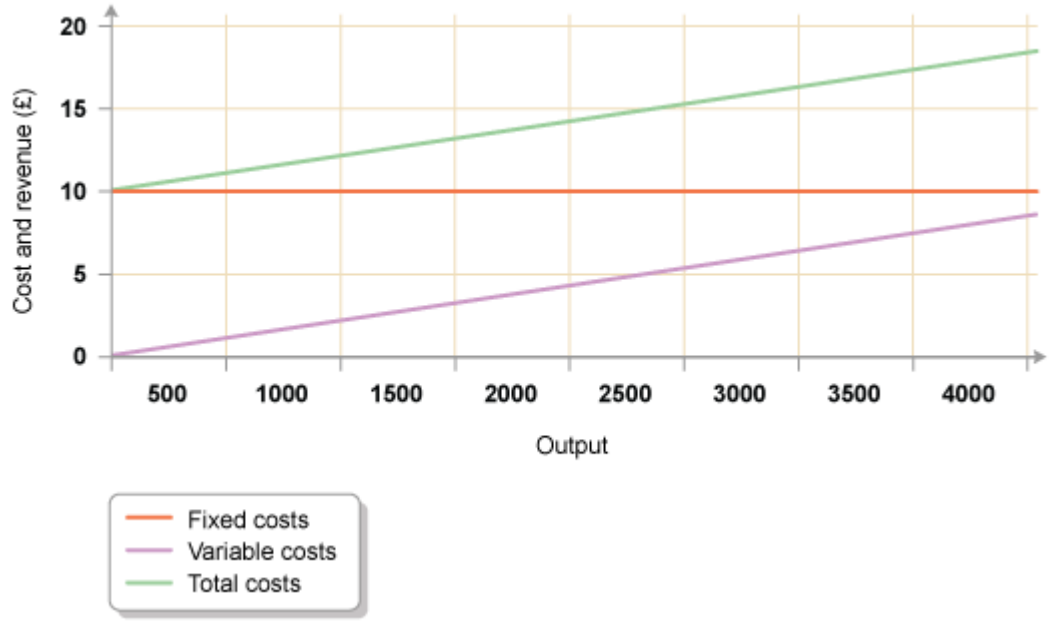
Tip: Revenue is sometimes called **sales**, **sales revenue**, **total revenue** or **turnover**.

➔ FIXED COSTS: These are costs that do not vary with output e.g. rent

➔ VARIABLE COSTS: These are costs that do vary with output e.g. raw materials

➔ TOTAL COST: Fixed Cost + Total Variable Cost

➔ PROFIT: Total Revenue – Total Cost



Importance of Production

- ➔ An increase in employment, unless greater productivity causes it
- ➔ An increase in profits for firms
- ➔ Larger Economies of scale
- ➔ Increase in market share
- ➔ A rise in living standards

Importance of Productivity

- ➔ Lower average cost and increasing economies of scale
- ➔ Greater profits – Allows for more innovation, investment in equipment, R&D

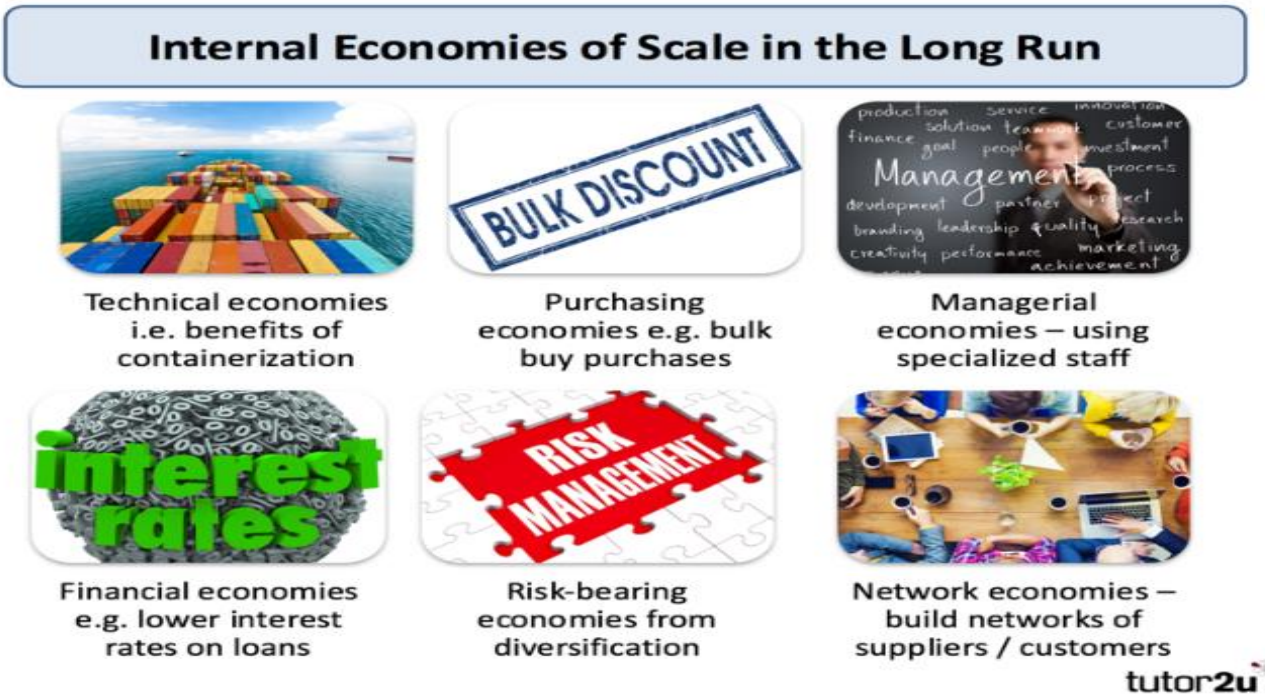
Problems with greater productivity?

- ➔ If a firm increases productivity by using capital and it leads to greater unemployment
- ➔ Leads to greater competitiveness abroad – Countries may retaliate.

How can producers increase productivity?

- ➔ Workers specialising
- ➔ Invest in new technology and machinery
- ➔ Improve skills of workers through training.

➔ ECONOMIES OF SCALE: This arises when a firm grows in size (Increases output) and average cost per unit falls.



Examples of EOS:

➔ **TECHNICAL ECONOMIES OF SCALE**: Large-scale businesses can afford to invest in expensive and specialist capital machinery. For example, a supermarket chain such as Tesco or Sainsbury's can invest in technology that improves stock control. This will lead to lower AC.

➔ **PURCHASING ECONOMIES OF SCALE :**Larger firms can negotiate better deals with suppliers, reducing their average cost per unit.

➔ **MARKETING ECONOMIES OF SCALE:** A large firm can spread its advertising and marketing budget over a large output and it can purchase its inputs in bulk at negotiated discounted prices if it has sufficient negotiation power in the market. Spreading the cost of advertising over a larger number of units, lower AC.

➔ **MANAGERIAL ECONOMIES OF SCALE :** This is a form of division of labour. Large-scale manufacturers employ specialists to supervise production systems, manage marketing systems and oversee human resources.

➔ **FINANCIAL ECONOMIES OF SCALE**: Larger firms are usually rated by the financial markets to be more 'credit worthy' and have access to credit facilities, with favourable rates of borrowing. In contrast, smaller firms often face higher rates of interest on overdrafts and loans. Businesses quoted on the stock market can normally raise fresh money (i.e. extra financial capital) more cheaply through the issue of

shares. They are also likely to pay a lower rate of interest on new company bonds issued through the capital markets.

External EOS

➔ EXTERNAL ECONOMIES OF SCALE: This occur within an industry. Examples of external economies of scale include.

Example:

•Development of research and development facilities in local universities that several businesses in an area can benefit from
•Spending by a local authority on improving the transport network for a local town or city
•Relocation of component suppliers and other support businesses close to the main centre of manufacturing are also an external cost saving

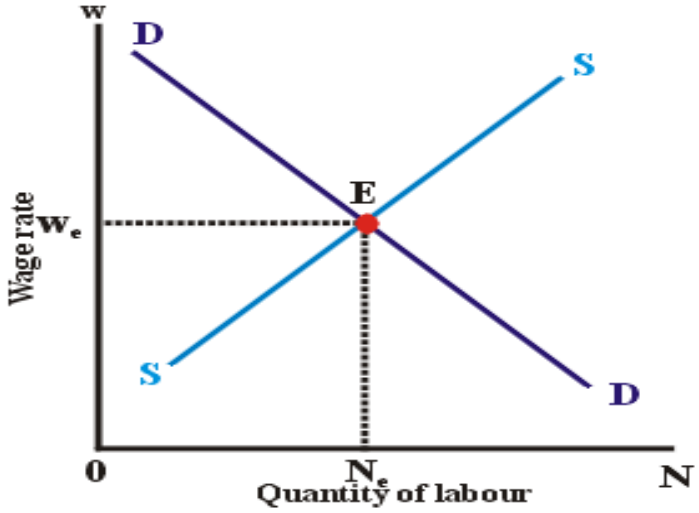
2.6 The Labour Market

→ LABOUR MARKET : Where workers sell their labour and employers buy the labour.

Labour Market Equilibrium : Wages are set through demand and supply.

→**Supply of labour** – Individuals supplying their labour in a specic labour market. E.g. Miss Byrne supplies her labour in the Education Market

→**Demand of Labour** – Employers demanding workers in a specific labour market. E.g. PPS demanding teachers in the Education Market.



FACTORS AFFECTING THE DEMAND FOR WORKERS

Factor	Explanation
The state of the economy	If the economy has high GDP, the more labour is demanded as existing firms expand and new firms are entering the market
Wage Rates	Demand for Labour is downward sloping→Increase in Wage Rate → Decrease in Demand for Labour
Productivity of Labour	If productivity of Labour increases → Labour becomes more cost efficient than capital → Increase in demand for labour

FACTORS AFFECTING THE SUPPLY OF WORKERS

Factor	**Explanation**
Wage Rate	High Wages → More labour is likely to be supplied e.g. Higher the pay for economics teachers, the higher the supply of teachers.
Size of Working Population	This affected by migration, school leaving ages and retirement. The gradual rise in retirement age will mean that there are more people available for work.
Non Monetary Factors	These include working conditions, opportunities for promotion and job security.

How would PED and PES affect the Labour Market?

➔ GROSS PAY: The amount of money that an employee earns before deductions are made

Likely deductions from Gross Pay

- ➔ Income Tax
- ➔ National Insurance
- ➔ Net Pay
- ➔ Pension

➔ NET PAY: The amount of money that an employee is left with after deductions are made from gross income

Pay Slip Example:

Gross Pay	£2000
Income Tax	£500
National Insurance	£250
Pension	£350
Net Pay	£900

3.1 Economic growth

→ ECONOMIC GROWTH: Growth in GDP (value of output) over time

→ GDP: The total value added of goods and services produced in the country in a year.

→ GDP PER CAPITA: GDP/population

DETERMINANTS OF ECONOMIC GROWTH

Determinant	Explanation
Investment	Spending on Capital Goods. Capital goods include business premises, machinery and equipment. More investment means that the economy has the ability to product G&S in the future
Changes in Technology	Technological progress means the quality of capital goods improves, and a given quantity of capital can now produce more output than before.

Education and Training	The affects the quality and quantity of the work done. The more literate, education and trained the workers are, the higher the output of the country is likely to be.
Productivity	This can be measured as the output per worker over a period of time. Higher productivity will encourage economic growth.
Size of Workforce	The economy can produce more if it has more of the FOP known as labour.
Government Policies	• Government invests in infrastructure → Attracts Foreign direct investment from abroad → Increase output in the country. • Government reduce tax →Encourages consumption → Increases output

THE EFFECTS OF ECONOMIC GROWTH (+VE & -VE)

	Reduce Budget Deficit	Increase in tax (VAT, Corporation and Income) and Reduction in spending on benefits.
	Environmental Issues	Production of G&S → More pollution of land, air, sea and fresh water.
	More Employment	More workers will be required to produce the extra output brought by economic growth.
	Inflation	In a period of high GDP, prices may rise. This happens when AD is rising but AS is rising at a slower rate than demand so leads to demand pull inflation

Eval: Cons can be resolved if government implement environment policies e.g. carbon tax, pollution permits. Inflation can be resolved if government invest in supply side polices also.

3.2 EMPLOYMENT

→ **EMPLOYMENT**: The use of labour in the economy to produce goods and services.
→ UNEMPLOYMENT: Occurs when workers are able and willing to work at a current wage rate but are unable to find a job

How is it measured?

The **Claimant Count** measure includes people who are eligible to claim the Job Seeker's Allowance (JSA). The data is seasonally adjusted to take into account predictable seasonal changes in the demand for labour.

Calculate the unemployment

Unemployment Rate = Number of unemployed/Workforce X100

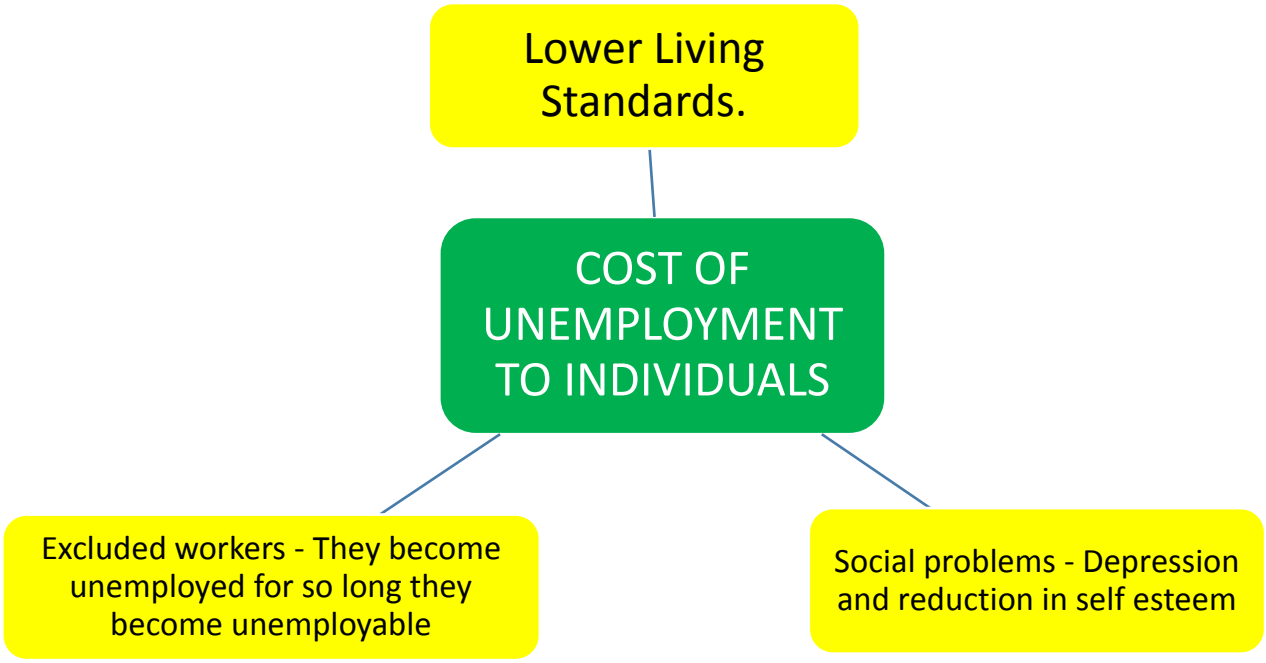
CAUSES OF UNEMPLOYMENT

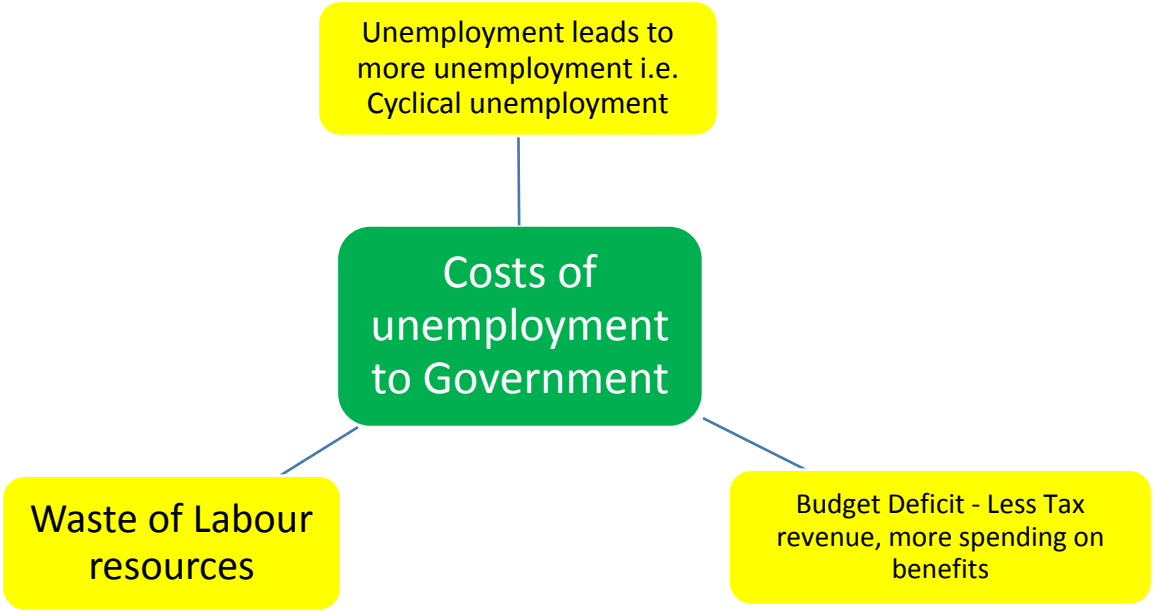
→ FRICTIONAL UNEMPLOYMENT: This is unemployment caused by the time people take to move between jobs, e.g. graduates or people changing jobs. There will always be some frictional unemployment in an economy because information isn't perfect and it takes time to find work.

→STRUCTURAL UNEMPLOYMENT: This occurs due to a mismatch of skills in the labour market it can be caused by a decline in an industry. The demand for products or some industries may permanently fall, so the industry contracts or closes entirely and leaves behind unemployed worked. This is a long term unemployment which can cause problems in the economy.

→CYCLICAL: Demand deficient unemployment occurs when the economy is below full capacity. For example, In a recession aggregate demand (AD) will fall leading to a decline in output and negative economic growth. With a fall in output, firms will employ fewer workers because they are producing fewer goods. Also, some firms will go out of business leading to large scale redundancies. In recessions, unemployment tends to rise rapidly as firms lay off workers.

→SEASONAL UNEMPLOYMENT : Seasonal unemployment exists because certain industries only produce or distribute their products at certain times of the year. Industries where seasonal unemployment is common include farming, tourism, and construction


Lower Living Standards.
COST OF UNEMPLOYMENT TO INDIVIDUALS
Excluded workers - They become unemployed for so long they become unemployable
Social problems - Depression and reduction in self esteem


Unemployment leads to more unemployment i.e. Cyclical unemployment
Costs of unemployment to Government
Waste of Labour resources
Budget Deficit - Less Tax revenue, more spending on benefits

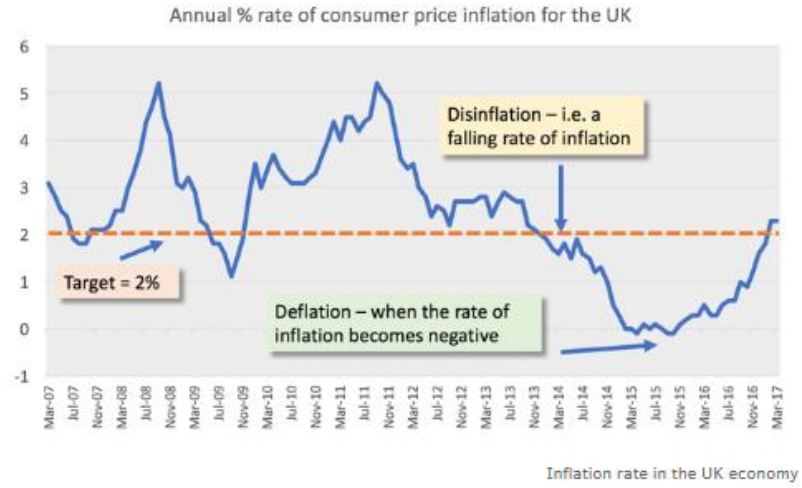
Is there any benefits to unemployment?

- If there is a lot of unemployment it keeps **wage rate down**. A disadvantage to workers but firms cost of production will reduce.
- Lower Wage Rate → Lower COP → **More competitive abroad**
- **Frictional Unemployment** → Not a concern. Economy needs workers moving between jobs to fill jobs in expanding industries.

2.4 Inflation

→RATE OF INFLATION: The percentage rise in the general price level of time

→PRICE STABILITY: When the general level of prices stays constant over time, or grows at an acceptable low rate



Inflation rate in the UK economy

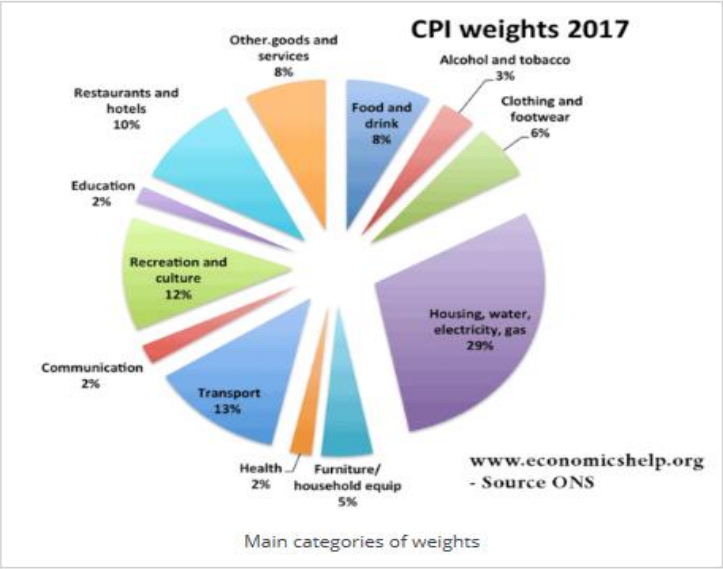
How is the rate of inflation measured?

→CONSUMER PRICE INDEX: Method used to calculate the rate of inflation

The aim is to measure how consumers' purchasing power is affected by rising prices. There are three main steps to measuring inflation

1. Give a weighting to the importance of different goods to the typical basket of goods for average family (650 items).
2. Measure the change in price
3. Convert into the index – multiplying the weight by the price change.

4. This basket of goods gives a relative importance to each different item. E.g. if gas and electricity prices increase by 10% this would have a higher weighting than an increase in the price of avocados



CAUSES OF INFLATION

➔ DEMAND-PULL INFLATION

- Demand pull inflation occurs when aggregate demand is growing at an unsustainable rate leading to **increased pressure on scarce resources** and a **positive output gap**
- When there is **excess demand**, producers can raise their prices and achieve bigger **profit margins**
- Demand-pull inflation becomes a threat when an economy has experienced a boom with GDP rising faster than Aggregate supply.
- Demand-pull inflation is likely when there is **full employment of resources** i.e. land, labour, capital and enterprise.

➔ COST PUSH INFLATION

Cost-push inflation occurs when firms respond to **rising costs** by increasing prices in order to **protect their profit margins**.

There are many reasons why costs might rise:

1. **Component costs:** e.g. an increase in the prices of raw materials and other components. This might be because of a rise in commodity prices such as oil, copper and agricultural products used in food processing.
2. **Rising labour costs** - caused by wage increases. Wage costs often rise when unemployment is low because skilled workers become scarce and this can drive pay levels higher.

Real Vs Nominal Value

- ➔ REAL VALUE: Takes into account inflation
- ➔ NOMINAL VALUE: Is the value of something in money terms

Example: If I earn 2% interest on my savings, however inflation is 5%, then the rate of interest is -3%. Therefore **real** value of my savings reduces. Remember, the nominal value of my savings remains the same.

- You will not be assessed on the effects of inflation in your Year 10 exam

Year 10 Glossary for Exams

Factors of Production	The resources in an economy that can be used to make goods and services e.g. land, labour capital and enterprise. (CELL)
Labour	Labour is the **human input** into production e.g. the supply of workers available and their productivity
Land	Land includes all **natural physical resources** – e.g. fertile farm land
Capital	**Capital goods** are used to produce other consumer goods and services in the future
Enterprise	Regarded by some as a specialised form of labour input – Combines the other 3 factors of production
Scarce Resources	When there is an insufficient amount of something to satisfy all wants
Unlimited wants	The infinite desire for something
Economic Problem	How to best use limited resources to satisfy unlimited wants.
Opportunity Cost	The next best alternative foregone when making an economic decisions.
Economic Sustainability	The best use of resources in order to create responsible development or growth, now and into the future.
Social Sustainability	The impact of development or growth that promotes an improvement in quality of life, now and into the future.
Renewable resources	These resources can be replaced as long as they are not overused, for example forests.
Non Renewable Resources	These resources cannot be replaced once they are used, for example forests.
Market	A way of bringing together buyers and sellers to buy and sell goods and services
Primary Sector	The direct use of natural resources, such as the extraction of basic materials and goods from land and sea.
Secondary	All activities in an economy that are concerned with either manufacturing or construction
Tertiary	All activities in an economy that involved the idea of a service.
Specialisation	The process by which individuals, firms and regions and whole economies concentrate on producing those products that they are best at producing.
Demand	The willingness and ability to purchase a good or service at the given price in a given time period.
Subsidy	An Amount of money the government gives directly to firms to encourage production or consumption
PED	It shows the responsiveness of quantity demanded to a change in price of a product.
Inelastic Demand	When the % change in quantity demanded is LESS than the % change in price
Elastic Demand	When the % change in quantity demanded is GREATER than the % change in price

Supply	The ability and willingness of firms to provide goods and services at each price in a given time period
PES	The responsiveness of quantity supplied to a change in price of a product.
Elastic Supply	When the % change in quantity supplied is greater than the % change in price
Inelastic Supply	When the % change in quantity supplied is less than the % change in price
Price	The sum of money you have to pay for a good or service. It is determined by the interaction of supply and demand.
Equilibrium Price	Where quantity supplied exactly matches quantity demanded.
Allocation of resources	How scarce resources are distributed among producers and how scarce goods and services are allocated among consumers
Market Forces	Factors that determine price levels and the availability of goods and services in an economy without government intervention
Competition	Where different firms are trying to sell a similar product to a consumer
Market Economy	***An economic system where economic*** decisions and the pricing of goods and services are guided solely by the aggregate interactions of a country's individual citizens and businesses.
Monopoly	A sole producer or seller of a good or service
Oligopoly	Where a small number of firms control the large majority of market share
Production	The total output of goods and services produced by a firm or an industry in a period of time
Productivity	Total Output/No of input (example no of worker/capital)
Total Cost	Total Variable Cost + Total Fixed Cost
Average Cost	Total Costs/No of units
Total Revenue	The total income from a firm from the sale of its goods/service. (Price X Quantity)
Average Revenue	Total Revenue/No of units
Profit	The amount of a money producer has left after all the costs have been paid i.e. Total revenue > Total Costs
Loss	
Economies of scale	As a firm grows in size, the average cost per unit falls.
Diseconomies of scale	The cost disadvantages that firms accrue due to increase in firm size, resulting in production of goods and services at increased average cost per unit
Labour Market	Where workers sell their labour and employers buy the labour.
Supply of Labour	The total number of people who are willing and able to supply their labour.
Gross Pay	The amount of money that an employee earns before deductions are made

Net Pay	The amount of money that an employee is left with after deductions are made from gross income
Income Tax	A tax levied directly on personal income
National Insurance	A contribution paid by workers and their employers towards the cost of state benefits
Economic Growth	Growth in GDP (value of ouput) over time
GDP	The total value added of goods and services produced in the country in a year.
GDP per capita	GDP/population
Boom	A period of high economic activity and high levels of employment
Recession	A period when the country's GDP fall for two or more consecutive quarters
Employment	The use of labour in the economy to produce goods and services.
Claimant Count	The method of measure unemployment according to the number of people who are claiming unemployment related benefits
Unemployment	Occurs when works are willing and able to work at current wage rates but unable to find employment
Cyclical	Unemployment caused by a lack of demand in the economy
Frictional	Unemployment caused by time lags when workers move between jobs
Structural	Unemployment caused by a permanent decline of an industry or industries
Seasonal	Unemployment caused by a fall in demand during a particular season
Inflation	A sustained rise in the general price level
Rate of Inflation	The percentage rise in the general price level of time
Price Stability	When the general level of prices stays constant over time, or grows at an acceptable low rate
Consumer Price Index	Method used to calculate the rate of inflation.
Real Value	Takes into account inflation
Nominal Value	Is the value of something in money terms