# Theme 1 – Checklist

Note: the numbers in the 'slides' column correlate with the numbers at the start of each worksheet, slides, notes etc.

| Slides | Topic | Learning Objectives | Specification section & additional guidance | Revised? |
|---|---|---|---|---|
| 1 & 2 | **Economic Problem and opportunity cost** | Infinite wants and limited resources lead to a choice being made. Give examples, individual, firms and government. Opportunity Costs. | **1.1.3 The economic problem**<br>a) The problem of scarcity – where there are unlimited wants and finite resources<br>b) The distinction between renewable and non-renewable resources<br>c) The importance of opportunity costs to economic agents (consumers, producers and government)<br><br>**Students need to understand that opportunity cost arises because resources are limited but wants are infinite.**<br><br>Highlight that approaching decisions using the concept of opportunity cost helps decision makers assess options. They should pick the option that has the lowest opportunity cost<br><br>Importance of opportunity costs to economic agents: consumers, producers and government.<br>Introduction to factors of production (land, labour capital) and co-ordination of them (enterprise).<br>Economic problem: Infinite wants and finite (scarce) resources. | |
| 3 | **Distinguish between renewable and non-renewable resources.** | Students should be able to understand the meaning of sustainable resources | **1.1.3 The economic problem**<br>b) The distinction between renewable and non-renewable resources<br><br>Students should understand the meaning of sustainable resources.<br>You don't need to know too much about this – just links to the economic problem | |
| 4 | **Positive & Normative statements** | Distinguish between objective statements and value judgements on economic issues | **1.1.2 Positive and normative economic statements**<br>a) Distinction between positive and normative economic statements<br>b) The role of value judgements in influencing economic decision making and policy<br><br>*Students should know that value judgements influence economic decision making and policy*<br><br>Note: you will not gain marks for say 'opinion', you need to say 'value judgement'. | |

| Slides | Topic | Learning Objectives | Specification section & additional guidance | Revised? |
|---|---|---|---|---|
| 5 | **Economics as a social science** | Understand what is meant by a 'social science' and therefore why Economics exists. | **1.1.1 Economics as a social science**<br>a) Thinking like an economist: the process of developing models in economics, including the need to make assumptions<br>b) The use of the ceteris paribus assumption in building models<br>c) The inability in economics to make scientific experiments<br><br>Introduce a topical issue, e.g. 'Free school meals for children at infant school will reduce the cost burden in the future for the NHS'. Students could then brainstorm the assumptions which might underlie this economics argument. Further discussion can then take place on the importance of ceteris paribus and therefore what other factors might influence the future cost for the NHS. | |
| 6 | **Production Possibility Frontier** | Use PPF to illustrate opportunity cost, economic growth and the efficient allocation of resources<br>Distinguish between movements along and shifts in the curve.<br><br>The distinction between capital and consumer goods<br><br>The distinction between movements along and shifts in production possibility curves, considering the possible causes for such changes | **1.1.4 Production possibility frontiers**<br>a) The use of production possibility frontiers to depict:<br>• opportunity cost (through marginal analysis)<br>• economic growth or decline<br>• efficient or inefficient allocation of resources<br>possible and unobtainable production<br>b) The distinction between movements along and shifts in production possibility curves, considering the possible causes for such changes<br>c) The distinction between capital and consumer goods<br><br>Students need to understand that the marginal cost (marginal means 'one more' so the cost of one more) of a good is the opportunity cost of producing one more unit of it. *A basic definition of economic growth is required along with knowledge of the factors which might cause the production possibility frontier to shift outwards or inwards.*<br><br>*A/A* grade students may want to be aware as to why the PPF is curved and not straight (as it becomes more and more difficult to move resources from one production to another).*<br><br>Students need to understand that the PPF represents the production possibilities for a particular time period only, e.g. a year. The economy will have built up a stock of capital goods before, which can then be used, with other resources, to produce more capital goods and/or consumer goods. Some students might appreciate that a certain production of capital goods is needed to just balance the ones which get broken! | |

| Slides | Topic | Learning Objectives | Specification section & additional guidance | Revised? |
|---|---|---|---|---|
| 7 | **Money, trade and specialisation** | Benefits and disadvantages of specialisation and the division of labour.<br>Consider the risks of Specialisation.<br>Outline the functions of money. | **1.1.5 Specialisation and the division of labour**<br>a) Specialisation and the division of labour: reference to Adam Smith<br>b) The advantages and disadvantages of specialisation and the division of labour in organising production<br>c) The advantages and disadvantages of specialising in the production of goods and services to trade<br>d) The functions of money (as a medium of exchange, a measure of value, a store of value, a method of deferred payment)<br><br>*AS/Year 12 students are **not (until Year 13)** expected to have an understanding of international specialisation and comparative advantage.* | |
| 8 | Law of Demand | **1.2.2 Demand**<br>a) The distinction between movements along a demand curve and shifts of a demand curve<br>b) The factors that may cause a shift in the demand curve (the conditions of demand)<br>c) The concept of diminishing marginal utility and how this influences the shape of the demand curve<br><br>**1.2.1 Rational Decision Making**<br>a) The underlying assumptions of rational economic decision making:<br>o consumers aim to maximise utility | Ensure that the concept of **diminishing marginal utility** is understood. This is the main reason for the shape of the demand curve.<br>The substitution effect and income effect are also important to understand the inverse relationship between price and quantity demanded.<br><br>Students can find this topic challenging to begin with. It is important to stress that a demand curve shows how much of a good would be demanded over a given time period for a full range of possible prices, assuming anything else affecting demand is fixed – precise use of terminology can then be reinforced once basics are grasped.<br><br>Make sure students begin to use terminology precisely, i.e. if economists say there has been an increase in demand, they mean the demand curve has shifted to the right. (This is slightly different from saying there is an increase in quantity demanded or that there is an extension/contraction in demand… as this indicates a movement **along** the demand curve, which can be caused by an increase in supply – they will discover this the following week).<br><br>**Consumers seek to maximise their utility.**<br><br>The conditions of demand, which would cause a shift in the curve, are as follows:<br>• Changes in income<br>• Changes in fashion/trends<br>• Changes in the price of substitutes and complements<br><br>Movements along the demand curve are caused by a change in the price. | |

| Slides | Topic | Learning Objectives | Specification section & additional guidance | Revised? |
|---|---|---|---|---|
| 9 | Law of Supply | **1.2.4 Supply**<br>a) The distinction between movements along a supply curve and shifts of a supply curve<br>b) The factors that may cause a shift in the supply curve (the conditions of supply)<br><br>**1.2.1 Rational Decision Making**<br>a) The underlying assumptions of rational economic decision making:<br>o firms aim to maximise profits | Supply is upward sloping as firms are **profit maximisers** and so firms will increase the quantity supplied as the price rises and vice versa.<br>The **conditions of supply** are factors that cause supply to shift left (decrease) and right (increase):<br>• Changes in costs of production<br>• Changes in technology<br>• Taxation and subsidies<br>• Price of other goods<br>• Expectations of future prices<br>*Note that taxation and subsidies are not focused upon in this lesson. Students just need to be aware that they do increase/decrease supply, but are explored later in Theme 1.*<br><br>Make sure that terminology is accurate and do not confuse an 'increase/decrease in supply' (shift) with an increase in supply along the curve (extension/contraction). | |
| 10 | Price Determination | **1.2.6 Price determination**<br>a) Equilibrium price and quantity and how they are determined<br>b) The use of supply and demand diagrams to depict excess supply and excess demand<br>c) The operation of market forces to eliminate excess demand and excess supply<br>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<br><br><br>**1.2.6 Price determination** | *Students need to understand the link between changes in supply and demand factors and impact on equilibrium price. Equilibrium price and moving to a new equilibrium. Need to be able to show changes on a supply and demand diagram.*<br><br>Terminology is really important, as it is easy to confuse an increase (shift) with an extension (movement along) and a decrease (shift) with a contraction (movement along).<br><br>Students need to be able to draw excess demand (shortage) and excess supply (surplus).<br><br>The upcoming topic (price mechanism) will explain the specific determination of price and how this clears the market, so the functions of the price mechanism do not need to be explored in this section.<br>In addition, "how much demand or supply curve shifts" is dealt with in a later Theme 1 topic when elasticity of demand and elasticity of supply is taught.<br>The "real-world situations" is incorporated throughout the course, using articles and specific examples to apply the content – this is not just covered in this topic by embedded throughout.<br><br>It is essential that students always label the axes and curves on diagrams. This can be remembered using 'ACE'. | |

| Slides | Topic | Learning Objectives | Specification section & additional guidance | Revised? |
|---|---|---|---|---|
| | | Return to this topic (started in week 5).<br>Highlight how equilibrium price and quantity changes will depend upon both:<br>• how much a demand or supply curve shifts in a given situation<br>the PED or PES on the curve in which there is a movement<br>**THIS SECTION ADDRESSED during PED, PES lessons.** | Axes<br>Curves<br>Equilibrium | |
| 11 | Price mechanism. | **1.2.7 Price mechanism**<br>a) Functions of the price mechanism to allocate resources:<br>• rationing<br>• incentive<br>• signalling<br>b) The price mechanism in the context of different types of markets, including local, national and global markets | The price mechanism attaches specific terminology to the previous price determination concepts discussed.<br>The ideas of **contraction, extension** and **shifts** follow the same ideas already taught… but simply attaches the three functions of rationing, incentive and signalling.<br>Students need to be able to identify these on a diagram and understand the importance of price in ensuring that there are is no excess demand and supply.<br><br>The aspect of the specification 'local, national and global markets' is integrated throughout the demand, supply, price determination and price mechanism lessons. Future lessons will also apply the theory to essay questions and make use of real-life ARTICLE activities. | |
| 12 | Behavioural Economics | **1.2.10 Alternative views of consumer behaviour**<br>a) The reasons why consumers may not behave rationally:<br>• consideration of the influence of other people's behaviour<br>• the importance of habitual behaviour | Usually we assume that consumers seek to maximise utility and that firms seek to maximise profit – but this topic questions those assumptions and considers other behaviour factors. Ties in with future Theme 1 lesson on Economics as a social science.<br><br>Links to Richard Thaler who was awarded the 2017 Nobel Prize Winner for Economics for his work on Behaviourial Economics.<br><br>Nudge Theory is not in the specification and should not be focused on too much, but can be linked to a manipulation of the three reasons for why consumers may not act rationally in the specification: **influence of other people (herding behaviour), habitual behaviour** and **computational weakness.** | |

| Slides | Topic | Learning Objectives | Specification section & additional guidance | Revised? |
|---|---|---|---|---|
| | | • consumer weakness at computation<br>**1.2.1 Rational Decision Making**<br>a) The underlying ssumptions of rational economic decision making:<br>o consumers aim to maximise utility<br>o firms aim to maximise profits | | |
| 13 | Consumer surplus.<br>Producer surplus. | **1.2.8 Consumer and producer surplus**<br>a) The distinction between consumer and producer surplus<br>b) The use of supply and demand diagrams to illustrate<br>consumer and producer surplus<br>c) How changes in supply and demand might affect consumer and producer surplus | **Consumer surplus** is the difference between the willingness of consumers to pay (shown by the demand curve) and what they actually have to pay (market price).<br>**Producer surplus** is the difference between the willingness of firms to supply a good (shown by the supply curve) and what they actually receive (market price).<br><br>Students need to be able to shade the consumer and producer surplus areas on a demand and supply diagram.<br>Students need to be able to shade the reduction/increase in consumer/producer surplus when there is a change in price or a shift in demand or supply. | |
| 14 | Price Mechanism in Context | **1.2.7 Price mechanism**<br>b) The price mechanism in the context of different types of markets, including local, national and global markets | Application of the price mechanism occurs throughout Theme 1, not just during these activities, with articles integrated to apply the price mechanism theory.<br><br>At this point, it is a good opportunity to teach some exam technique – details of how to answer 5, 10 and 12 mark questions are in the PowerPoint.<br><br>Data response question on coffee and explore other markets: **local market** – ivory, butter, **national market** – housing, petrol and **global market** – uranium and negative oil prices. These exams are integrated throughout the lessons on demand, supply and price determination. | |

| Slides | Topic | Learning Objectives | Specification section & additional guidance | Revised? |
|---|---|---|---|---|
| 15 & 16 | **PED** | Explain price elasticity of demand.<br><br>Understand factors that influence elasticities of demand and their significance to firms and government.<br><br>Calculations are needed for this topic.<br><br>Learn the formula and the meaning of results. | **1.2.3 Price, income and cross elasticities of demand**<br>a) Understanding of price, income and cross elasticities of demand<br>b) Use formulae to calculate price, income and cross elasticities of demand<br>c) Interpret numerical values of:<br>• price elasticity of demand: unitary elastic, perfectly and relatively elastic, and perfectly and relatively inelastic<br>• income elasticity of demand: inferior, normal and luxury goods; relatively elastic and relatively inelastic<br>• cross elasticity of demand: substitutes, complementary and unrelated goods<br>d) The factors influencing elasticities of demand<br>e) The significance of elasticities of demand to firms and government in terms of:<br>• changes in real income<br>• changes in the prices of substitute and complementary goods<br><br>NOTE: The specification section above includes PED, YED and XED.<br><br>*Students may have to calculate and interpret numerical values of price, income and cross elasticity of demand.* Calculations are needed for this topic.<br><br>Factors that affect elasticities of demand and importance to firms and governments<br><br>Analysis marks are gained by interpreting the answer to your calculation. Remember for PED, if it is less than 1 = inelastic. More than 1 = elastic. You IGNORE the +/- sign, therefore -0.4 would be inelastic.<br><br>Price elasticity of demand: unitary elastic, perfectly and relatively elastic, and perfectly and relatively inelastic<br><br>Avoid students making statements such as ‘in this case consumers react a lot to a price change’.<br>- This comes across as a little amateurish. It is the *proportions* of changes between price and quantity that we should focus on. | |
| 17 | **YED** | Explain income elasticity of demand.<br><br>Learn the formula and the meaning of results. | *Students may have to calculate and interpret numerical values of price, income and cross elasticity of demand.*<br><br>Income elasticity of demand: inferior, normal and luxury goods; relatively elastic and relatively inelastic | |

| Slides | Topic | Learning Objectives | Specification section & additional guidance | Revised? |
|---|---|---|---|---|
| 18 | **XED.** | Explain cross elasticity of demand.<br><br>Learn the formula and the meaning of results. | *Students may have to calculate and interpret numerical values of price, income and cross elasticity of demand.*<br><br>Cross elasticity of demand: substitutes (positive coefficient), complementary (negative coefficient) and independent goods | |
| 19 | **Uses of elasticity and factors of PED** | Understand factors that influence elasticities of demand and their significance to firms and government.<br><br>Link between revenue and PED | **1.2.3 Price, income and cross elasticities of demand**<br>e) The significance of elasticities of demand to firms and government in terms of:<br>• changes in real income<br>• changes in the prices of substitute and complementary goods<br>f) The relationship between price elasticity of demand and total revenue (including calculation)<br><br>Students should be able to understand the diagram that links total revenue (TR) with price changes along a demand curve (in slides). This diagram is revisited in more detail during Year 13. | |
| 20 & 21 | **Price elasticity of Supply** | Explain price elasticity of supply; understand factors that influence price elasticity of supply.<br><br>Distinguish between the short run and long run in economics and understand its significance to price elasticity of supply. | **1.2.5 Elasticity of supply**<br>a) Understanding of price elasticity of supply<br>b) Use formula to calculate price elasticity of supply<br>c) Interpret numerical values of price elasticity of supply: perfectly and relatively elastic, and perfectly and relatively inelastic<br>d) Factors that influence price elasticity of supply<br>e) The distinction between short run and long run in economics and its significance for elasticity of supply<br><br>Understand factors that affect PES, including being able to distinguish between short and long run and understand link to PES.<br>You must also be able to draw inelastic/elastic supply curve.<br><br>PES is the responsiveness of supply to a given change in price – how quickly can firms increase/decrease supply when the price changes. | |

| Slides | Topic | Learning Objectives | Specification section & additional guidance | Revised? |
|---|---|---|---|---|
| 22 & 23 | **Indirect taxes and subsidies** | Use supply and demand to demonstrate the impact and incidence (burden) of tax and subsidies on consumers, producers and the government. | **1.2.9 Indirect taxes and subsidies**<br>a) Supply and demand analysis, elasticities, and:<br>• the impact of indirect taxes on consumers, producers and government<br>• the incidence of indirect taxes on consumers and producers<br>• the impact of subsidies on consumers, producers and government<br>• the area that represents the producer subsidy and consumer subsidy<br><br>**1.4.1 Government intervention in markets**<br>a) Purpose of intervention with reference to market failure and using diagrams in various contexts:<br>• indirect taxation (ad valorem and specific)<br>• subsidies<br><br>**1.2.3 Price, income and cross elasticities of demand**<br>e) The significance of elasticities of demand to firms and government in terms of:<br>• the imposition of indirect taxes and subsidies<br><br>Students should be aware of the importance of elasticities of demand and supply and the impact upon the incidence of tax.<br>Ad valorem and specific tax are different **types of indirect tax** – they each have a slightly different diagram.<br>The taxation diagram(s) are for indirect taxes only, you cannot use these for a direct tax – as the whole point of these diagrams is to show how much the **intermediary (producer)** and the consumer pays.<br><br>The impact of subsidies on consumers, producers and government<br><br>You need to be able **to calculate the amount of tax paid by the consumer, producer and the total revenue** received by the government. | |
| 24 | **Free market economies, mixed economy and command economy** | Understand the advantages and disadvantages of a free market economy and why there are mixed economies. | **1.1.6 Free market economies, mixed economy and command economy**<br>Revisit 1.2.7 here as functions of price mechanism leads nicely into advantages of free market economies.<br>a) The distinction between free market, mixed and command economies: reference to Adam Smith, Friedrich Hayek and Karl Marx<br>b) The advantages and disadvantages of a free market economy and a command economy<br>c) The role of the state in a mixed economy<br><br>The distinction between free market, mixed and command economies: reference to Adam Smith, Friedrich Hayek and Karl Marx<br><br>The advantages and disadvantages of a free market economy and a command economy<br><br>The role of the state in a mixed economy<br><br>Students should have an <u>awareness</u> of the perspective of Smith, Hayek and Marx. There is <u>no requirement for detailed consideration</u> of the work of each economist. | |

| Slides | Topic | Learning Objectives | Specification section & additional guidance | Revised? |
|---|---|---|---|---|
| 25 | **Public Goods & Information Gaps**<br><br>**Market Failure** | Define and understand different types of market failure<br><br>Explain why public goods may not be provided by the market.<br><br>Distinguish between public and private goods. | **1.3.3 Public goods**<br>a) Distinction between public and private goods using the concepts of non-rivalry and non-excludability<br>b) Why public goods may not be provided by the private sector: the free rider problem<br><br>***Public goods:*** *students should understand the non-excludability and non-rival characteristics.*<br>Discuss whether there is such a thing as a public good. Do this by giving students a selection of goods/services and get them to say whether they are private goods or public goods. Are they non-rivalrous or non-excludable or do they only contain elements of both<br>• a playground<br>• broadcasting<br>• a firework display<br>• police protection<br><br>**1.3.4 Information gaps**<br>a) The distinction between symmetric and asymmetric information<br>b) How imperfect market information may lead to a misallocation of resources<br><br>***Market failure:*** *students should understand that market failure is when the price mechanism causes an inefficient allocation of resources.*<br><br>Types of market failure in Year 12:<br>• externalities<br>• under-provision of public goods<br>• information gaps<br><br>*Exam technique crucial for this type of question: KAA would be why a particular market does demonstrate market failure. EV would be why it has been successful/not market failure.* | |
| 26 | **Externalities – Positive and Negative** | Illustrate external costs and benefits distinguishing between the market and socially optimum positions. The welfare loss or gain areas are required<br><br>Illustrate the different measures of government | **1.3.2 Externalities**<br>a) Distinction between private costs, external costs and social costs<br>b) Distinction between private benefits, external benefits and social benefits<br>c) Use of a diagram to illustrate:<br>• the external costs of production using marginal analysis<br>• the distinction between market equilibrium and social optimum position<br>• identification of welfare loss area<br>d) Use of a diagram to illustrate:<br>• the external benefits of consumption using marginal analysis<br>• the distinction between market equilibrium and social optimum position<br>• identification of welfare gain area<br>e) The impact on economic agents of externalities and government intervention in various markets. | |

| Slides | Topic | Learning Objectives | Specification section & additional guidance | Revised? |
|---|---|---|---|---|
| | | intervention onto diagrams to correct market failure. | IMPORTANT: There are in fact four externality diagrams, but you only need to know the two types mentioned in class – don't worry about the others:<br>Students are required only to illustrate the external costs from production (**negative externality of production MSC>MPC**) and external benefits from consumption (**positive externality of consumption MSB>MPB**)<br><br>*NHS, State education, How much should the government pay for university education*<br>*Subsidies for renewable energy, public transport, Boris's bikes*<br><br>*Note: the welfare loss still occurs in the positive externality diagrams, because the market quantity is still below Q* - so there is some benefit which isn't being fully exploited.* | |
| 27 | **Methods of government intervention**<br><br>Maximum and Minimum Prices (Price Controls) | **1.4.1 Government intervention in markets**<br>a) Purpose of intervention with reference to market failure and using diagrams in various contexts:<br>• maximum and minimum prices | Consider the market failure in the following example activities and the subsequent application of price controls:<br>• Minimum alcohol pricing in Scotland<br>• Venezuela shortages<br>• Government Cheese in US<br>• Rent Controls in the UK<br><br>Price floors (above equilibrium) and price ceilings (below equilibrium) – require diagrams to show each of these.<br>Students need to be able to demonstrate a shortage (maximum prices) and surplus (minimum prices) on diagrams. | |
| 28 | Regulation and provision of information | Understand the different measures of government intervention to correct market | **1.4.1 Government intervention in markets**<br>b) Other methods of government intervention:<br>• trade pollution permits<br>• state provision of public goods<br>• provision of information<br>• regulation<br><br>**1.3.4 Information gaps**<br>a) The distinction between symmetric and asymmetric information<br>b) How imperfect market information may lead to a misallocation of resources | |

| Slides | Topic | Learning Objectives | Specification section & additional guidance | Revised? |
| --- | --- | --- | --- | --- |
| | | | *Understand how imperfect market information may lead to a misallocation of resources e.g. health, education, pensions, tobacco and alcohol.*<br><br>Give students scenarios to discuss to feedback to class – who knows more and what will be the effect?<br>• a private dentist tells you that you need a filling<br>• a second-hand care salesman tells me the car is a good runner<br>• the seller of a pension scheme who says the future will be well provided for<br>• the cigarette manufacturer who does not inform potential consumers of the true health risk from smoking<br><br>Education could be used again in context of individuals misunderstanding the true benefits for themselves<br><br>Discuss relative advantages and disadvantages of a carbon tax compared with using pollution permits.<br><br>*A/A* grade students should be able to apply these interventions to externality diagrams.*<br>*Remember, treat* ***MPB like a demand curve*** *and* ***MPC like a supply curve –*** *governments are unable to move the MSB or the MSC curves, only the private curves.*<br><br>*Example: Subsidy and tax would shift MPC (supply) left/right.*<br>*Example: Information/advertising would shift MPB (demand) left/right.*<br>*These interventions will then aim to reduce the welfare loss.*<br><br>Stress that government intervention is to try and move the market equilibrium to the optimum level.<br><br>Students should know the benefits and drawbacks (Evaluation) for each type of government intervention – details of which are in MW notes for each intervention. | |
| 29 | **State Provision** | Explain what is meant by state provision and why it is necessary for the state to provide some goods/services like the NHS. | **1.4.1 Government intervention in markets**<br>b) Other methods of government intervention:<br>• trade pollution permits<br>• state provision of public goods<br>• provision of information<br>• regulation<br><br>Stress that government intervention is to try and move the market equilibrium to the optimum level. | |

| Slides | Topic | Learning Objectives | Specification section & additional guidance | Revised? |
|---|---|---|---|---|
| 30 | **Tradable Pollution Permits** | Explain how these systems work and evaluate their effectiveness. | **1.4.1 Government intervention in markets**<br>b) Other methods of government intervention:<br>• trade pollution permits<br>• state provision of public goods<br>• provision of information<br>• regulation<br>Discuss relative advantages and disadvantages of a carbon tax compared with using pollution permits.<br>Review news websites on themes such as 'Industry warns carbon tax could cause huge job losses' and research EU Emissions Trading Scheme. | |
| 31 | **Government failure** | To understand that government intervention may reduce economic efficiency.<br><br>Government failure is when the government intervenes within a market, but consequently causes a greater misallocation of resources and/or increased welfare loss. | **1.4.2 Government failure**<br>*a) Understand of government failure as intervention that results in a net welfare loss*<br>*b) Causes of government failure:*<br>• *Distortion of price signals*<br>• *Unintended consequences*<br>• *Excessive administration costs*<br>• *Information gaps*<br>c) Government failure in various markets<br>*Students should be aware of government failure in a few contexts to demonstrate the topic.*<br>*Exam technique crucial for this type of question: KAA would be why a particular market that the government has intervened in does demonstrate government failure. EV would be why it has been successful/not market failure – or critiquing any of KAA points.*<br>*Government failure is not simply when they try to intervene "they make things worse".* | |

# Theme 3 – Revision Checklist

| Slides | Topic | Learning Objectives | Specification section and additional guidance | Covered? |
|---|---|---|---|---|
| 01 | **Objectives and Firm birth (end of Year 12)** | Discuss how and why firms grow.<br><br>Objectives may include: Profit maximisation, revenue maximisation and sales maximisation or profit satisficing.<br><br>Profit maximisation is where MC=MR and is revisited later in Theme 3.<br><br>**Individual industry examples are essential for 25-mark own application questions.** | **3.1.1 Sizes and types of firms**<br>a) Reasons why some firms tend to remain small and why others grow<br>b) Significance of the divorce of ownership from control: the principal-agent problem<br>c) Distinction between public and private sector organisations<br>d) Distinction between profit and not-for-profit organisations<br><br>**3.2.1 Business objectives**<br>a) Different business objectives and reasons for them:<br>• profit maximisation<br>• revenue maximisation<br>• sales maximisation<br>• satisficing<br>b) Diagrams and formulae to illustrate the different business objectives:<br>• profit maximisation<br>• revenue maximisation<br>• sales maximisation | |
| 02 | **Growth of firms (end of Year 12)** | Identify that firms may have different objectives<br><br>Explain the significance of the **principal-agent problem**, when owners and managers have differing objectives and so complications arise as businesses grow. | **3.1.2 Business growth**<br>a) How businesses grow:<br>• organic growth<br>• forward and backward vertical integration<br>• horizontal integration<br>• conglomerate integration<br>c) Constraints on business growth:<br>• size of the market<br>• access to finance<br>• owner objectives<br>• regulation<br>How initially low barriers to entry allow for new growth, then gradually some markets become establish and barriers are then established – making entry for new firms difficult. | |

| Slides | Topic | Learning Objectives | Specification section and additional guidance | Covered? |
|---|---|---|---|---|
| 03 | **Mergers and Acquisitions (end of Year 12)** | Different types of mergers and acquisitions and the advantages/disadvantages<br><br>Apply to real-life examples of mergers.<br><br>**Individual merger examples are essential for 25-mark own application questions.** | **3.1.2 Business growth**<br>b) Advantages and disadvantages of:<br>• organic growth<br>• vertical integration<br>• horizontal integration<br>• conglomerate integration<br>c) Constraints on business growth:<br>• size of the market<br>• access to finance<br>• owner objectives<br>• regulation<br><br>Students should be able to distinguish between horizontal, vertical and conglomerate integration, and know the reasons for such mergers/takeovers. | |
| 04 | **Demergers and small companies (end of Year 12)** | Benefits of being a small firm over a big firm.<br><br>Why some firms choose to remain small.<br><br>**Individual demerger examples are essential for 25-mark own application questions.** | **3.1.3 Demergers**<br>a) Reasons for demergers<br>b) Impact of demergers on businesses, workers and consumers<br><br>**3.1.1 Sizes and types of firms**<br>a) Reasons why some firms tend to remain small and why others grow<br><br>Students should also understand the reasons for demergers.<br>Explain constraints on business growth (size of the market, access to finance, owner's objectives etc.) and also why some businesses choose (or forced) to be small.<br>Understand the impact upon: **businesses, workers** and **consumers.** | |
| 05 | **Economies of scale** | Internal and external types.<br><br>Show on AC Diagram.<br><br>What causes diseconomies of scale. | **3.3.3 Economies and diseconomies of scale**<br>a) Types of economies and diseconomies of scale<br>b) Minimum efficient scale<br>c) Distinction between internal and external economies of scale<br><br>Students must be able to distinguish and give examples of internal and external economies of scale and diseconomies of scale.<br>Define economics of scale and explain different **types** of economies of scale. Remember, | |

| Slides | Topic | Learning Objectives | Specification section and additional guidance | Covered? |
|---|---|---|---|---|
| | | | different types of EoS count as separate points in an answer. | |
| 06 | **Types of efficiency** | Describe and identify on a diagram: **allocative, productive, dynamic efficiency.** As well as **x-inefficiency.**<br><br>Allocative efficiency is essential the **ability of firms to know their customer's wants** – in terms of price, quantity and quality/type of good. | **3.4.1 Efficiency**<br>a) Allocative efficiency<br>b) Productive efficiency<br>c) Dynamic efficiency<br>d) X-inefficiency<br>e) Efficiency/inefficiency in different market structures<br><br>Really important topic – as efficiency can be used throughout themes 1-4.<br>**Important:** you need to be able to relate them to all of the market structures, as this is a common question. For example, look at monopolistic competition in the short-run and identify whether it is productively and allocative efficiency. Is there are argument for x-inefficiency and dynamic efficiency? | |
| 07 | **Costs** | Calculate, understand and draw:<br>total cost, total fixed cost, total variable cost, average cost (AC), average fixed cost, average variable cost (AVC) and understand the relationship between them.<br><br>Make sure students grasp the relationship between the | **3.3.2 Costs**<br>a) Formulae to calculate and understand the relationship between:<br>• total cost<br>• total fixed cost<br>• total variable cost<br>• average (total) cost<br>• average fixed cost<br>• average variable cost<br>• marginal cost<br>b) Derivation of short-run cost curves from the assumption of diminishing marginal productivity<br>c) Relationship between short-run and long-run average cost curves (MES)<br><br>MC intersects AC at the lowest point. | |

| Slides | Topic | Learning Objectives | Specification section and additional guidance | Covered? |
|---|---|---|---|---|
| | | law of diminishing returns and MC. | Students need to be able to calculate these values during Section A – the use of table activities are excellent to practise this skill. | |
| 08 | **Revenue** | The relationship between total revenue, PED and marginal revenue relates to theme 1 work with MW (13. Uses of PED). | **3.3.1 Revenue**<br>a) Formulae to calculate and understand the relationship between:<br>• total revenue<br>• average revenue<br>• marginal revenue<br>b) Price elasticity of demand and its relationship to revenue concepts (calculation required) | |
| 09 | **Profit maximisation** and **Supernormal Profit** | Students will be able to identify MC=MR as the profit maximisation point.<br><br>MC=MR sets the **default quantity** for all market structure diagrams.<br><br>Normal profit is **not break-even**, as it includes the profit required to make continuing operating in the market worthwhile. | **3.2.1 Business objectives**<br>a) Different business objectives and reasons for them:<br>• profit maximisation<br>• revenue maximisation<br>• sales maximisation<br>• satisficing<br>b) Diagrams and formulae to illustrate the different business objectives:<br>• profit maximisation<br>• revenue maximisation<br>• sales maximisation<br><br>**3.3.4 Normal profits, supernormal profits and losses**<br>a) Condition for profit maximisation<br>b) Normal profit, supernormal profit and losses | |
| 10 | **Perfect Competition** | Understand the assumptions.<br><br>Explain each of efficiencies in terms of this market structure.<br><br>Explain why the demand | **3.4.2 Perfect competition**<br>a) Characteristics of perfect competition<br>b) Profit maximising equilibrium in the short run and long run<br>c) Diagrammatic analysis<br><br>Diagrammatic analysis of the market structure is required in **both the short and long run**. You must know which curves move in the long-run run <u>and why</u>.<br><br>**3.3.4 Normal profits, supernormal profits and losses** | |

| Slides | Topic | Learning Objectives | Specification section and additional guidance | Covered? |
|---|---|---|---|---|
| | | curve is perfectly elastic for a price taker. | c) Short-run and long-run shut-down points: diagrammatic analysis<br><br>An understanding of the **meaning of shut-down point is required** and illustrated on a diagram in terms of AVC and AC. This is dealt with at the end of the slides. Shut down-point could be assessed in terms of <u>any market structure.</u> | |
| 11 | **Monopoly** | Outline the assumptions of a firm in a monopoly.<br><br>**Individual monopoly examples are essential for 25-mark own application questions.**<br><br>Explain each of efficiencies in terms of this market structure. | **3.4.5 Monopoly**<br>a) Characteristics of monopoly<br>b) Profit maximising equilibrium<br>c) Diagrammatic analysis<br>e) Costs and benefits of monopoly to firms, consumers, employees and suppliers<br>f) Natural monopoly<br><br>Diagrammatic analysis of the market structure is required.<br>Explain and evaluate the differences in efficiency between perfect competition and monopoly.<br>Explain and evaluate the **potential costs** and **benefits of monopoly** to both firms and consumers. Are monopolies always bad?<br>Explain **natural monopolies** and illustrate diagrammatically. | |
| 12 | **Barriers to Entry** | Types of barriers to entry and exit and how they affect the behaviour of firms. | **Barriers to entry are very important and useful for many topics – it is referenced throughout the specification.**<br><br>Barriers to entry can be dynamic and markets can become more contestable/accessible over time, due to reasons such as technological change and scandals. | |
| 13 | **Price Discrimination** | The necessary conditions for price discrimination to take place.<br><br>Accurate definition (different prices for **exactly** the same product, not related to costs). | **3.4.5 Monopoly**<br>d) Third degree price discrimination:<br>• necessary conditions<br>• diagrammatic analysis<br>• costs and benefits to consumers and producers<br><br>Diagram should also be used to support the understanding of price discrimination (the one with **three demand curves**).<br>Type exam question asks *'to what extent is [pricing strategies of two products] an example of price discrimination'* and KAA would look at how the product's strategy fits with the | |

| Slides | Topic | Learning Objectives | Specification section and additional guidance | Covered? |
|---|---|---|---|---|
| | | | theory (e.g. the products are exactly same) and EV in terms of what ways the pricing strategy is not discrimination (e.g. arguably they are different products). | |
| 14 | **Monopolistic competition** | Outline the assumptions of a firm in monopolistic competition.<br><br>**Individual monopolistic examples are essential for 25-mark own application questions.**<br><br>Monopoly and monopolistic are completely different. | **3.4.3 Monopolistic competition**<br>a) Characteristics of monopolistically competitive markets<br>b) Profit maximising equilibrium in the short run and long run<br>c) Diagrammatic analysis<br><br>Students should be able to carry out diagrammatic analysis of the market structure in both the short and long run.<br>Students should be able to explain and evaluate the efficiency of monopolistic competition.<br><br>Get students to explain why the demand curve will be fairly elastic.<br><br>Monopolistic tends to rely heavily upon marketing (such as advertising and flyers) therefore only creating artificial differences and not actually improving the product – this is a waste of scarce resources. | |
| 15 | **Concentration Ratio** | Understand market concentration ratios and be able to interpret the meaning and significance for business behaviour.<br><br>Link concentration ratios to market structures. | b) Calculation of n-firm concentration ratios and their significance<br><br>Topic similar to barriers to entry – this topic underpins may others.<br>There is no definitive definition of an oligopoly, in terms of concentration ratio percentage.<br><br>Calculate concentration ratios from market data – remember that in a pie chat 'other' should not be calculated as one of the top firms. As 'other' consists of many different firms. | |
| 16 | **Oligopoly - Introduction** | A market with a few, dominant firms.<br><br>Outline the assumptions of a firm in oligopolistic competition. | **3.4.4 Oligopoly**<br>a) Characteristics of oligopoly<br>• high barriers to entry and exit<br>• high concentration ratio<br>• interdependence of firms<br>• product differentiation<br><br>Interdependence is the most important assumption for an oligopoly – decision based around the decisions of other firms. This later ties in with the kinked demand curve and game theory. | |

| Slides | Topic | Learning Objectives | Specification section and additional guidance | Covered? |
|---|---|---|---|---|
| 17 | **Oligopoly – Game Theory and Collusion** | Be able to draw a 'pay off matrix' diagram with Nash Equilibrium and collusion.<br><br>Link collusion to game theory.<br><br>Conditions for which make cartels more likely/successful in a market. Notes on this.<br><br>**Oligopoly and cartel examples are essential for 25-mark own application questions.** | **3.4.4 Oligopoly**<br>b) Calculation of n-firm concentration ratios and their significance<br>c) Reasons for collusive and non-collusive behaviour<br>d) Overt and tacit collusion; cartels and price leadership<br>e) Simple game theory: the prisoner's dilemma in a simple two firm/two outcome model<br>f) Types of price competition:<br>• price wars<br>• predatory pricing<br>• limit pricing<br>g) Types of non-price competition<br><br>Game theory - show a pricing behaviour game (high price, low price). This pay-off matrix should demonstrate attractiveness of collusion but also why these agreements often break down – the incentive to cheat. Pay-off matrix could also be adapted to show non-price strategies (yes/no advertising).<br><br>Draw and explain the kinked demand curve – though not explicitly mentioned in the specification, it is A/A* material and will receive high marks. | |
| 18 | **CMA and collusion examples** | Explain what the CMA considers when investigating – not anti-monopoly, assessed on a case-by-case basis. | **3.6.1 Government intervention**<br>a) Government intervention to control mergers<br>Students should be able to explain the role of the CMA, as well as **application of exploring real-life examples** where the CMA has intervened.<br>Detailed knowledge of the investigative procedure is not required, an awareness of the process, punishments and reasons for such investigations is required. | |
| 19 | **Monopsony** | Analyse the impacts for consumers, firms, employees and suppliers.<br><br>**Monopsony example essential for 25-mark own application questions.** | **3.4.6 Monopsony**<br>a) Characteristics and conditions for a monopsony to operate<br>b) Costs and benefits of a monopsony to firms, consumers, employees and suppliers<br><br>**Impact on employees can be applied to the NHS – Junior Doctor's strikers or teacher's strikes.**<br>Monopsonists are likely to make supernormal profits in the long-run.<br>**You do not need to learn the monopsony diagram.**<br>Strong application from Morrisons and farmers video – placing pressure on farmers to lower | |

| Slides | Topic | Learning Objectives | Specification section and additional guidance | Covered? |
|---|---|---|---|---|
| | | | price and apply cosmetic standards. | |
| 20 | **Contestability** | Define contestability and understand how the threat of new entrants may affect the behaviour of incumbent firms.<br><br>**Contestability example essential for 25-mark own application questions – Metro Brank** | **3.4.7 Contestability**<br>a) Characteristics of contestable markets<br>b) Implications of contestable markets for the behaviour of firms<br>c) Types of barrier to entry and exit<br>d) Sunk costs and the degree of contestability<br><br>Students should be able to understand the relationship between sunk costs and the degree of contestability.<br>Knowledge of barriers to entry are very important for this topic.<br>Assess the level of contestability in real-life markets.<br>Important – firms adapt their behaviour in the face of actual and potential competition. Potential meaning that the mere threat of competition forces them to lower prices.<br><br>**Exam technique** – usually an evaluate question will require KAA (reasons why it is contestable/evidence to suggest) and EV (reasons why it isn't/evidence to suggest). | |
| 21 | **Market Regulation - Intervention** | Identify and explain each of the regulatory methods.<br><br>When a market is better off with a monopoly supplier **(natural monopoly)** the **best approach is to appoint a regulatory body** to monitor the firm – Ofcom, Ofgem, ORR etc. | **3.6.1 Government intervention**<br>a) Government intervention to control mergers<br>b) Government intervention to control monopolies:<br>• price regulation<br>• profit regulation<br>• quality standards<br>• performance targets<br><br>Evaluate the strengths and weaknesses of methods used by regulatory bodies e.g., price capping, profit regulation (2022 windfall tax), quality standards and performance targets Impact upon: **prices, profit, quality, efficiency** and **choice.**<br><br>**Don't overlook this topic, it's one that can catch students by surprise during the exam.** | |
| 22 | **Government Intervention** | The analysis of these ideas relates to previously discussed | **3.6.1 Government intervention**<br>c) Government intervention to promote competition and contestability:<br>• enhancing competition between firms through promotion of small business | |

| Slides | Topic | Learning Objectives | Specification section and additional guidance | Covered? |
|---|---|---|---|---|
| | **- to promote competition and contestability** | topics: **prices, profit, quality, efficiency** and **choice.**<br><br>When dealing with a question about government intervention (or indeed many other micro questions) use these **five factors as a starting point** in terms of what to base your points upon. Different types of efficiency can count as more than one point! | • deregulation<br>• competitive tendering for government contracts<br>• privatisation<br>d) Government intervention to protect suppliers and employees:<br>• restrictions on monopsony power of firms<br>• nationalisation<br>**3.6.2 The impact of government intervention**<br>a) The impact of government intervention on:<br>• prices<br>• profit<br>• efficiency<br>• quality<br>• choice<br><br>**3.6.2 The impact of government intervention**<br>b) Limits to government intervention:<br>• regulatory capture<br>• asymmetric information | |
| 23 | **Labour Market and Wage Determination** | Describe the factors that lead to the downward sloping demand curve (marginal revenue product) and the importance of labour as a **derived demand.**<br><br>Describe the factors that lead to the upward sloping supply curve.<br><br>**For own application questions: refer to an industry which you are familiar with – maybe** | **3.5.1 Demand for labour**<br>a) Factors that influence the demand for labour<br>b) Demand for labour as a derived demand<br><br>**3.5.2 Supply of labour**<br>a) Factors that influence the supply of labour to a particular occupation<br>b) Market failure in labour markets: the geographical and occupational mobility and immobility of labour<br><br>Describe and assess the impacts of 'current issues' in the labour market – the specification does not specify what these are, so use up-to-date articles provided.<br><br>Distinguish between maximum and minimum pricing – this would be the National Minimum Wage and salary caps for maybe bankers.<br><br>**MRP (marginal revenue product) is extremely useful** for macro and micro – it analyses that when productivity increases, these workers are able to command higher wages. This is because their output is higher, therefore when this output is sold… more revenue is gained and so they | |

| Slides | Topic | Learning Objectives | Specification section and additional guidance | Covered? |
| --- | --- | --- | --- | --- |
| | | **related to university or somebody you know.** | can negotiate a higher wage. | |