Economics A level

Course plan

This plan shows the structure of the course and gives an outline of the contents. Sections 1–5 cover the requirements of the AS and Part 1 of the A level; Sections 6–10 cover Part 2 of the A level. You need to do Sections 1–10 to prepare for the A level

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A level Economics Course guide

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Sample of the A Level Economics Course from Section 1

Topic 1

The nature of economics

Introduction

This topic sets the scene. You will be introduced to some key economic methods and concepts, including scarcity, choice and opportunity cost.

You will probably need 2 hours to complete this topic.

Objectives

When you have completed this topic you should be able to:

- understand why economics is a social science
- distinguish between positive and normative statements
- explain the meaning of the economic problem.

Key terms

Scarcity: resources are limited but human wants and needs are unlimited

Choice: because resources are limited, people must choose between alternatives

Opportunity cost: the cost of choice, of the foregone alternative

Economics as a social science

Economic concepts and thought

In this course, you will be looking at the economic decisions made by individuals and by groups of individuals. These decisions are connected with the way people produce the goods and services we need and want, and with how they consume those goods and services. You will study how markets operate to allocate those resources and why it is that some people have access to more products than others. You will base your study on the concept described by Professor Robbins above – that economics is the study of the allocation of limited resources between unlimited and competing wants.

Activity 1

(Allow 10 minutes)

Here are some examples of decisions. Think about what you would decide in each case and note either 'Yes' or 'No' in the box alongside. You might like to discuss some of the issues with friends or family and see if they agree with you.

	Yes	No
Should healthcare funding be increased?	❑	❑
Should secondary school class sizes be reduced?	❑	❑
Should there be more police?	❑	❑
Should there be more cycle lanes?	❑	❑
Should workers have longer holidays?	❑	❑
Should there be more assistance for the homeless?	❑	❑
Should more 16 year olds be encouraged to continue in education?	❑	❑

You probably answered 'Yes' to most of these questions. However, in practice a country may not have enough resources in the form of workers, buildings and machines to provide all the items.

On an individual basis you also have limited resources. For example, you have a limited resource of time. There are only 24 hours in a day and so you have to decide how many hours to devote to working, eating, entertainment and sleeping. As your wants exceed your resources, choices have to be made. Economists are interested in how these choices are made and how resources can be used more efficiently.

Go to the tutor2u website and use the following link to read notes on 'What is economics?'

http://beta.tutor2u.net/economics/reference/what-is-economics

Economic models and assumptions

Economists seek to find out what factors determine the number of goods and services we produce and consume and what prices these are bought and sold for. They try to discover what causes inflation and unemployment and suggest ways of dealing with these problems. Factors that change are known as 'variables' and they try to establish relationships between variables and to assess their nature and strength. For example, they want to know what consumers do when the price of a product rises. Do they buy more, less or the same? If they buy less, how much less? Throughout this course you will need to be aware of the relationships between variables.

Exam hint

You will score well in an examination answer if you can describe, explain, discuss and analyse and discuss the relationships between variables.

The world is very complex and changes in economic factors are the result of a large number of individual decisions. For example, the price of oil on world markets is the result of many millions of individual buying and selling decisions. So in order to explore economic relationships, economists create models of how they believe the world works. These models are necessarily a simplification of the real world but they are useful in coming to conclusions. They then test their conclusions by observing what happens in the real world. By doing this they are using the scientific method, which helps to validate economics as a science.

In order to simplify a situation, economists make assumptions. This means that they suppose something which may or may not be true. In studying people's spending patterns, economists assume that they behave rationally, always weighing up each piece of

expenditure carefully before making it. This does not always happen and so the assumption may not be correct.

Study hint

When you read or hear an economic statement, ask yourself if the statement is true. Or is it based on any assumptions which may be false? What else has to be true for this statement to be true?

A word of warning! Economic research may come up with two sets of figures that seem to fit each other, and from this we might assume that one of the sets is caused by the other. Suppose that UK weather statistics show that temperatures over the course of a particular summer were higher than usual, and that UK sales figures for ice creams show a higher than usual demand during that same period. It would be intuitively reasonable to suppose that people are eating more ice cream because of the warm weather and that one factor has caused the other. But the causal relationship is not proven and there could be other factors that explain the higher ice cream sales – a strong marketing campaign by ice cream producers.

Study hint

If two sets of data consistently move in the same way against each other, whether in the same or in opposite directions, we can say that there seems to be a correlation between them. But this does not necessarily mean that the change in the one has caused the change in the other. Correlation does not necessarily mean causation.

So if you read that a change in one variable has caused a change in another, you should question this and think whether there could have been some other reason for the change.

An important tool in economic models is the use of marginal analysis. A marginal item is an additional one. Suppose that a worker produces 10 units of a product in an hour and then, having discovered a more efficient method of production, is able to produce 11 units an hour. The extra unit produced is called the marginal unit of production. Marginal profit is the addition to total profit from producing one more unit – the marginal unit. Marginal analysis is useful because it allows us to measure the effects of changes.

The ceteris paribus assumption

The answers to most economic questions are the result of many different factors which all come together to produce a result. A model which includes all the factors would be very complex and so there is a need to simplify.

Suppose we are trying to establish why the demand for petrol has increased. We could find a number of possible reasons, such as the price of petrol may have fallen, people's incomes may have risen or they may be buying more cars. If we want to establish a relationship between the demand for petrol and its price, we must ignore the other factors – incomes and the demand for cars. We construct a model in which we say 'Other things being equal, a fall in the price of petrol leads to a rise in demand for petrol.' What we really mean is that there is probably a strong relationship between the price of petrol and its demand but there are also other factors that we have not taken into account.

This practice of holding constant all factors except one in order to explain a relationship is used throughout economic theory and you will often see the phrase 'other things being equal'. You may also see 'ceteris paribus', which is the Latin phrase meaning the same thing. You should use it yourself, in either language, in answers to questions where suitable.

Exam hint

You should become familiar with and use the terminology of economics and you will earn marks for using technical words and phrases as long as they are correct and relevant. Make sure that you spell these correctly as examiners don't like misspellings of technical terms, especially when they also appear in the question or case study.

Inability to carry out scientific experiments

Economics is a social science because it seeks to gather knowledge about, to explain and to predict human behaviour in the economic sphere – in the production, distribution and consumption of goods and services. Because it is a science, it is the subject of much research. Some research is quantitative – it deals in numbers such as the number of people unemployed in a country. Some is qualitative – it deals in concepts that cannot be quantified such as people's opinions about their standard of living. In order to do this research, economists need information.

The Office for National Statistics (ONS), government departments and many other organisations collect a wealth of data on all aspects of economic life. Companies also do research into their markets and academic economists carry out research programmes into areas which interest them. This data is processed mathematically and statistical relationships are established such as averages, indices, correlations, trends over time and probabilities. These statistics are used to explain the past and present and predict the future.

However, economic data has to be used carefully. Human behaviour is being studied but it is not possible to put people into a laboratory and watch them while they behave. They must be studied in their natural environment but this is complex. As we said above, many different factors can explain a trend and it can be difficult to separate them or isolate one of them. In addition, people do not always behave in the same way, usually because circumstances have changed – and it is now always easy to identify these circumstances. Economic theory assumes that people behave rationally and always plan to spend their money to get the most satisfaction out of it. But in practice, people make irrational decisions and some make impulse purchases.

The impossibility of carrying out controlled experiments in carefully controlled conditions means that different economists come to different conclusions. They therefore make different predictions and suggest different solutions. So you will find some economists who believe that interest rates should be reduced and others who believe that they should be increased. They cannot all be right but it is not possible to judge who won the argument until after the event and even then there is scope for disagreement.

It is important for you to bear all of this in mind when studying economic concepts and you should always qualify your conclusions. But actually economic science does teach us a lot. There are a number of generally accepted theories and relationships and these help us to build up a picture of the overall economic world. Studying this course will give you a good insight into this world.

Read the section on models and assumptions in Chapter 1.

Positive and normative statements

To say that the UK economy spends around 42% of national income is a positive statement. This means that it is a factual statement – one for which there is evidence and that can be tested. However, to say that a government should intervene in an economy to a greater extent than it does is a normative statement. This is one that is

based on opinion and cannot be disproved. It is a value judgement which is concerned with what the writer believes.

Positive economics describes how the economy works. It views economics as a science concerned with provable facts. Positive economics studies the relationship between economic variables and makes predictions about what effect a change in an economic variable (e.g. the level of unemployment) will have on the economy.

Normative economics makes value judgements about how the economy works and what the appropriate economic objectives and priorities should be.

In practice, both positive and normative economics play a role in economic decision-making and policy.

A lot of what you will learn at this level is positive economics. But you will also come across normative statements, which are based on people's opinions and involve value judgements about what is right or wrong, ethical or unethical.

Read the section on positive and normative statements in Chapter 1.

Go to the tutor2u website and use the following link to read notes on positive and normative statements:
http://beta.tutor2u.net/economics/reference/positive-and-normative-statements

Activity 1

(Allow 10 minutes)

Classify the following into positive and normative statements. Highlight the right answer.

High penalties should be imposed on firms that pollute.	❑ positive ❑ normative
A higher proportion of men smoke than women.	❑ positive ❑ normative
The government devotes too little attention to reducing unemployment.	❑ positive ❑ normative
The existence of unemployment means that a country is producing inside its production possibility boundary.	❑ positive ❑ normative

These are the correct answers:

High penalties should be imposed on firms that pollute: normative

A higher proportion of men smoke than women: positive

The government devotes too little attention to reducing unemployment: normative

The existence of unemployment means that a country is producing inside its production possibility boundary: positive

The role of value judgments

As we have seen, economic relationships are not always clear and there is a limited number of positive statements. But humans have to make economic decisions:

- Individuals have to decide how many hours to work, what to spend their money on and how much to save for the future
- Firms have to decide what and how much to produce, what price to charge for their products and how much to invest in new equipment.
- Governments have to decide how much they can raise in taxes and what they should spend it on.

All these decisions are based on the understanding of economic concepts and relationships of the positive factual knowledge which exists. But humans also base their decisions on value judgements – on normative factors. Even though smoking is expensive and bad for health, some people still do it because they like it or because it is a habit they find hard to quit. Governments choose whether to spend more or less on a particular public service according to their political beliefs such as education, health or defence. Such decisions are based on value judgements and not necessarily on hard facts or robust research.

Study hint

You need to be careful when reading someone's economic comment and to be clear about how much is based on hard evidence and how much is a personal viewpoint. When searching for economic information, always go to a reliable source and quote it noting where it is from.

The economic problem

Scarcity

Scarcity has a special meaning in economics. It is based on the fact that human wants are unlimited, but the resources of our planet to satisfy those wants are limited. People always want more than can be provided with the available resources. Most of us would like a better car, more clothes and more evenings out. However, even if everyone were in employment, and all offices and factories were working at full capacity, it would not be possible to produce all the goods and services that the world's population would want to have.

Scarcity leads to **choice**. Since resources are scarce we are all forced to make choices:

- Individuals in households have to decide what to buy with their limited incomes.
- Firms have to decide what to produce and how to produce it.
- Governments have to choose how to spend their tax revenues.

These choices are being made all the time and are influenced by changes in the economic environment. An investment company may choose to switch its resources of workers, IT equipment and office space from trading in utility (electricity, gas and water) shares to trading in internet shares.

Read about Samuelson's three key questions in the section on renewable and non-renewable resources in Chapter 1.

Go to the tutor2u website and use the following link to read notes on scarcity and choices:

http://beta.tutor2u.net/economics/reference/scarcity-and-choices

Economic agents

Economic agents refers to the main groups in an economy – consumers, producers and governments.

- Everyone is a consumer in their private, individual capacity, whether they are ordinary members of the community, workers, employers or members of the government. Consumers need to buy a wide range of goods and services in order to have the lifestyle they want
- Producers are firms of varying sizes, from small businesses run by one or a few people to large public limited companies. Many base their production on what consumers want to buy, although

some are product-oriented and try to persuade consumers to buy what they have made

- Governments consist of those people elected (or at least appointed) to make laws, raise taxes and carry out government expenditure.

Opportunity cost and economic agents

Making a choice involves a cost. When we choose one option, we give up the other alternatives we decide against. If I have £50 left at the end of the month I can spend it either on having an evening out or on a new pair of shoes, but I cannot have both. If I decide to spend the money on the evening out, then I give up the shoes I did not buy. Economists call this cost 'opportunity cost'.

Opportunity cost is the cost of the 'foregone alternative' – the choice given up. This applies to all economic agents as in the example above of an individual's spending choices, and it applies to producers and governments too. A firm with a profit at the end of the year can decide what to do with its surplus. It might have to choose between using it to pay for a new training programme for its employees, pay a dividend to its shareholders or save it in a reserve in case of a future emergency. Whichever it chooses, it gives up the others. Again, a government which decides to spend tax revenues on expanding a hospital might have had to forego the alternative of increasing retirement pensions or reducing taxes.

Study hint

Always look for opportunities to apply economic concepts to yourself. Take the concepts of scarcity and opportunity cost as an example. What are the opportunity costs to you of doing this course? Here are some examples:

The goods and services you could have bought with the money you paid for the course.

The leisure and social life you could have enjoyed in your study periods.

What criteria do you use to make your choice? Perhaps you have decided that it's worth it to be better qualified and get a better job later.

Go to the tutor2u website and use the following link to read notes on opportunity cost.

http://beta.tutor2u.net/economics/reference/opportunity-cost

Activity 3

(Allow 10 minutes)

Fill in the right-hand column of the table, giving three examples of a possible opportunity cost for each of the cases described.

Decision	Opportunity cost
A student choosing to study A level Economics with NEC	
A family choosing to go to Greece on holiday	
A firm deciding to buy 20 new computers	

Here are some suggestions of opportunity costs for the three cases:

Decision	Opportunity cost
A student choosing to study A level Economics with NEC	Studying another type of course Undertaking paid employment Spending the cost of the course on buying clothes
A family choosing to go to Greece on holiday	Going to an alternative holiday destination Buying a new washing machine or a new car Increasing their savings
A firm deciding to buy 20 new computers	Buying other equipment Spending more on an advertising campaign Giving workers a bonus

Economic and free goods

The concepts of opportunity cost and scarcity help us to distinguish between **economic goods** and **free goods**. An economic good is one that is produced by using resources. It cannot be obtained without foregoing something else that could otherwise have been produced with the same resources. Economic goods, which can also be called scarce goods, have an opportunity cost. Most goods are economic goods. For example, the computer resources employed in the insurance industry could be put to use in the banking industry.

In contrast, there are free goods that humans do not have to produce but which they can consume without having to give up the opportunity to produce another good. Free goods include sunshine and the air we breathe. They are freely available to all of us with no limit and there is no opportunity cost of using them. However, even a free good can become an economic good in certain circumstances such as if air pollution in a city is so bad that people pay to buy oxygen machines.

It is important to recognise that a free good is not the same as a good that is provided free of charge. State education is provided free to families with children but it is not a free good. This is because it requires the resources of teachers, school buildings and so on to provide it.

Study hint

Always look for opportunities to apply the economic ideas you study to your daily life. So apply the concepts of scarcity and opportunity cost to your daily life. For example, I have this course to complete for the NEC, and I have another course to work on too. While I'm doing this, working on the other course is delayed. What criteria do I use to make the choice of which one to work on at any given time?

Read the sections on the fundamental economic problem, scarcity and choice, opportunity cost and economic agents in Chapter 1.

Activity 4

(Allow 10 minutes)

Decide which of the following are free goods and which are economic goods. Highlight the appropriate term.

A television	❑ free ❑ economic
Sea water	❑ free ❑ economic
Veterinary treatment	❑ free ❑ economic
Air	❑ free ❑ economic
The services of a public library	❑ free ❑ economic
Mobile phone	❑ free ❑ economic

You should have highlighted the following:

A television	Economic
Sea water	Free
Veterinary treatment	Economic
Air	Free
The services of a public library	Economic
A mobile phone	Economic

Renewable and non-renewable resources

In considering the use of resources, economists distinguish between renewable and non-renewable resources.

Renewable resources are natural resources that are capable of being used and replaced. Trees can be cut down and made into furniture, and at the same time new trees can be planted to become wood in some years' time.

Non-renewable resources, such as fossil fuels and minerals, are not replaced when they are used. When hydrocarbon oil is refined

into petrol and used to power vehicles, oil supplies are reduced and eventually depleted.

If economic growth is based on the use of non-renewable resources, it is unlikely to be sustainable. The ability of future generations to drive cars and use oil-powered heating will be threatened if the world supplies of oil are depleted too quickly now. Some renewable resources may also be put at risk if they are over-exploited and they may indeed be turned into non-renewable resources. For example, if too many cod are caught, there will not be a sufficient number to reproduce and maintain stocks.

Some renewable resources are more sustainable than others. Solar power can be used extensively and will still be regenerated. In contrast, if forests are cut down at a rapid rate, there may not be sufficient time to replant them.

Read the section on renewable and non-renewable resources in Chapter 1.

Read a BBC news article on 'Bio-Buses' and watch the embedded video clip by using the following link:

http://www.bbc.co.uk/news/uk-england-bristol-30115137

Go to the following links to read about finite and renewable resources:

http://beta.tutor2u.net/economics/reference/finite-and-renewable-resources

www.busandcoach.com/news/articles/biofuel-buses-for-cambridge-busway

Activity 5

(Allow 10 minutes)

For each pair listed below highlight which resource is the more sustainable.

Coal and wind power

Iron ore and guano (the waste product of wild birds used as manure)

Gold and wave power

You should have highlighted the following:

Wind power Guano Wave power

Self check 1

(Allow 25 minutes)

Read through the text below and then, in your notebook, answer the questions that follow it.

Sustainability is a word that many people use nowadays and they give it different meanings. The definition that most people accept dates back to the United Nations Brundtland Commission in 1987, which defined it as follows:

> 'Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.'
>
> This means that the opportunity cost of what we consume is not only the other goods and services we could have made with the same resources now. It also means that there is an opportunity cost to the people who will come after us.
>
> All resources are relatively scarce and some of these resources are non-renewable, This means that, as more people are experiencing an improvement in their standards of living and as global population is increasing, we are consuming increasing amounts of commodities such as oil and metals. This means that there are fewer deposits of these resources left for the future. Future generations could face a life without petroleum or copper and would have to make serious adjustments to their industry, technology and way of life.
>
> Organisations which promote sustainability say that running down resources to depletion levels shows that we are behaving as if resources were not scarce. We should set a limit on what we consume now and also develop new renewable environmentally friendly methods of producing energy. They say that it is not enough to achieve equity between different groups of people now but that we must aim for inter-generational equity.

1 Explain the relationship between the concepts of sustainability and of opportunity cost. (2 marks)

2 What two factors are mentioned in the passage as contributing to increasing consumption in the modern world? (2 marks)

3 The passage says that 'we are behaving as if resources were not scarce'. What does this mean? (3 marks)

4 What steps should people take today to limit their consumption of resources? Can you think of a specific example? (3 marks)

5 Define 'inter-generational equity'. (2 marks)

You will find feedback to self checks at the end of the section.

Summary

In this topic you have been introduced to the meaning of economics and a number of important definitions, terms and concepts. The key points are as follows:

- Economics studies how scarce resources are allocated between competing human wants
- Scarcity exists because wants exceed resources and this means people must make choices from among various alternatives
- Opportunity cost is the cost of choice in terms of the alternative foregone.

What next?

We hope this sample has helped you to decide whether this course is right for you.

If you have any further questions, please do not hesitate to contact us using the details below.

If you are ready to enrol, you have different options:

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- **pay in full** – you can pay in full with a credit or debit card
- **pay in instalments** – if spreading the cost would be useful, we can arrange that for you. Just call our course advice team to organise this.

Contact us

There are many ways to get in touch if you have any more questions.

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Email us: info@nec.ac.uk

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