



Economics

Home Learning Pack

Challenges

Please find attached a pack of work to help prepare you for Sixth Form.

I am delighted that you have shown an interest in Economics. In order to get you thinking about the subject, I have drawn up a **challenge pack** to help you prepare for studies in the 6th form such as key concepts and accessible

For a look at the syllabus:

- A Level Economics Specification
https://qualifications.pearson.com/content/dam/pdf/A%20Level/economics-a/2015/specification-and-sample-assessment-materials/A_Level_Econ_A_Spec.pdf
- Register with <http://www.tutor2u.net>, an Economics and Business blog especially written for students. A daily blog will be sent to you with interesting news articles that tie into the syllabus, comments from examiners and (later) tips and support for exam modules
- For (Economics) news stories use the BBC website <http://news.bbc.co.uk>

Please email me Jwarner@woolwichpoly.co.uk if you have any queries or questions.

Kind regards

Mr J Warner

Head of Economics

Woolwich Polytechnic



Part 1: Introduction to Economics – Knowledge needed for both papers

Economic agents

Consumers

Consumers are the end users of and They hold little power individually but are very powerful as a Producers must respond to consumer to survive. Consumers make buying decisions based on the and costs each good or service will bring. Consumers can be in markets with powerful producers.

preferences	benefits	group	goods	vulnerable	services
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Producers

Producers (also known as and firms) combine the factors of production to produce goods and services. They are primarily by but also pursue other objectives such as growth and increased market share. Producers play a key role in allowing to fulfil their wants and needs through producing goods for consumption and through paying to their workforce. Producers influence the price, and quality of the goods and services available for consumption.

wages	consumers	suppliers	profit	motivated	quantity
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Government

Governments are groups of individuals with the to make and enforce laws in a country. Some laws are made to consumers, some are made to ensure producers act in the best interest of For example, the minimum wage forces producers to pay workers enough to ensure a basic, living standard can be achieved by all workers.



Governments have the power to tax rates such as income tax, VAT and corporation tax which impact the decisions of consumers and producers. The government also acts as a in providing public services such as healthcare and education.

society	power	minimum	protect	producer	change
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Agent	Role in the economy	Interdependence with other agents. How does each agent depend on the other two?
Consumers		
Producers		



Government		
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Factors of Production

The factors of production are the different resource categories that are combined in order to produce output.

Match the factor to the correct label.....

Capital

The human input into production process. Human capital such as knowledge, skills and manpower.

Enterprise

Natural resources used to produce goods and services. Any naturally occurring raw material such as oil, copper, iron ore, coffee, wheat etc

Land

Man made goods used to facilitate the production process.



Labour

Entrepreneurs use their ideas and take risks such as investing their money to produce goods and services.

Combining the factors of production

In four sentences, explain how all 4 factors of production are used to produce a bar of chocolate.....



The Economic problem

Societies around the world face various "economic problems" such as poverty, government debt, high levels of unemployment and income inequality. However, **"The Economic problem" of the allocation of scarce resources to unlimited wants and needs** is present in every society, firm and household to one extent or another.....

The problem of scarcity produces 3 key questions to be addressed.

1. What should be produced?



Choices must be made on the types of goods and services produced, i.e. whether resources should focus on consumer or capital goods, luxuries or necessities, organic food production or GM crops...

2. How should it be produced?

If goods are to be produced efficiently, how will this be best achieved? Firms could be left to compete and figure out how to minimise waste or the government may decide how much labour, capital and land should be dedicated to production based on the importance of the output.....

3. For whom should it be produced?

The end consumer of finished goods and services could be decided in a number of ways. For example, in some countries, only individual spending power dictates the quality and quantity of consumption. In other countries, the needs of each individual household are taken into account when allocating goods and services.

The UK approach to the Economic problem MCQs

In the UK.....

Who decides what goods and services should be produced?

- a) The government
- b) Producers
- c) A combination of consumer preference, producer choice and government intervention
- d) Consumers

How are resources used most efficiently to produce goods?

- a) Maximum public-sector involvement in the production process
- b) Allowing the profit motive to incentivise lower cost production
- c) Banning capital to protect workers
- d) Strict laws and regulations governing all production

How are goods and services allocated among the population?

- a) Only the richest in society have access to necessities and luxuries
- b) Everyone has access to equal quantities of all goods and services

- c) The government allocates goods and services equitably, based on need
- d) A mixture of consumer spending power and government intervention

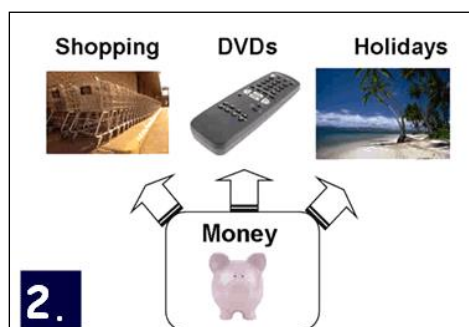
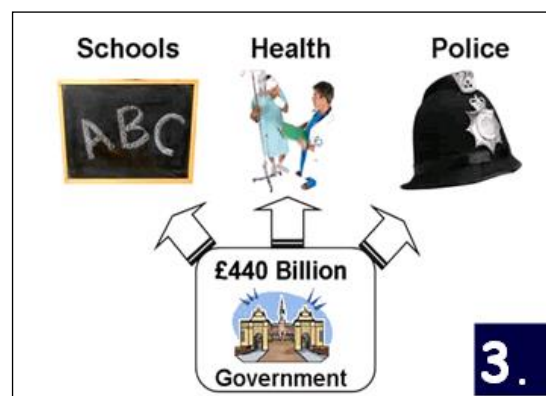
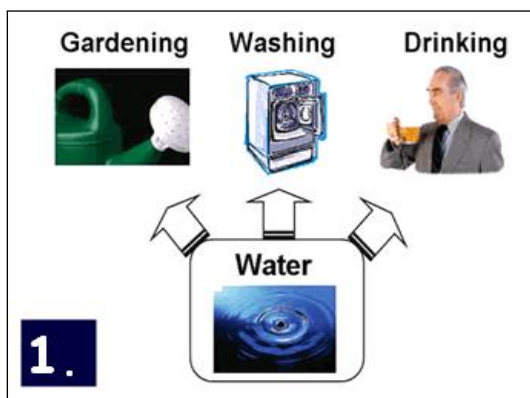
Opportunity Cost

Defined as "the value of the

.....

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Opportunity cost is a powerful concept when analysing and evaluating choices made by consumers, producers and governments.



Demonstration task:

- Each diagram shows a different type of opportunity cost problem in action.
- Explain each example of opportunity cost in a sentence below
- For each one, describe what is the scarce resource and what the choices are for how to use it.
- Say WHO is choosing
- Give your own suggestion on how to make the best choice!

Evaluating the costs and benefits of Economic decision

Economic decisions produce costs and benefits to:

1. The economy
2. The society
3. The environment

A fantastic way to evaluate or to produce a judgement is to consider whether the decision taken will be more beneficial or detrimental to the three areas above.

An even better way to evaluate is to consider if a decision is likely to be:

1. Economically sustainable - will it provide benefits such as higher economic growth, lower prices and improved material living standards now and into the future?
2. Socially sustainable - will it improve social mobility, employment opportunities and quality of life now and into the future?
3. Environmentally sustainable - will it be beneficial in protecting the integrity of the natural environment now and into the future?

Airport Expansion at Heathrow - Read the article and complete evaluation grid.....

The Airports Commission has backed a third Heathrow runway, saying it will add £147bn in economic growth and 70,000 jobs by 2050. The report's release has revived intense debate over the runway's environmental impact.

Downing Street officials say they want to digest the report properly, without making "a snap judgement".





But London's Mayor, Boris Johnson, told the BBC that a new runway would have a "**catastrophic**" effect.

Noise pollution

The idea of expanding Heathrow has always been surrounded by controversy because of its location in a heavily built-up area. Nearly 800 homes would have to be demolished to build the new runway.

Mr Johnson, who is also a Conservative MP, has consistently been a vocal opponent of plans for a new runway at Heathrow.

He added that the "discomfort being endured" by Londoners on the hottest day of the year "would be nothing compared to the noise pollution that will be visited on hundreds of thousands, if not millions, of innocent people and the vehicular pollution as a result of a catastrophic decision to increase runway capacity in the west of the city".

Mr Johnson has proposed in the past a **new airport** in the Thames estuary.

Sir Howard Davies's report said that the new runway should come with severe restrictions to reduce the environmental and noise effects. Night flights should be banned and the government should make a Parliamentary pledge not to build a fourth runway.

The report also recommends an aviation noise levy to fund insulation for homes and schools and says a legal commitment should be made on air quality. The Commission admits that expanding Heathrow would mean many more people affected by noise compared to expanding Gatwick.

But it claims that quieter aircraft and home insulation would mean that overall noise levels would fall for people living near the airport by 2030.

The new runway would cost £17.6bn to deliver. Road and rail links around the airport would also have to be substantially changed, which could cost up to £5bn. By contrast, a second runway at Gatwick would cost just over £7bn. The Commission believes that both schemes would be funded by private finance.

Environmental groups, resident organisations and a number of prominent politicians have said they will campaign vigorously against any expansion of Heathrow. "It would jeopardise the UK's climate targets, worsen air pollution in London, and open up a political can of worms for David Cameron," John Sauven, Greenpeace UK executive director, said.

"In the year of the Paris climate summit, what we should be really talking about is how to reduce emissions from aviation," he added. The government has said that it will give its official response to the Commission in the autumn and it is estimated that, if given the go-ahead, any new runway would take more than a decade to build.

"Heathrow offers the kind of long-haul connectivity - flights to emerging markets which are very important to the future of the British economy - and expanding it would allow Heathrow to offer more of those flights," Sir Howard told BBC Radio 4's Today programme.



Sir Howard said that a second runway at Gatwick was a "credible" option but was less able to provide connections to long-haul destinations and would create lower levels of economic growth.

Sir Howard said that the recommendation for a new runway to the north of the present airport was "clear and unanimous". It would also connect Britain to 40 new destinations. "The best answer is to expand Heathrow's capacity through a new north-west runway," Sir Howard said.

"Heathrow is best placed to provide the type of capacity which is most urgently required: long haul destinations to new markets. "It provides the greatest benefits for business passengers and the broader economy.

"Adding capacity at Heathrow also provides an opportunity to change the airport's relationship with its local communities.

"To make expansion possible the Commission recommends a comprehensive package of measures including a ban on night flights and a new noise levy to fund a far stronger and more generous set of compensation and mitigation schemes. "The chief executive of Heathrow stressed the economic benefits of a new runway.

"The Airports Commission has shown just how much it costs the UK economy to delay expansion of Heathrow," John Holland-Kaye told the BBC.

Impacts of third runway	Benefits	Costs	Sustainability?
Economic			
Social			



Environmental			



Other cost/benefit scenarios that might arise.....

- HS2 (high speed rail connecting London to the North)
- Crossrail
- Fracking (gas extraction)
- Offshore wind farming
- Hinkley Point nuclear plant.....

Part 2: The role of markets - Knowledge needed for both papers

What is a market?

A _____ is where buyers and sellers come into contact for the purpose of _____. A price must be agreed for exchange to take place. By price, we mean the value of a good or service that the buyers and sellers are willing to _____. We will be focusing on three types of market.

A product market refers to goods and services which the consumer derives utility from. Utility is the economist's word for _____ - when goods and services make us happy. So these are goods that we want for their own sake. Examples are _____, phones, games consoles, furniture or fast food.




A _____ market refers to raw materials or minerals used in the production of goods and services. Examples include wheat, sugar, _____ and gold.

A labour market refers to the buying and selling of _____ for the production of goods and services. Examples include the markets for plumbers, teachers, _____ or even footballers.

To have a market you need someone who is willing to buy and someone who is willing to sell. We analyse these ideas as _____ and supply.

Market	commodity	demand	agree	oil
chocolate	work	exchange	accountants	satisfaction

What are the features of the primary, secondary and tertiary sectors?

SECTOR	DEFINITION	EXAMPLES
 <p>PRIMARY</p>		
 <p>SECONDARY</p>		
 <p>TERTIARY</p>		

The sector where firms turn raw materials into finished goods through the manufacturing process.

The sector where services are provided to consumers and firms.

The sector where raw materials are extracted from the earth or sea.



The factor market vs The product market

A factor market is one in which land, labour, capital or enterprise is exchanged for payment. In the labour market, households/individuals sell labour in return for wages. In markets for raw materials such as copper, huge quantities are bought and sold shipped and around the world for producers to use in the production process. Factor markets impact product markets because the factors of production are combined to produce goods and services in the product markets. A rise in the price of raw materials will lead to an increase in the price of products.

Key points on factor markets:

- Demand for factors derives from demand for the goods they produce (derived demand)
- Prices in most factor markets are determined by supply and demand
- Households sell labour to producers in return for wages

A product market is one in which finished goods and services are sold to consumers, producers and the public sector. Examples product markets are food, cars, household technology, cosmetics, pharmaceuticals, the list goes on.....!

Effective product markets encourage competition between producers to bring about lower prices, wider choice, better quality and innovation.

Key points on product markets:

- It refers to the buying and selling of final goods and services
- Prices in product markets are determined by supply and demand

- Households, other firms and the public sector are the buyers

Explain the "two way" interdependence between the factor market and the product market.

.....

.....

.....

Specialisation and Exchange

..... occurs when individuals, firms, or countries
..... on producing a range of goods and services.

Exchange involves the giving up of something the individual or firm has in exchange for something they need. For example, the school exchanges money for the time and human capital of teachers.

If an individual, firm, region or country specialises, exchange becomes necessary..... explain why?

.....

.....

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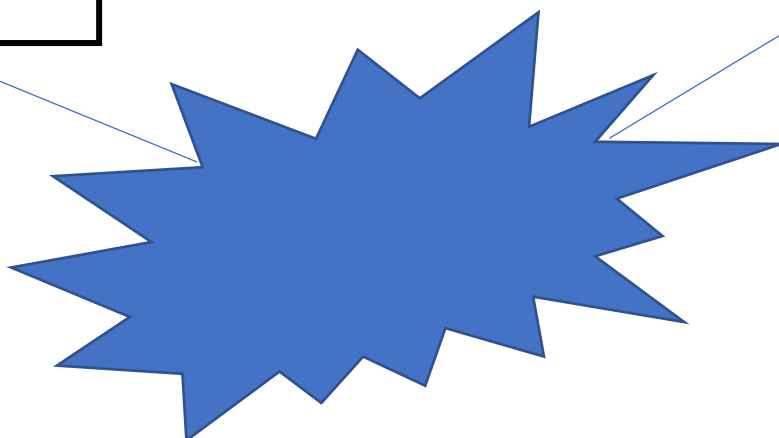
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- 1) Give two examples of specialisation for each of the following:

Region:

Individuals:



Specialisation

Countries:

Firms:

Specialisation	Benefits	Costs
Workers	Specialised workers tend to get higher pay.	Boredom for the worker as they do the same job every day.
	Workers' specific skills will be improved.	Workers' skills may suffer as they are only doing one job.
	More motivation from job satisfaction.	Workers may eventually be replaced by machinery.
Firms	Workers become more productive.	Greater cost of training workers.
	Due to increased productivity, there will be lower average costs.	Quality may suffer if workers are bored.
	Production levels are increased.	More expensive workers.
Countries	Greater economic efficiency	The risk of over-specialising.
	Consumer benefits	Strategic vulnerability.
	Opportunities for growth for competitive sectors	Threats to uncompetitive sectors.

Think of additional benefits and costs for each group..... Remember; the costs and benefits for countries can be easily applied to regions and vice versa.

Specialisation	Benefits	Costs
Workers		

Firms		
Countries		

Worker specialisation is often called "The division of labour". Complex production tasks broken down into smaller tasks performed by individuals helps the firm to increase productivity and helps the worker to master their chosen specialisation.....

Demand

Demand is a key idea in economics! It is the first part of understanding exactly how a market works.

The definition of demand is the quantity of goods and services buyers are willing to buy at a certain price, over a certain period of time.



A packet of crisps & a can of coke



An ipod Nano



A top of the range Porsche Sports car

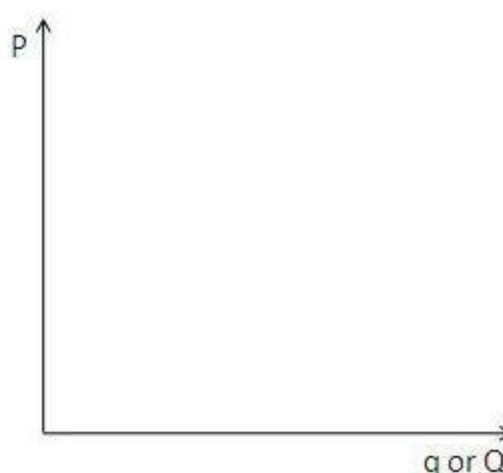
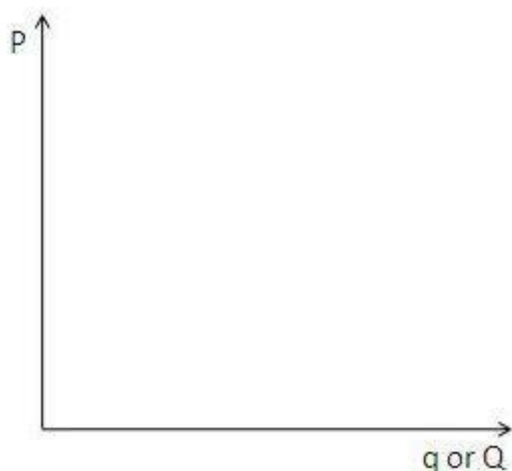


Ronaldo's Mansion

We would all like to buy lots of different Goods and services. Remember that we have unlimited wants! But usually, we can't afford everything that we would like. If you can't actually afford to buy something, we say that you do not have an effective demand for it. **So the definition of effective demand is that I am both willing and able to buy it.** An example of effective demand would be if I want a bike that costs £200 and I have £200 to spend.

Illustrate an extension in demand

Illustrate a contraction in demand



Movements along the demand curve are caused by changes in price!



Non-price factors cause the demand curve to shift!

Demand for goods and services is also influenced by non-price factors. For example, an increase in the size of the population will cause demand for housing to increase. This increase in demand will occur regardless of price. To illustrate this on a diagram we draw a new demand curve to the right of the original. This shows an increase in demand at every price level. Factors that cause the demand curve to shift:

Population - population growth and an ageing population have caused a _____ shift in demand for everything from food to health insurance.

Advertising (Marketing) - by raising our awareness of the benefits products bring, advertising usually causes demand to shift _____.

Substitutes - If the price of Pepsi is reduced the demand curve for Coca Cola will shift _____.

Income - Rising real incomes will cause the demand curve for normal goods to shift _____ and the DC for inferior goods to shift _____.

Fashion and tastes - over time fashion and tastes change. Nike Air Huaraches were once a must have item. The demand curve has shifted _____ with changes in fashion trends.

Interest Rates - Our demand for high value items such as houses and cars depends on interest rates. When the cost of borrowing falls, the demand curve for luxury cars shifts _____.

Complementary Goods - goods we buy together such as Playstations and games are called complements. If the price of the Playstation 4 falls, our demand for games will likely shift _____

Other factors.....

Government policies (help to buy scheme for homes) - Policies to help first time buyers to purchase a home will likely cause a _____ in demand.

Economic situation (confidence) - if unemployment starts to rise, the demand curve for high value items is likely to shift _____.

Price expectations (speculation) - if we expect prices to rise in the future, we buy more now to sell on in the future.

Demonstration: The demand for petrol.

Think about *the demand curve for petrol*. Using the ideas you have read about, tick the answer you think is correct and sketch the right diagram to go with it...



A) An increase in the price of cars (a complement for Petrol).

Shift left

Shift right

contraction

expansion

Diagram:



B) An increase in the population of people who own cars.

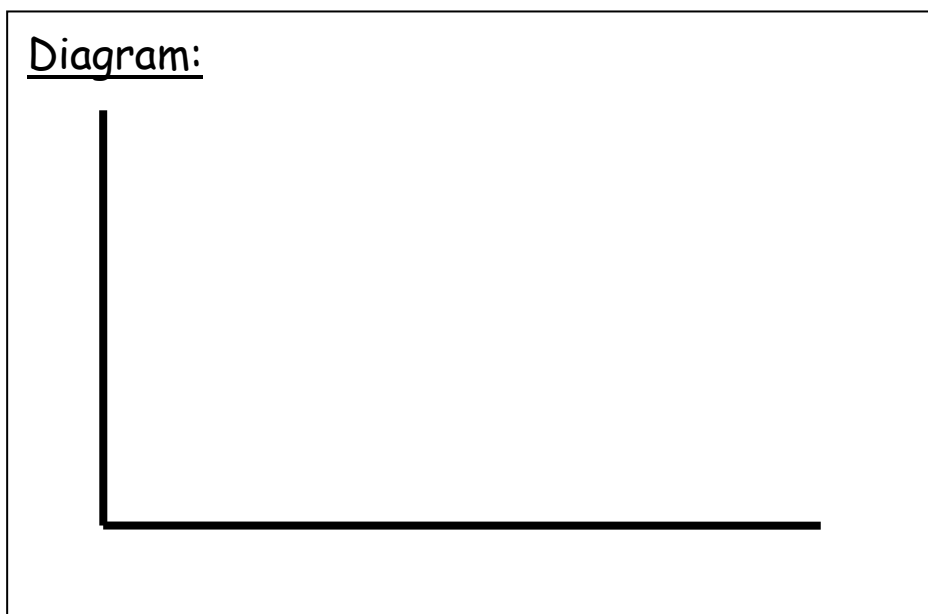
Shift left

Shift right

contraction

expansion

Diagram:



C) A rise in transport costs of shipping oil from Saudi Arabia which increase the petrol price.

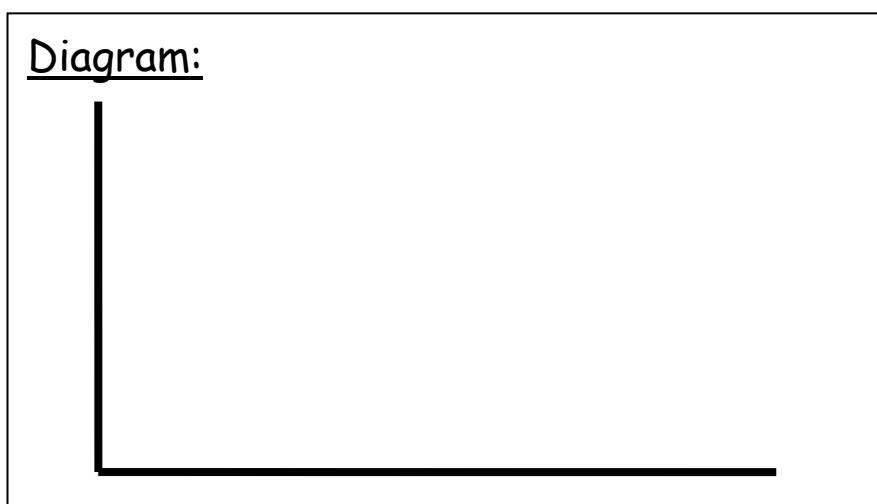
Shift left

Shift right

contraction

expansion

Diagram:



D) The public becomes more concerned with the environment and global warming.

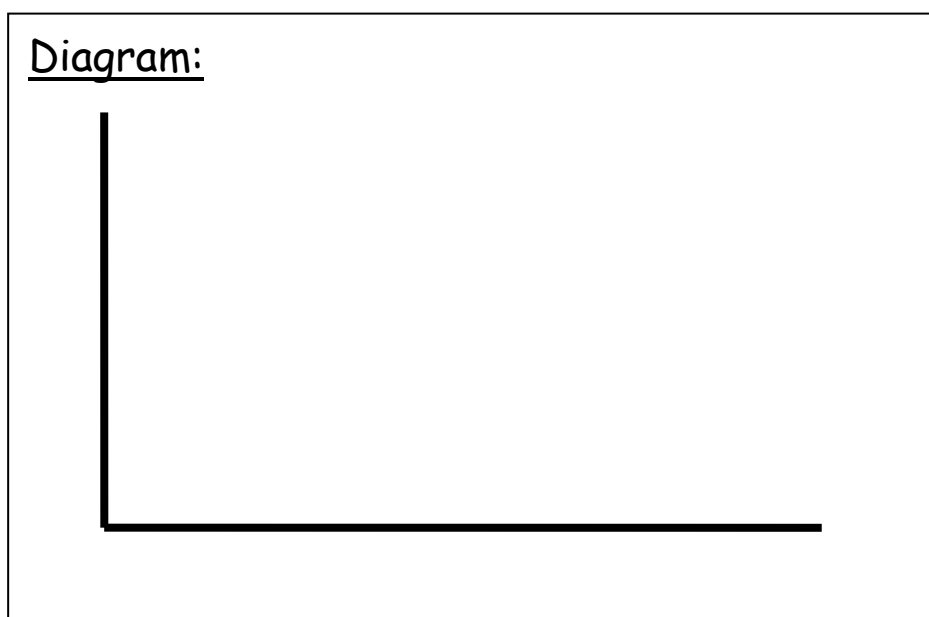
Shift left

Shift right

contraction

expansion

Diagram:



E) A massive increase in the price of public transport (buses and trains).

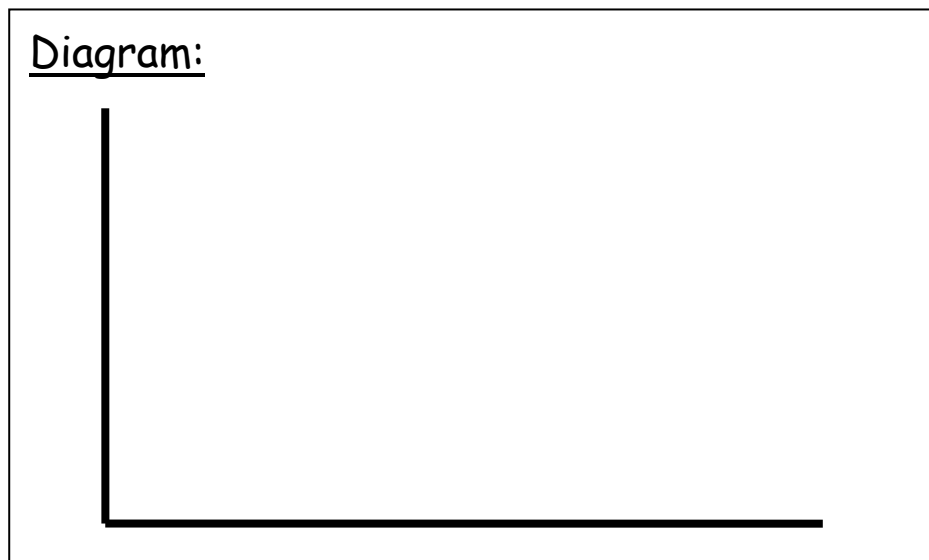
Shift left

Shift right

contraction

expansion

Diagram:





Supply

A supply curve is the quantity of a good or _____ that firms are willing to sell to a market over a range of different _____ in a given period of time. The supply curve slopes _____ from left to right for three reasons:

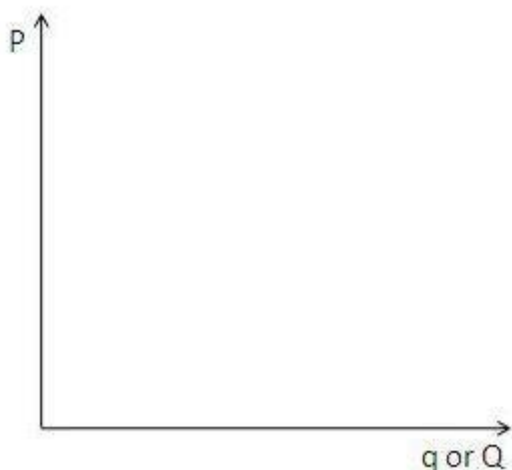
- 1) As prices rise, it encourages firms to supply _____ of a good to make more _____.
- 2) As firms raise output, they face rising production _____. To cover these, firms need to be able to charge higher prices to consumers.
- 3) As prices rise, other firms will be _____ to enter the market, this will increase the overall _____ supplied.

The _____ supply curve is the _____ of the individual supply curves for each firm in the market. In other words, you add together the amount supplied by _____ firm in the market, at each price.

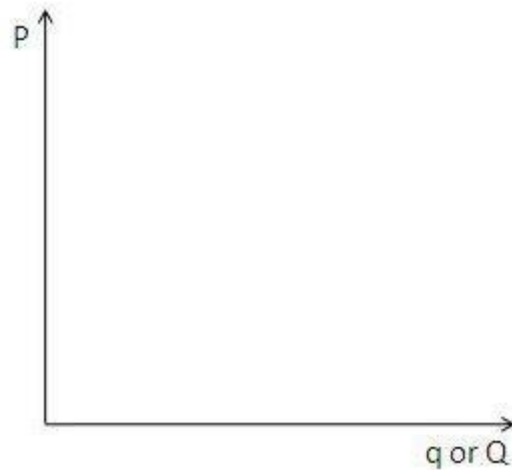
There is a _____ along a supply curve only when there is a change in its price. A price rise causes an _____ in supply, and a fall in price causes a _____ in supply.

encouraged	service	each	contraction	quantity
upwards	profit	costs	prices	more
market	extension	horizontal	summation	movement

Illustrate an extension in supply



Illustrate a contraction in supply



What makes the Supply curve shift left or right?

We remember them using **PINTSWC + G!**

P	PRODUCTIVITY: Productivity means output per worker. If the productivity of a firm increase, it means it can make more goods but using the same amount of workers or machines (labour and capital). This means it is more efficient and will produce more.
I	INDIRECT TAXES: If the Government puts a tax on goods, like VAT, this is called an indirect tax. This tax will increase the costs of firms, so they will produce less - supply will shift to the left.
N	NUMBER OF FIRMS: If more firms enter the market (start making goods), the supply must increase. The supply curve shifts right.

T	TECHNOLOGY: If a company uses better, more advanced machines or computers in its factories, this should increase efficiency. It will make products faster, and at lower cost. So better technology helps to increase supply.
S	SUBSIDIES: Sometimes the Government will actually PAY a company extra to produce things. This is like the opposite of an indirect tax! So it will increase supply...
W	WEATHER: If the growth of a crop is affected by bad weather, the Harvest might be reduced. Good weather will increase the Harvest. So the weather can affect the supply of farm goods and most foods.
C	COSTS OF PRODUCTION: There are lots of costs of making and producing things. Remember, each factor of production (land, labour, capital, enterprise) has its own cost! If a cost goes up for the business (like Renting its shops, for example), the firm will not be able to supply as much at each price, so supply is reduced.
G	GOVERNMENT REGULATION: If the government increase the rules around producing a good such as limiting CO2 emissions or increasing the minimum wage, it will mean a rise in the costs of production for the firm. This will be a disincentive to produce and cause a left shift in supply.

Demonstration: 2

How will the supply curve for a good change in each of the following situations? Remember - if the price changes there will be an extension or a contraction (a movement along the curve). If PINTSWC factors change, the whole curve will shift to the left or the right. Tick the box you think is right...

a) An increase in the price of the good.



Shift left Shift right contraction extension

b) The cost of production falls.

Shift left Shift right contraction extension

c) The Government gives the firm a subsidy.

Shift left Shift right contraction extension

d) The firm uses better technology and machines to produce its goods.

Shift left Shift right contraction extension

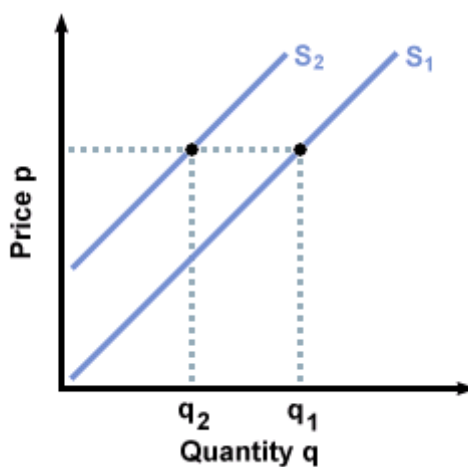
e) The Government puts an indirect tax (VAT, or import taxes) on the Good.

Shift left Shift right contraction extension

f) A decrease in the price of the Good.

Shift left Shift right contraction extension

Consolidation and Demonstration: An exam-style question



Question: Using the diagram above, explain the effect on the price and quantity sold of bread when the Government give a Subsidy to crop farmers.

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Price

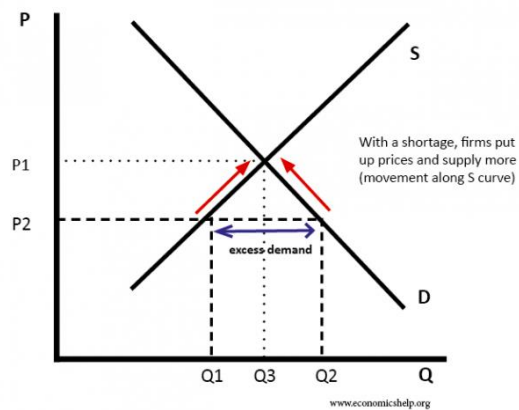
Price reflects worth; however this doesn't mean we agree on an item's value all of the time. For example, a Barcelona shirt signed by Lionel Messi might be worth a lot and be sold for a high price, however somebody with no interest in football would think the shirt was overvalued and wouldn't be willing to pay the price. Nevertheless, price is used to indicate worth and allows us to exchange efficiently.

The functions of price

Price performs 3 key roles in the allocation of scarce resources, these are rationing, signalling and incentives. Adam Smith referred to these as "the invisible hand".

Rationing

When a resource, good or service is particularly scarce its price is likely to rise. Consider the London housing market for example. There has been a shortage of houses to buy and rent due to population growth and lack of land to build on. This has caused an annual average rent increase of 10.6% for London residents. Rationing means as prices rise, only those who are **most** willing and able to buy will get the good.



Signalling

Changes in price provide information that the market situation has changed. For example, rising prices tell producers to allocate more resources in that area. Rising oil prices cause oil producing countries like Saudi Arabia and Nigeria to dedicate more factor inputs to production.

Incentives

Rising prices motivate producers to produce more. Using the housing example, house builders have been given a huge incentive to build more houses and gain more profit. In building more houses to take advantage of higher selling prices, the house builders will help to clear the shortage so prices can fall in the future!



Supply and Demand - Price Equilibrium

Equilibrium	There is balance in the market, with no tendency for either price or output to change. 'The market clears', the quantity demanded and the quantity supplied is equal. This means no buyer or seller is left frustrated.
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Use the data in the table below to demonstrate equilibrium.

Price (£)	Quantity demanded (million units per month)	Quantity supplied (million units per month)
2	12	2
4	9	4
6	6	6
8	3	8
10	0	10





1. If the price is £2, how many units will be demanded and supplied?

2. Think of two economic key terms that can describe this situation.

----- & -----

3. If the price is £10, how many units will be demanded and supplied?

4. Think of two economic key terms that can describe this situation.

----- & -----

5. Shade the areas on your graph that represent ----- & -----

6. At what price does supply equal demand?



Price MCQs

- 1) If there is a shortage of beef, which of the following is most likely:
 - a) Beef prices fall, and beef farmers decrease production
 - b) Beef prices remain unchanged
 - c) Beef prices fall, and farmers increase production
 - d) Beef prices rise, and farmers increase production

- 2) In 2015 oil prices fell to \$40 per barrel. The lowest level since 2009. Which of the following was the most likely reason?
 - a) A surplus of oil
 - b) A shortage of oil
 - c) Market equilibrium
 - d) An increase in demand for oil

- 3) In response to pressure from business leaders, the government reduce the minimum wage. Which of the following is the most likely outcome?
 - a) A right shift in demand and an increase in price
 - b) A right shift in supply and a fall in price
 - c) A left shift in supply and an increase in price
 - d) A right shift in demand and a fall in price



What is Economic Growth? How do we measure it? Why is it important?

Why are living standards higher today than they were 20 or 30 years ago? Why are people richer in 2011 than they were in 1951 or 1981? Why are some countries much richer than others? The answer to all these questions is Economic Growth.

Economic growth is when the output of a country grows over time. If the output of a country increases, this means it will have more Goods and Services available to its people. That will give them a higher standard of living. So economic growth is the most important target a Government is likely to have. Higher growth equals more goods, higher prosperity and wealth.

Economic growth will be measured by looking at the **change in output over time**. Output itself is measured by something we call Gross Domestic Product or GDP. GDP is the value of all the Goods and Services produced by your country's economy in a year. This could be 100s of billions of pounds in a rich economy like the UK! GDP will also be the same as all the income people earn in your country in a year - this is because the total value of output (all the things made) must be turned into incomes for the people who produced it when they sell it on - so if you count up all the wages, profits, rents and interest payments made in the economy (total income) you will also get total output!



Calculating Economic growth

Change in GDP x 100

Original GDP

GDP year 1	GDP year 2	Rate of Economic Growth
£2120 billion	£2245 billion	
\$375 billion	\$393 billion	
\$20.51 trillion	\$20.46 trillion	

The Government measures the value of the country's output each year to find out if GDP is increasing - in other words, if the economy is growing. For example, if GDP was £500 billion in 2010 and in 2011 it was £510 billion, then it would have grown by £10 billion pounds. The economic growth rate would be 2%, because £10 billion is 2% of £500 billion.

But this assumes that there was no inflation - that prices have not risen at all. We want to know how much more **actual STUFF** we have, not that prices are rising. So the Government will take away the effect of rising prices, or inflation. For example if **Money GDP** went up by 5%, but inflation was 3%, the rise in **real GDP** would be 5-3=2%.

Questions

1. What is economic growth? Why is it so important?
2. How do we measure economic growth? Define GDP.
3. Explain why total output is the same as total incomes in the economy.



4. What is the difference between MONEY GDP and REAL GDP?
5. Copy this table into your book and complete it. Assume that there is no inflation and calculate the rates of economic growth in these three countries. Use the formula: $\text{Change in GDP} / \text{Original GDP} \times 100$.

GDP (£ billion)		Economic growth rate (%)
In 2010	In 2011	
100	103	
200	202	
300	312	

6. Which of these countries has the fastest growing economy? Which of them has the biggest?

GDP PER CAPITA = GDP PER PERSON OR 'PER HEAD'

GDP per capita is GDP divided by the total population. This is also called GDP per head, because it is the average output (or income) which each person in the country has. The actual distribution (spread) of income will be unequal in most countries, but this tells you the average that a person might have. If economic growth increases faster than your population, then GDP per capita will rise and the average person will feel richer.

GDP per capita also shows us that even though the Chinese economy is much bigger than the UK economy, the average PERSON in China is still very poor compared to average person in the UK.

See if you can calculate the GDP per capita in the three countries below:

GDP (£ billions)	Population (millions)	GDP per capita
600	60	
800	40	



500	12.5	
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Test your understanding so far: Economic growth Questions

What is economic growth?

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Define GDP per capita. Why is this more useful than just GDP for measuring how wealthy a country is?

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Discuss the advantages and disadvantages of high economic growth for the UK.

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Explain the main factors which cause economic growth



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Unemployment - what is it, why does it matter?

Unemployment is when people who are _____ looking for work cannot find it. Voluntary unemployment is when people do not have a job but they do not want to have one - this group includes lots of the population, such as full-time Students, carers, or retired _____ .

Unemployment is measured in two ways. The Government counts up all the people in the UK who are claiming unemployment _____ (Job Seeker's Allowance). This is called the Claimant Count measure. The second way to count unemployment is to use a regular _____ of a sample of the population - this is called the Labour Force Survey. The LFS is a standard measure that we use to _____ unemployment across different countries.

There are different types of unemployment. It could be caused because there is not enough _____ for goods and services in the country during a recession or bust. This sometimes called _____ unemployment because it goes up and down in waves. Another major cause is when the structure of the economy changes over time - like when manufacturing jobs move to China. This is known as structural unemployment.

Unemployment damages people's lives directly - they lose income and wealth, your skills get worse and it can even affect your _____. It also damages the wider economy in several ways.

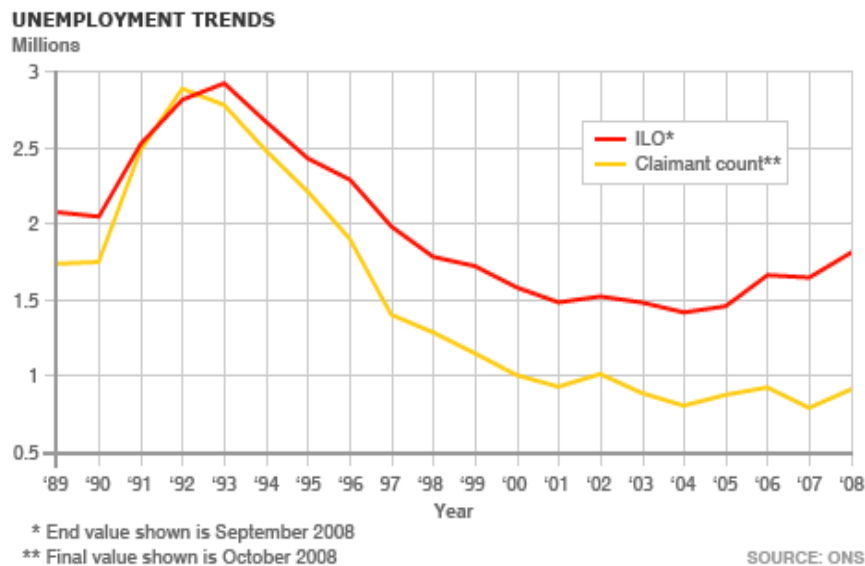
actively	health	cyclical	benefits
demand	survey	pensioners	compare

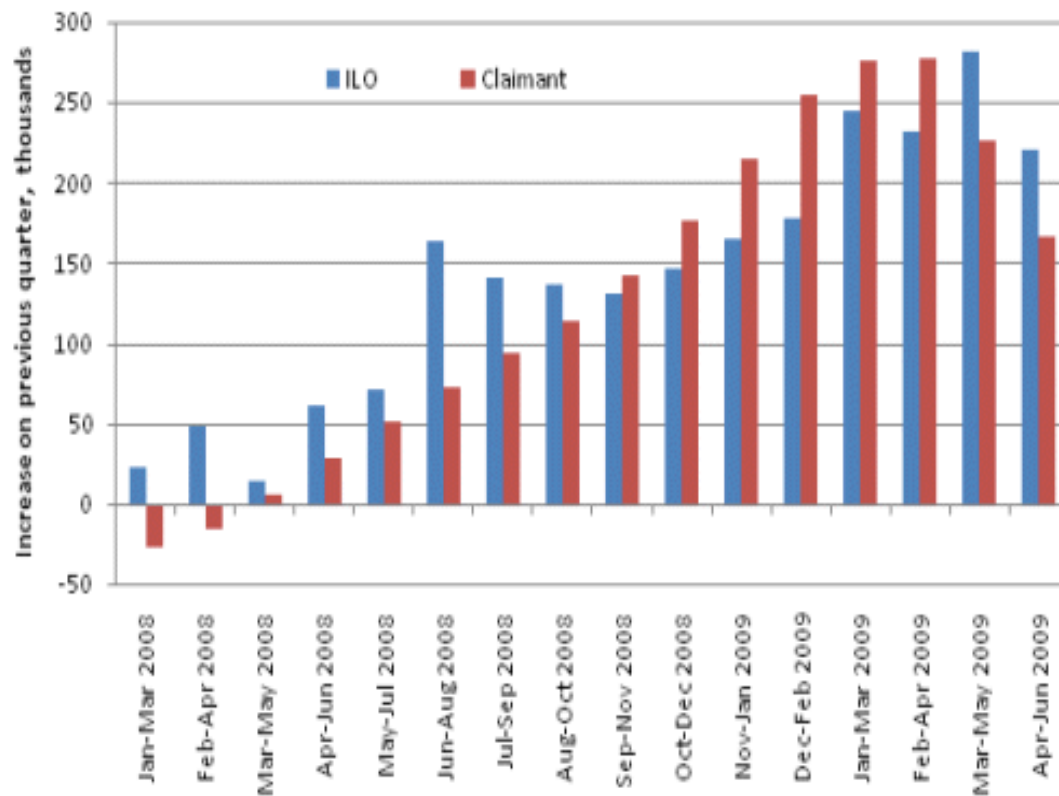
Unemployment level vs Unemployment rate

The unemployment level is the number of people out of work whereas the unemployment rate is the percentage of the workforce currently out of work.

Unemployment rate formula - Number of unemployed x 100

Workforce





DIFFERENT TYPES OF UNEMPLOYMENT

FRictional

This is when people are moving between jobs or when they are moving from studying into work or taking a break from working. Usually short term in time-frame and allows flexibility in the labour market as vacancies are opened when people leave a job.

SEASONAL

This is when jobs are created or removed at different times of the year because of changes in seasonal demand.- demand for labour at tourist attractions peaks in the summer and falls away in the winter.

<p style="text-align: center;">CYCLICAL</p>	<p>The Economy moves up and down - from boom to bust or growth to recession. When aggregate demand falls some people lose their jobs as demand for labour derives from demand for goods and services...</p>
<p style="text-align: center;">STRUCTURAL</p>	<p>The shape of the economy changes over time. We used to have big industries (like car manufacturing, steel and ship-building). We have lost lots of these jobs to other countries like China. Workers once employed in these industries find it difficult to transfer their skills to new jobs and are at risk of long-term unemployment.</p>

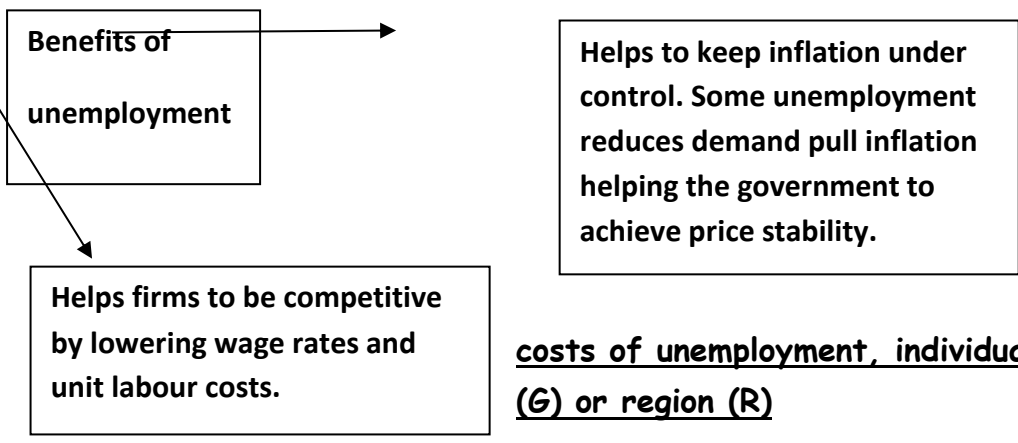
Evaluating the causes of Unemployment

Type	Explain with an example	How serious is it?	Government policies to correct
Structural			

Seasonal			
Cyclical			
Frictional			

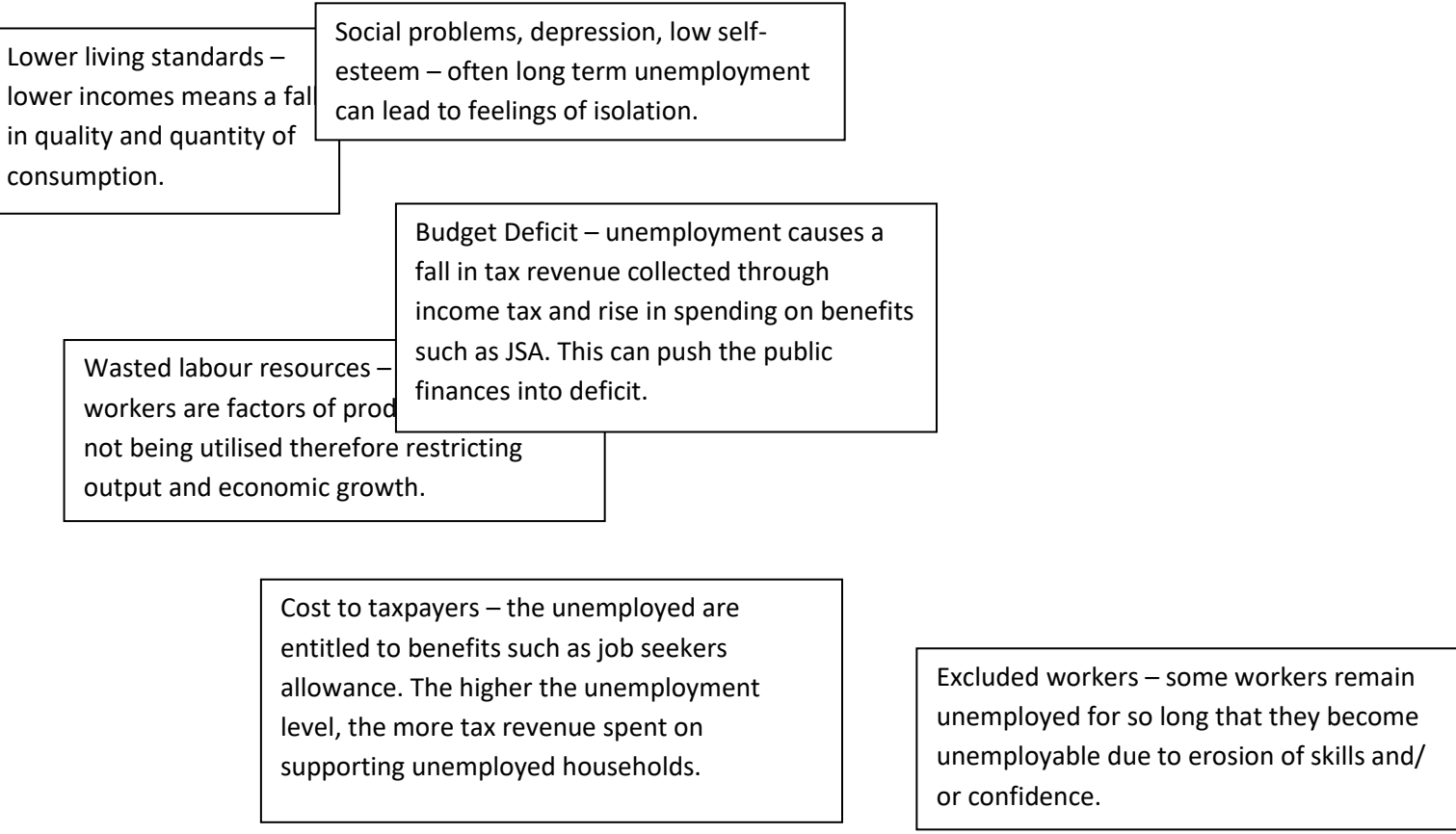
Evaluating the consequences of unemployment

Frictional unemployment allows labour resources to be re-allocated to where they are needed more.



Label the following

costs of unemployment, individuals (I), government (G) or region (R)



What causes inflation? There are 4 main ideas...

DEMAND - PULL INFLATION

This is caused when total (or aggregate) demand in the economy rises. The supply of goods produced by companies cannot rise fast enough to match the demand from consumers. It won't just be consumers - firms will be demanding lots of capital goods for investment, or the Government could be spending a lot on health and education. Demand-pull inflation

COST-PUSH INFLATION

This is when the cost of production (the cost of making things) increases and causes prices to rise.

The main cost of production for most companies is wages. If wages are rising faster than the productivity of the workers then the average cost of production (cost per unit) will rise. Firms

THE WAGE - PRICE SPIRAL

Once prices begin to rise, inflation can easily accelerate (speed up) and get out of control. This is usually because of the wage-price spiral.

When prices rise, workers will feel worse off because their wages buy fewer goods. So the workers will demand higher wages from their employers to compensate them for the inflation. This means that the firms end up with even higher costs, so they raise their prices again - more cost-push inflation. The cycle could go on and on....higher wages lead to higher prices lead to higher wages.....

MONETARY INFLATION

Imagine what would happen to prices if the Government printed loads of £50 notes, and started to drop them from helicopters across the whole country!

Some economists believe that prices cannot rise unless the supply of money also rises. This sounds right - how can people demand more goods and services unless they have the money in their pockets to buy them?

They blame inflation on the Government printing too much money - increasing the money supply or monetary inflation..



**Causes of
inflation**

Explain in your own words

<p>Demand-Pull inflation</p>	
<p>Monetary inflation</p>	
<p>Cost-Push inflation</p>	

The Wage-price spiral	

What is the most important cause of inflation? You need to Justify your judgement with one or two sentences (do this in 6-mark and 8-mark questions to reach the top level!

M	Menu Costs
I	Income redistribution
L	Labour market problems

E	Employment problems
R	Rapid rises = hyperinflation



Shoe Leather costs

If prices are rising quickly, consumers will have to spend more time 'shopping around' for the best deals and prices.

The extra time and effort that this takes is known as 'shoe leather costs'. This is because in the old days we used to wear out our shoes by visiting all those extra shops to find the best deal!

Menu costs



Businesses will have to adjust their prices more often when there is high inflation. For example, if the price of ingredients keeps rising, a restaurant will have to keep raising its prices and this means printing new menus all the time. Because of this, the extra costs on business caused by inflation are usually called 'Menu costs'.

Income redistribution

Some people will gain from inflation while others lose out. In this way inflation can re-distribute money from some people to others, and this is not always fair. For example, people on low fixed incomes (like Pensioners, or people on benefits that do not rise) will lose out from inflation. But if you owe the Bank money, if you have a mortgage for example, inflation can help you out. Inflation will reduce the value of your debts. So borrowers will gain in times of inflation, while savers lose out!

Labour market problems

Inflation will cause problems in the Labour market. Workers will demand higher wages, because the real value of their income is falling. This could lead to arguments and conflicts with their employers. The employers may not want to give pay rises, or they may not be able to

Employment problems

High inflation will reduce people's real incomes. It will also make businesses less confident about the future. Because of both these problems, high inflation will mean that spending in the economy decreases and people will begin to lose their jobs. So, in the long-run, inflation will lead to lower employment and higher unemployment.



Rapid Rises = Hyperinflation

Once inflation starts, it can be very difficult to stop. A wage-price spiral can go out of control very easily, and inflation gets higher and higher. If nothing is done to stop this, it can lead to Hyperinflation - very rapid rates of inflation, such as 5000%. Money can become worthless. This has happened in many countries through history, including Germany before World War II and Zimbabwe today. All confidence in money is lost and the economy is almost destroyed.

S	
M	
I	
L	
E	



R

Summarise the problems caused by inflation below - give an example for each one to include in 4-mark or 6-mark answers!

Does inflation have any benefits?

Although we have seen that inflation has many bad points, the Government does not set a target for zero inflation. In fact, most economists believe that a tiny amount of inflation, as long as it is under control, is actually a good thing. There are 3 main reasons for this:

- **AVOIDING DEFLATION:** Inflation can get too LOW as well! If inflation goes below zero into minus numbers, this would mean that prices were falling across the economy. This is called deflation. We try to avoid this just as much as Hyperinflation! Falling prices stop people from buying things today because they expect them to get even cheaper tomorrow. But if everyone stopped buying altogether, total demand in the economy will collapse and many people would lose their jobs (recession).
- **HELPS PEOPLE IN DEBT:** A little bit of inflation will help people who owe money, because it means that the money they owe will be worth less in the future. This is particularly good for people with large mortgages who need to pay back the bank over a long period of time. But remember, this is just the opposite of savers losing out from inflation - income is being redistributed!
- **HELPS THE ECONOMY TO ADJUST:** A little bit of inflation is essential to help the economy adapt as the world changes. Firms need a bit of inflation to get them to invest money - they need to know they can raise prices in the future. Rising wages will also help workers feel like they are getting richer, which will encourage them to increase spending. All this helps to keep the economy growing and moving forward.

