

Understanding the implementation of the International Advanced Level in Economics

June 2013

Final Draft

Pearson Edexcel International Advanced Level (IAL) qualification in Economics

Summary of content coverage: comparison of 2008 and 2013 specifications

Key:

Numbering in bold (e.g. **1.3.1**) relates to 2013 IAL specification

Numbering in italics (e.g. *1.3.1*) relates to 2008 GCE specification

| | Heading |
|--|--|
| | No change to content (i.e. content in the 2013 IAL specification is unchanged from the 2008 specification) |
| | Minimal change to content (i.e. content in the 2013 IAL specification was partially covered in the 2008 specification, may include some new content elements) |
| | New content topic (i.e. content in the 2013 IAL specification is new, and was not previously explicitly covered in the 2008 specification) |

In the IAL specification the word 'including' means that everything included must be taught. When you see 'e.g.' you may use the examples provided or substitute your own examples.

Example 1

Factors to consider, including:

- A
- B
- C

This means that you must teach A, B and C. You may choose to teach additional content items, but you must cover those listed.

Example 2

Environmental considerations, e.g. emissions, waste disposal

This means that when you teach environmental considerations you may teach the students about emissions and waste disposal but, if you prefer, you can substitute your own examples.

Unit 1: Markets in Action
(previously titled Competitive Markets – How They Work and Why They Fail)

Overview of Changes to Unit 1

New content to this unit includes: the functions of money to allow greater specialisation and the division of labour; the role of the state in a mixed economy; value judgements and their influence on government economic policy; the law of diminishing marginal utility and the price elasticity of demand and supply of labour. The area of 'behavioural economics' represents a new addition to the content. Reference to sustainable resources has been removed and the definition of economic growth is now being covered in Unit 2 section 2.3.1.

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| 1.3.1 The nature of economics | | |
| 1 | Scarcity | Content previously covered in <i>Unit 1: Topic 1.3.1 – What is the nature of economics?</i> |
| 2 | Production possibility frontiers | |
| 3 | Specialisation, the division of labour and the role of money | Content partially covered in <i>Unit 1: Topic 1.3.1 – What is the nature of economics?</i> New content: the functions of money. |
| 4 | Free market and mixed economies | Content partially covered in <i>Unit 1: Topic 1.3.1 – What is the nature of economics?</i> New content: the role of the state in a mixed economy. The majority of economies today are mixed with varying degrees and types of government intervention. |
| 5 | Positive and normative economics | Content partially covered in <i>Unit 1: Topic 1.3.1 – What is the nature of economics?</i> New content: the role of value judgements in influencing economic policy. Economic policy is partly based on value judgements and this is one of the reasons there is disagreement amongst economists. |

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| 1.3.2 Demand and consumer behaviour | | |
| 1 | The demand curve | Content partially covered in <i>Unit 1: Topic 1.3.2 – What determines the demand for a good or a service in the market?</i> New content: the concept of diminishing marginal utility. The law of diminishing marginal utility explains the shape of the demand curve. |
| 2 | Price, income and cross elasticities of demand | Content previously covered in <i>Unit 1: Topic 1.3.2 – What determines the demand for a good or a service in the market?</i> |
| 3 | Consumer behaviour | New content: the assumption of rationality, challenges to this assumption from behavioural economics. This questions the idea of 'rationality' and has become an increasingly popular area of economics in the past 20 years. |

| 1.3.3 Supply | | |
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| 1 | The supply curve | Content previously covered in <i>Unit 1: Topic 1.3.3 – What determines the supply of a good or a service in a market?</i> |
| 2 | Price elasticity of supply | |

| 1.3.4 Price determination | | |
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| 1 | Determination of market equilibrium | Content previously covered in <i>Unit 1: Topic 1.3.4 – What determines the price of a good or a service in a market?</i> |
| 2 | Consumer and producer surplus | |
| 3 | Functions of the price mechanism | |
| 4 | Indirect taxes and subsidies | Content previously covered in <i>Unit 1: Topic 1.3.5 – How might the change in price of a good or service be explained?</i> |

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| 1.3.5 Wage determination in labour markets | | |
| 1 | The demand for labour | <p>Content partially covered in <i>Unit 1: Topic 1.3.6 – What determines the wage rate for labour in a market?</i></p> <p>New content: elasticity of demand for labour.</p> <p>The elasticity of demand for labour examines the extent to which the demand for labour extends and contracts as wage rates change. It determines the extent to which a change in the supply of labour will influence the wage rate and is therefore an important factor in wage determination.</p> |
| 2 | The supply of labour | <p>Content partially covered in <i>Unit 1: Topic 1.3.6 – What determines the wage rate for labour in a market?</i> and <i>Unit 1: Topic 1.3.7 – Why do some markets fail?</i></p> <p>New content: elasticity of supply of labour.</p> <p>The elasticity of supply of labour examines the extent to which the supply of labour will extend/contract in response to a change in the wage rate. It determines the extent to which a change in the demand for labour will influence the wage rate and is therefore an important factor in wage determination.</p> |
| 3 | Determination of wage rates | Content previously covered in <i>Unit 1: Topic 1.3.6 – What determines the wage rate for labour in a market?</i> |

| 1.3.6 Market failure | | |
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| 1 | Types of market failure | Content previously covered in <i>Unit 1: Topic 1.3.7 – Why do some markets fail?</i> |
| 2 | Externalities | |
| 3 | Public goods | |
| 4 | Imperfect market information | |
| 5 | Labour immobility | |

| 1.3.7 Government intervention in markets | | |
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| 1 | Methods of government intervention | Content previously covered in <i>Unit 1: Topic 1.3.8 – How do governments attempt to correct market failure?</i> and <i>Unit 1: Topic 1.3.9 – What is government failure?</i> |
| 2 | Government failure | |

Unit 2: Macroeconomic Performance and Policy
(previously titled Managing the Economy)**Overview of Changes to Unit 2**

The content includes the following: definitions of inflation, deflation and disinflation; the distinction between unemployment and underemployment; the components of the balance of payments; disposable income as a determinant of consumption and the marginal propensity to consume (MPC); different shapes of the aggregate supply curve and the short and long-run aggregate supply; causes of changes in real output; the definition and characteristics of a recession; calculation of the multiplier and the distinction between actual and potential growth.

New additions to this section include the distinction between GDP, GNP and GNI, the causes and effects of inflation, and protectionism as a factor that influence the value of net exports. Reference to the UK with respect to the RPI method of calculating inflation and the claimant count method of calculating unemployment have been removed. In addition the costs of an imbalance on the balance of payments and the conflicts resulting from the use of policy instruments have been removed.

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| 2.3.1 Measures of economic performance | | |
| 1 | Economic growth | <p>Content partially covered in <i>Unit 2: Topic 2.3.1 – How do we measure the economic performance of developed and developing countries?</i></p> <p>New content: GNP and GNI, limitations of using GDP to compare living standards between countries and over time.</p> |
| 2 | Inflation | <p>Content partially covered in <i>Unit 2: Topic 2.3.1 – How do we measure the economic performance of developed and developing countries?</i></p> <p>New content: definitions of deflation and disinflation, causes and effects of inflation, producer (wholesale) price index as an indicator of future trend.</p> <p>Causes and effects of inflation provide the basis for understanding macroeconomic objectives and policy.</p> |
| 3 | Employment and unemployment | <p>Content partially covered in <i>Unit 2: Topic 2.3.1 – How do we measure the economic performance of developed and developing countries?</i></p> <p>New content: distinction between unemployment and underemployment.</p> <p>Underemployment, where individuals are not making full use of their skills or are working part-time when they would like a full-time position, is becoming a more significant economic problem.</p> |
| 4 | Balance of Payments | <p>Content partially covered in <i>Unit 2: Topic 2.3.1 – How do we measure the economic performance of developed and developing countries?</i></p> <p>New content: components of the balance of payments.</p> <p><i>The balance of payments accounts consist of a current, capital and financial account.</i></p> |
| 5 | Measures of development – Human Development Index (HDI) | <p>Content previously covered in <i>Unit 2: Topic 2.3.1 – How do we measure the economic performance of developed and developing countries?</i></p> |
| 6 | Other measures of development | |

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| 2.3.2 The circular flow of income | | |
| 1 | National income | <p>Content previously covered in <i>Unit 2: Topic 2.3.2 – Is income the same as wealth?</i></p> |
| 2 | Injections and withdrawals | |

| 2.3.3 Aggregate demand (AD) | | |
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| 1 | The characteristics of AD | Content previously covered in <i>Unit 2: Topic 2.3.3 – What is aggregate demand (AD)?</i> |
| 2 | Consumption (C) | Content partially covered in <i>Unit 2: Topic 2.3.3 – What is aggregate demand (AD)?</i> New content: disposable income, marginal propensity to consume, marginal propensity to save, determinants of consumption. Disposable income is the most important determinant of consumption and together with the marginal propensity to consume/save determines the overall level of consumption. |
| 3 | Investment (I) | Content previously covered in <i>Unit 2: Topic 2.3.3 – What is aggregate demand (AD)?</i> |
| 4 | Government expenditure (G) | |
| 5 | Exports - Imports (X-M) | Content partially covered in <i>Unit 2: Topic 2.3.3 – What is aggregate demand (AD)?</i> New content: degree of protectionism as an influence on the value of (X-M), definition of the marginal propensity to import. Protectionism still plays a significant role in determining the level of X-M. |

| 2.3.4 Aggregate supply (AS) | | |
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| 1 | The characteristics of AS | Content partially covered in <i>Unit 2: Topic 2.3.4 – What is aggregate supply (AS)?</i> |
| 2 | Short-run and long-run AS | New content: different shapes of AS curves, short-run and long-run AS curves. Short-run v's long-run and the differing shapes of the AS curves have an impact on macroeconomic policy. |

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| 2.3.5 The interaction of AD and AS to determine equilibrium | | |
| 1 | Equilibrium level of real output | Content partially covered in <i>Unit 2: Topic 2.3.5 – What determines the price level and the equilibrium level of real output?</i> New content: causes of changes in real output. Shifts in AD and AS influence the level of real output. |
| 2 | The multiplier | Content partially covered in <i>Unit 2: Topic 2.3.5 – What determines the price level and the equilibrium level of real output?</i> New content: calculating the multiplier. |

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| | The value of the multiplier determines the impact of a change in injections to the circular flow of income on the level of national income and is an important consideration when using macroeconomic policy. |
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| 2.3.6 Economic growth | |
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| 1 Causes of growth | Content partially covered in <i>Unit 2: Topic 2.3.6 – What are the causes, costs and constraints on economic growth?</i> New content: distinction between the causes of actual and potential growth. Distinction between actual growth caused by an increase in AD, and potential growth shown by an increase in AS have important policy implications. |
| 2 Constraints on growth | Content previously covered in <i>Unit 2: Topic 2.3.6 – What are the causes, costs and constraints on economic growth?</i> |
| 3 Benefits of growth | |
| 4 Costs of growth | |
| 5 Output gaps | Content partially covered in <i>Unit 2: Topic 2.3.6 – What are the causes, costs and constraints on economic growth?</i> New content: definition and characteristics of a recession. The definition of a recession as two consecutive quarters of negative growth in real GDP and the characteristics of a recession have important implications for macroeconomic performance and policy. |

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| 2.3.7 Macroeconomic objectives and policies | |
| 1 Macroeconomic objectives | Content previously covered in <i>Unit 2: Topic 2.3.7 – What are the macroeconomic objectives of governments? Do they conflict?</i> |
| 2 Conflicts between objectives | |
| 3 Macroeconomic policy instruments | Content previously covered in <i>Unit 2: Topic 2.3.8 – What are the main macroeconomic policy instruments?</i> and <i>Unit 2: Topic 2.3.9 – Do macroeconomic policies conflict when they are used together?</i> |

Unit 3: Business Behaviour
(previously titled Business Economics and Economic Efficiency)

Overview of Changes to Unit 3

There are relatively few changes to this unit, although some sections have been expanded to emphasise the international focus of the qualification and to reflect the new weighting of the unit. As a point of clarification it has been stated that marginal productivity theory should be used to explain the derivation of marginal and average cost curves. New additions to this unit include: transnational companies (TNCs), the costs and benefits to employees resulting from a monopsony and government intervention to protect suppliers and employees. Government intervention to promote international competitiveness has been moved from Unit 4 to this unit.

Concentration ratios and barriers to entry have been moved within the unit and are now taught in the oligopoly section although the content remains the same. Use of simple game theory to illustrate the interdependence in oligopolistic markets is no longer explicitly required in the content.

Comparisons between monopoly and other market structures should still be made however it is no longer necessary to include a diagrammatic analysis to compare perfect competition and monopoly.

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| 3.3.1 The firm and its objectives | |
| 1 Objectives | Content partially covered in <i>Unit 3: Topic 3.3.1 – What objectives do firms have?</i> New content: size and types of businesses, including for profit and not for profit organisations and mutuals and co-operatives, the significance of the divorce of ownership and control. |
| 2 Size of businesses | Content previously covered in <i>Unit 3: Topic 3.3.2 – Why do firms grow?</i> |
| 3 Transnational companies (TNCs) | New content: reasons why companies become TNCs, advantages and limitations to a company of becoming a TNC. |

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| 3.3.2 Revenue, costs and profit | | |
| 1 | Revenue | Content previously covered in <i>Unit 3: Topic 3.3.3 – How do we calculate the revenue of a firm?</i> |
| 2 | Costs | Content partially covered in <i>Unit 3: Topic 3.3.4 – How can we calculate the costs of a firm?</i> New content: derivation of short-run cost curves from assumption of marginal productivity. The derivation of both the MC and AC curves needs to make reference to marginal productivity theory (the law of diminishing returns). |
| 3 | Economies and diseconomies of Scale | Content previously covered in <i>Unit 3: Topic 3.3.4 – How can we calculate the costs of a firm?</i> |
| 4 | Profit | Content previously covered in <i>Unit 3: Topic 3.3.6 – What is meant by profit?</i> |

| 3.3.3 Market structures and contestability | | |
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| 1 | Perfect competition | Content previously covered in <i>Unit 3: Topic 3.3.5 – What is meant by efficiency?</i> and <i>Unit 3: Topic 3.3.9 – What determines the behaviour of firms?</i> |
| 2 | Monopolistic competition | |
| 3 | Oligopoly | Content previously covered in <i>Unit 3: Topic 3.3.7 – What barriers exist to firms entering and leaving markets?, Unit 3: Topic 3.3.8 – What do we mean by market concentration?</i> and <i>Unit 3: Topic 3.3.9 – What determines the behaviour of firms?</i> |
| 4 | Monopoly | Content previously covered in <i>Unit 3: Topic 3.3.5 – What is meant by efficiency?, Unit 3: Topic 3.3.7 – What barriers exist to firms entering and leaving markets?</i> and <i>Unit 3: Topic 3.3.9 – What determines the behaviour of firms?</i> |
| 5 | Monopsony | Content partially covered in <i>Unit 3: Topic 3.3.9 – What determines the behaviour of firms?</i> New content: costs and benefits to employees. A monopsonist can also be a dominant buyer of labour and this has implications for the wage rate and level of employment. |
| 6 | Contestability | Content previously covered in <i>Unit 3: Topic 3.3.10 – How does the threat of competition affect a firm's behaviour?</i> |

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| 3.3.4 Government intervention to promote competition | |
| 1 Government intervention to protect consumers | Content partially covered in <i>Unit 3: Topic 3.3.11 – Why does the government intervene in markets to maintain competition?</i> New content: role of pressure groups in influencing government policy to protect consumers. |
| 2 Government intervention to protect suppliers and employees | New content: types of government intervention and their impact, role of pressure groups in influencing government policy to protect suppliers and employees. In addition to consumers, suppliers and employers need to be protected from foreign competition and to prevent exploitation by dominant/monopsony buyers of both materials and labour. |
| 3 Government intervention to promote international competitiveness | Content previously covered in <i>Unit 4: Topic 4.3.4 – How does a company compete?</i> |
| 4 Government policy towards transnational companies (TNCs) | New content: measures to attract foreign direct investment (FDI), measures to control TNC operations, including in response to pressure group activity, limits to government ability to control TNCs. Links to the content on TNCs in 3.3.1 above. |

Unit 4: Developments in the Global Economy (previously titled The Global Economy)

Overview of Changes to Unit 4

Some of the changes to this unit have been introduced to provide clarification with respect to the content that needs to be delivered. The meaning of globalisation and the need to address the causes over a particular time period of 40 years have been made explicit. When teaching the balance of payments reference needs to be made to the current, capital and financial accounts. Public sector expenditure should be defined in terms of current, capital and transfer payments.

New areas of content in this unit include the terms of trade, government intervention in currency markets and the distinction between fixed, floating and managed exchange rates. The concept of wealth has been introduced and the impact that economic change and development has on income inequality. Finally in recognition of the macroeconomic problems facing many economies today increased emphasis has been placed on public sector borrowing and debt and its impact on macroeconomic policy.

The benefits and costs of monetary union have been removed as has specific reference to how the state might use tax revenues to improve human capital, although this can still be addressed in supply-side policies.

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| 4.3.1 Causes and effects of globalisation | | |
| 1 | Causes of globalisation | Content partially covered in <i>Unit 4: Topic 4.3.1 – What are the causes and effects of globalisation?</i> New content: meaning of globalisation, time frame (the last 40 years) |
| 2 | Effects of globalisation | Content previously covered in <i>Unit 4: Topic 4.3.1 – What are the causes and effects of globalisation?</i> |

| 4.3.2 Trade and the world economy | | |
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| 1 | Specialisation and comparative advantage | Content previously covered in <i>Unit 4: Topic 4.3.2 – Why trade?</i> |
| 2 | Patterns of trade | |
| 3 | Terms of trade | New content: definition and calculation, factors, impact of changes. The terms of trade can be a key determinant of economic performance particularly to commodity exporting countries. Changes to the terms of trade may necessitate a policy response as they have a significant impact on growth and development. |
| 4 | Trade liberalisation | Content previously covered in <i>Unit 4: Topic 4.3.2 – Why trade?</i> |
| 5 | Restrictions on free trade | |

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| 4.3.3 Balance of payments and exchange rates | |
| <p>1 Balance of payments</p> | <p>Content partially covered in <i>Unit 4: Topic 4.3.3 – How is international trade recorded and financed?</i></p> <p>New content: causes of, and factors influencing the size of, deficits and surpluses on the capital and financial account, measures to reduce a country’s imbalances on the current account and/or capital and financial account.</p> <p>The balance of payments consists of the current, capital and financial account and deficits and surpluses on capital and financial as well as current accounts need to be addressed.</p> |
| <p>2 Exchange rates</p> | <p>Content partially covered in <i>Unit 4: Topic 4.3.3 – How is international trade recorded and financed?</i></p> <p>New content: distinction between fixed, managed and floating exchange rates, government intervention in currency markets, competitive devaluation/depreciation and its consequences.</p> <p>Exchange rate systems vary from country to country. A distinction between systems is necessary as they can impact on growth, development and macroeconomic policy. Competitive devaluation and depreciation are having an impact on trading patterns and government policy responses.</p> |

| 4.3.4 Poverty and inequality | |
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| <p>1 Absolute and relative poverty</p> | <p>Content previously covered in <i>Unit 4: Topic 4.3.5 – What is poverty and inequality in developed and developing countries?</i></p> |
| <p>2 Inequality</p> | <p>Content partially covered in <i>Unit 4: Topic 4.3.5 – What is poverty and inequality in developed and developing countries?</i></p> <p>New content: distinction between wealth and income inequality, impact of economic change and development on inequality.</p> <p>Income and wealth inequality are increasing in some countries as a consequence of economic growth. Attempts to reduce inequality can improve economic development.</p> |

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| 4.3.5 The role of the state in the macroeconomy | |
| <p>1 Public expenditure</p> | <p>Content partially covered in <i>Unit 4: Topic 4.3.7 – What is the role of the state in promoting growth and development?</i></p> <p>New content: distinction between current expenditure, capital expenditure and transfer payments.</p> <p>When defining public expenditure it is necessary to distinguish between current, capital and transfer payments.</p> |
| <p>2 Taxation</p> | <p>Content partially covered in <i>Unit 4: Topic 4.3.7 – What is the role of the state in promoting growth and development?</i></p> <p>New content: possible link between changes in tax rates and tax revenues, including the Laffer curve</p> <p>The Laffer curve diagram should be used to show the relationship between tax rates and tax revenue.</p> |
| <p>3 Public sector borrowing and public sector debt</p> | <p>Content partially covered in <i>Unit 4: Topic 4.3.7 – What is the role of the state in promoting growth and development?</i></p> <p>New content: distinction between structural and cyclical deficits, factors influencing the size of public sector borrowing and debt.</p> <p>Public sector borrowing and debt is a significant factor determining macroeconomic policy and performance at present and needs to be addressed to understand the financial crises.</p> |
| <p>4 Macroeconomic policies</p> | <p>Content partially covered in <i>Unit 4: Topic 4.3.7 – What is the role of the state in promoting growth and development?</i></p> <p>New content: distinction between fiscal deficits and fiscal surpluses, methods and impact of measures to reduce fiscal deficits and public sector debt.</p> <p>In some countries macroeconomic policy is currently geared towards reducing fiscal deficits and public sector debt and this is having a significant impact on the macroeconomic performance of these countries and others.</p> |

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| 4.3.6 Measures to promote growth and development | |
| 1 Market-orientated strategies | Content previously covered in <i>Unit 4: Topic 4.3.8 – What other measures can be used to promote growth and development?</i> |
| 2 Government-led strategies | |
| 3 Other strategies | |
| 4 Role of foreign governments and international institutions and non-governmental organisations (NGOs). | |
| 5 Constraints on growth and development | Content previously covered in <i>Unit 4: Topic 4.3.6 – What are the limits to growth and development in developed and developing countries?</i> |