

**INTERNATIONAL ADVANCED LEVEL**

# **ECONOMICS**

## **SPECIFICATION**

Pearson Edexcel International Advanced Subsidiary in Economics (XEC11)

Pearson Edexcel International Advanced Level in Economics (YEC11)

First teaching September 2018

First examination from January 2019

First certification from August 2019 (International Advanced Subsidiary) and August 2020 (International Advanced Level)

Issue 2



## **Edexcel, BTEC and LCCI qualifications**

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## *Acknowledgements*

This specification has been produced by Pearson on the basis of consultation with teachers, examiners, consultants and other interested parties. Pearson would like to thank all those who contributed their time and expertise to the specification's development.

*References to third party material made in this specification are made in good faith. Pearson does not endorse, approve or accept responsibility for the content of materials, which may be subject to change, or any opinions expressed therein. (Material may include textbooks, journals, magazines and other publications and websites.)*

*All information in this specification is correct at time of going to publication.*

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## Summary of International Advanced Subsidiary/Advanced Level Economics specification Issue 2 changes

<b>Summary of changes made between previous issue and this current issue</b>	<b>Page number</b>
Content overview for Unit 3 has been changed from 'Measures of economic performance' into 'Types and sizes of businesses'.	10, 32
The title of <i>Appendix 6</i> has been amended.	68
Quantitative skill 6 'Calculate total revenue' has been added to the IAS table in <i>Appendix 7</i> .	69

If you need further information on these changes or what they mean, contact us via our website at: [qualifications.pearson.com/en/support/contact-us.html](http://qualifications.pearson.com/en/support/contact-us.html).



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# About this specification

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The Pearson Edexcel International Advanced Subsidiary in Economics and the Pearson Edexcel International Advanced Level in Economics are part of a suite of International Advanced Level qualifications offered by Pearson.

These qualifications are not accredited or regulated by any UK regulatory body.

## Key features

This specification includes the following key features.

### Structure

The Pearson Edexcel International Advanced Subsidiary in Economics and the Pearson Edexcel International Advanced Level in Economics are modular qualifications.

The Advanced Subsidiary can be claimed on completion of the International Advanced Subsidiary (IAS) units.

The International Advanced Level can be claimed on completion of all the units (IAS and IA2 units).

### Content

These qualifications build on the content covered in the legacy (2013) Pearson Edexcel International Advanced Level in Economics. They have been updated to align them with recent changes in the equivalent AS and A Level qualifications taken in England and Wales.

### Assessment

The qualifications are assessed through examination only.

## Specification updates

This specification is Issue 2 and is valid for first teaching from September 2018. If there are any significant changes to the specification, we will inform centres in writing. Changes will also be posted on our website.

For more information please visit [qualifications.pearson.com](http://qualifications.pearson.com)

## Using this specification

This specification gives teachers guidance and encourages effective delivery of these qualifications. The following information will help you get the most out of the content and guidance.

**Compulsory content:** as a minimum, all the bullet points in the content must be taught. The word 'including' in content specifies the detail of what must be covered.

**Assessments:** teachers should deliver these qualifications using a good range of examples to support the assessment of the content.

**Depth and breadth of content:** teachers should use the full range of content and all the assessment objectives given in the subject content section.

## Qualification aims and objectives

The aims and objectives of these qualifications are to enable students to:

- develop an interest in, and enthusiasm for, the subject
- appreciate the contribution of economics to the understanding of the wider economic and social environment
- develop an understanding of a range of concepts and an ability to use those concepts in a variety of different contexts
- use an enquiring, critical and thoughtful approach to the study of economics and develop an ability to think as an economist
- understand that economic behaviour can be studied from a range of perspectives
- develop analytical and quantitative skills, together with qualities and attitudes that will equip them for the challenges, opportunities and responsibilities of adult and working life.

## Qualification abbreviations used in this specification

The following abbreviations appear in this specification:

- International Advanced Subsidiary – IAS
- International A2 – IA2 (the additional content required for an IAL)
- International Advanced Level – IAL.

# Why choose Edexcel qualifications?

## Pearson – the world’s largest education company

Edexcel academic qualifications are from Pearson, the UK’s largest awarding organisation. With over 3.4 million students studying our academic and vocational qualifications worldwide, we offer internationally recognised qualifications to schools, colleges and employers globally.

Pearson is recognised as the world’s largest education company, allowing us to drive innovation and provide comprehensive support for Edexcel students to acquire the knowledge and skills they need for progression in study, work and life.

## A heritage you can trust

The background to Pearson becoming the UK’s largest awarding organisation began in 1836, when a royal charter gave the University of London its first powers to conduct exams and confer degrees on its students. With over 150 years of international education experience, Edexcel qualifications have a firm academic foundation, built on the traditions and rigour associated with Britain’s educational system.

To find out more about our Edexcel heritage please visit our website:  
[qualifications.pearson.com/en/about-us/about-pearson/our-history](https://qualifications.pearson.com/en/about-us/about-pearson/our-history)

## Results you can trust

Pearson’s leading online marking technology has been shown to produce exceptionally reliable results, demonstrating that at every stage, Edexcel qualifications maintain the highest standards.

## Developed to Pearson’s world-class qualifications standards

Pearson’s world-class standards mean that all Edexcel qualifications are developed to be rigorous, demanding, inclusive and empowering. We work collaboratively with a panel of educational thought-leaders and assessment experts to ensure that Edexcel qualifications are globally relevant, represent world-class best practice and maintain a consistent standard.

For more information on the world-class qualification process and principles please go to *Appendix 2: Pearson World Class Qualification design principles* or visit our website:  
[uk.pearson.com/world-class-qualifications](https://uk.pearson.com/world-class-qualifications).

# Why choose Pearson Edexcel International Advanced Subsidiary/Advanced Level qualifications in Economics

We have listened to feedback from all parts of the international school subject community, including a large number of teachers. We have made changes that will engage international learners and give them skills that will support their progression to further study of Economics and to a wide range of other subjects.

## Key qualification features:

- **Development of quantitative skills** – students develop these skills throughout the content of the course and are required to apply these skills to relevant economic contexts within the assessment.
- **Consistent command word taxonomy** – we have reduced the number of command words used in the assessment and applied a consistent mark tariff.
- **Clear and simple structure** - based on your feedback we have taken the opportunity to make some improvements to the clarity and structure of our new specification.
- **Accessible assessment** – to ensure all students are able to access the whole exam paper we have introduced ramping within each question. Questions start with a low mark tariff and become more challenging as students work their way through the paper, helping to build confidence.
- **Engaging content** – Content allows students to develop an awareness of trends in the global economy, researching developed and developing economics, including a focus on contemporary issues.
- **Clear and straightforward question papers** – our question papers are clear and accessible for students of all ability ranges. Our mark schemes are straightforward so that the assessment requirements are clear.
- **Increased level of support** – textbook, online digital resources, mapping documents, scheme of work, getting started guide and training.

**Broad and deep development of learners' skills** – we designed the International Advanced Level qualifications to extend learners' knowledge by broadening and deepening skills, for example learners will:

- read sources to interpret and evaluate economic information
- write extended responses
- respond appropriately to a range of question types, including multiple-choice, short-answer, data response and open-ended questions
- develop an understanding of economic concepts and apply these concepts to real-life situations.

**Progression** – International Advanced Level qualifications enable successful progression on to further study and the workplace. Through our world-class qualification development process we have consulted with higher education representatives to validate the appropriateness of these qualifications, including content, skills and assessment structure.

**Related qualifications** – Our International Advanced Level in Economics sits within our wider subject offer for Business and Economics qualifications. We also offer:

- Pearson Edexcel International Advanced Level in Business
- Pearson Edexcel International Advanced Level in Accounting
- Pearson Edexcel Level 3 Advanced Subsidiary GCE in Business
- Pearson Edexcel Level 3 Advanced GCE in Business
- Pearson Edexcel Level 3 Advanced Subsidiary GCE in Economics A
- Pearson Edexcel Level 3 Advanced GCE in Economics A
- Pearson Edexcel Level 3 Advanced Subsidiary GCE in Economics B
- Pearson Edexcel Level 3 Advanced GCE in Economics B
- BTEC Nationals and Higher Nationals in Business.

More information can be found on our website ([qualifications.pearson.com](http://qualifications.pearson.com)) on the Edexcel International Advanced Level pages.

# Supporting you in planning and implementing these qualifications

## Planning

- Our *Getting Started Guide* gives you an overview of the Pearson Edexcel International Advanced Subsidiary/Advanced Level in Economics to help you understand the changes to content and assessment, and what these changes mean for you and your students.
- We will provide you with an editable course planner and scheme of work.
- Our mapping documents highlight key differences from the legacy qualification.

## Teaching and learning

- Our skills maps will highlight opportunities for students to develop skills that are assessed, as well as skills that are not directly assessed.
- Print and digital learning and teaching resources – promote any time, any place learning to improve student motivation and encourage new ways of working.

## Preparing for exams

We will also provide a range of resources to help you prepare your students for the assessments, including:

- examiner commentaries following each examination series.

## ResultsPlus

ResultsPlus provides the most detailed analysis available of your students' examination performance. It can help you identify the topics and skills where further learning would benefit your students.

## examWizard

A free online resource designed to support students and teachers with examination preparation and assessment.

## Training events

In addition to online training, we host a series of training events each year for teachers to deepen their understanding of our qualifications.

## Get help and support

Our subject advisor service will ensure that you receive help and guidance from us. You can sign up to receive qualification updates and product service news at [qualifications.pearson.com](http://qualifications.pearson.com) or email 'sign me up' to [TeachingEconomics@pearson.com](mailto:TeachingEconomics@pearson.com).

# Qualification at a glance

## Qualification overview

### **Pearson Edexcel International Advanced Subsidiary in Economics**

This qualification consists of two externally-examined units.

The International Advanced Subsidiary is the first half of the International Advanced Level qualification and consists of two IAS units, Units 1 and 2. This qualification may be awarded as a discrete qualification or may contribute 50 per cent towards the International Advanced Level qualification.

### **Pearson Edexcel International Advanced Level in Economics**

This qualification consists of four externally-examined units.

The International Advanced Level consists of the two IAS units (Units 1 and 2) plus two IA2 units (Units 3 and 4). Students wishing to take the International Advanced Level must, therefore, complete all four units.

## Course of study

The structure of these qualifications allows teachers to construct a course of study that can be taught and assessed as either:

- distinct modules of teaching and learning with related units of assessment taken at appropriate stages during the course; or
- a linear course assessed in its entirety at the end.

## Content and assessment overview

<b>IAS</b>	<b>*Unit code: WEC11/01</b>	
<b>Unit 1: Markets in action</b>		
Externally assessed Written examination: 1 hour and 45 minutes Availability: January, June and October First assessment: January 2019 80 marks	50% of the total IAS	25% of the total IAL
<b>Content overview</b> <ul style="list-style-type: none"> <li>• Introductory concepts</li> <li>• Consumer behaviour and demand</li> <li>• Supply</li> <li>• Price determination</li> <li>• Market failure</li> <li>• Government intervention in markets</li> </ul>		
<b>Assessment overview</b> <b>Section A:</b> Six multiple-choice questions (6 marks). <b>Section B:</b> Five short-answer questions (20 marks). <b>Section C:</b> A five-part question, based on data provided in a source booklet (34 marks). <b>Section D:</b> One 20-mark essay question from a choice of two (20 marks).		

<b>IAS</b>	<b>*Unit code: WEC12/01</b>	
<b>Unit 2: Macroeconomic performance and policy</b>		
Externally assessed Written examination: 1 hour and 45 minutes Availability: January, June and October First assessment: June 2019 80 marks	50% of the total IAS	25% of the total IAL
<b>Content overview</b> <ul style="list-style-type: none"> <li>• Measures of economic performance</li> <li>• Aggregate demand (AD)</li> <li>• Aggregate supply (AS)</li> <li>• National income</li> <li>• Economic growth</li> <li>• Macroeconomic objectives and policies</li> </ul>		
<b>Assessment overview</b> <b>Section A:</b> Six multiple-choice questions (6 marks). <b>Section B:</b> Five short-answer questions (20 marks). <b>Section C:</b> A five-part question, based on data provided in a source booklet (34 marks). <b>Section D:</b> One 20-mark essay question from a choice of two (20 marks).		

<b>IA2</b> <b>Unit 3: Business behaviour</b>	<b>*Unit code:</b> <b>WEC13/01</b>	
Externally assessed Written examination: 2 hours Availability: January, June and October First assessment: January 2020 80 marks	50% of the total IA2	25% of the total IAL
<p><b>Content overview</b></p> <ul style="list-style-type: none"> <li>• Types and sizes of businesses</li> <li>• Revenue, costs and profits</li> <li>• Market structures and contestability</li> <li>• Labour markets</li> <li>• Government intervention</li> </ul>		
<p><b>Assessment overview</b></p> <p><b>Section A:</b> Six multiple-choice questions (6 marks).</p> <p><b>Section B:</b> A five-part question, based on data provided in a source booklet (34 marks).</p> <p><b>Section C:</b> Two 20-mark essay questions from a choice of three (40 marks).</p>		

<b>IA2</b> <b>Unit 4: Developments in the global economy</b>	<b>*Unit code:</b> <b>WEC14/01</b>	
Externally assessed Written examination: 2 hours Availability: January, June and October First assessment: June 2020 80 marks	50% of the total IA2	25% of the total IAL
<p><b>Content overview</b></p> <ul style="list-style-type: none"> <li>• Causes and effects of globalisation</li> <li>• Trade and the global economy</li> <li>• Balance of payments, exchange rates and international competitiveness</li> <li>• Poverty and inequality</li> <li>• The role of the state in the macroeconomy</li> <li>• Growth and development in developing, emerging and developed economies</li> </ul>		
<p><b>Assessment overview</b></p> <p><b>Section A:</b> Six multiple-choice questions (6 marks).</p> <p><b>Section B:</b> A five-part question, based on data provided in a source booklet (34 marks).</p> <p><b>Section C:</b> Two 20-mark essay questions from a choice of three (40 marks).</p>		

\*See *Appendix 1: Codes* for a description of this code and all other codes relevant to these qualifications.

# Economics content

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# Unit 1: Markets in action

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## IAS compulsory unit

## Externally assessed

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### 1.1 Unit description

This unit gives students an introduction to the nature of economics and examines how the price mechanism allocates resources in local, national and global markets.

Students will learn to apply supply and demand analysis to real-world situations, and will be able to suggest reasons for consumer behaviour. This will involve looking at how consumers act in a rational way to maximise utility and how firms maximise profit but also why consumers may not behave rationally. Students will analyse the nature and causes of market failure and understand the strengths and weaknesses of possible policy remedies.

Students will need to be able to apply relevant quantitative skills to the content covered in this unit, including calculations, the use of data and the drawing of diagrams. A full list of quantitative skills can be found in *Appendix 7: Quantitative skills*.

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### 1.2 Assessment information

- First assessment: January 2019.
  - The examination lasts 1 hour and 45 minutes.
  - The paper is out of 80 marks.
  - The paper will include, multiple-choice, short-open response and extended-writing questions. Some of these will relate to sources provided in a Source booklet.
  - The paper will include questions that target quantitative skills. This may include making and interpreting calculations, and drawing and interpreting diagrams.
  - Calculators may be used in the examination. See *Appendix 8* for more information.
-

## 1.3 Unit content

### 1.3.1 Introductory concepts

What students need to learn:

<p><b>1 The nature of economics</b></p>	<p>a) Economics as a social science: inability to conduct scientific experiments.</p> <p>b) The development of models in economics based on assumptions.</p> <p>c) The use of the <i>ceteris paribus</i> assumption in building models and drawing conclusions based on them.</p>
<p><b>2 Positive and normative economics</b></p>	<p>a) The distinction between positive statements and value judgements on economic issues.</p> <p>b) The role of value judgements in influencing economic decision making and policy.</p>
<p><b>3 Scarcity</b></p>	<p>a) The problem of unlimited wants and finite resources.</p> <p>b) The distinction between renewable and non-renewable resources.</p> <p>c) The link between scarcity and opportunity cost.</p> <p>d) The distinction between free goods and economic goods.</p>
<p><b>4 Production possibility frontiers</b></p>	<p>a) The use of production possibility frontiers to depict:</p> <ul style="list-style-type: none"> <li>• the maximum productive potential of an economy</li> <li>• efficient or inefficient allocation of resources</li> <li>• possible and unobtainable production</li> <li>• opportunity cost (using marginal analysis)</li> <li>• economic growth and decline.</li> </ul> <p>b) The distinction between movements along, and shifts in, production possibility frontiers, and their possible causes.</p> <p>c) The distinction between capital goods and consumer goods.</p> <p>d) The significance of capital goods for productivity and economic growth.</p>
<p><b>5 Specialisation and the role of money and financial markets</b></p>	<p>a) The advantages and disadvantages of specialisation and the division of labour in organising production; Adam Smith's views on the division of labour.</p> <p>b) The function of money as a medium of exchange, a measure and store of value, and a method of deferred payment; the significance of these functions for specialisation.</p> <p>c) The role of financial markets:</p> <ul style="list-style-type: none"> <li>• to facilitate saving</li> <li>• to make funds available to businesses and individuals</li> <li>• to facilitate the exchange of goods and services</li> <li>• to provide forward markets in commodities and currencies</li> <li>• to provide a market for equities.</li> </ul>

### 1.3.1 Introductory concepts (*continued*)

What students need to learn:

<b>6 Free market, mixed and command economies</b>	a) The distinction between free market, mixed and command economies. b) The advantages and disadvantages of free market and command economies. c) The role of the state in a mixed economy.
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### 1.3.2 Consumer behaviour and demand

What students need to learn:

<p><b>1 Rational decision making</b></p>	<p>a) The assumption of rationality in decision making: consumers aim to maximise utility by making rational choices; firms aim to maximise profits.</p> <p>b) Reasons why consumers may not aim to maximise utility:</p> <ul style="list-style-type: none"> <li>• the influence of other people’s behaviour (herding)</li> <li>• habitual behaviour</li> <li>• inertia</li> <li>• poor computational skills</li> <li>• the need to feel valued</li> <li>• framing and bias.</li> </ul>
<p><b>2 The demand curve</b></p>	<p>a) The concept of ‘demand’.</p> <p>b) The distinction between movements along a demand curve and shifts of a demand curve.</p> <p>c) The concept of diminishing marginal utility and its significance for the shape of the individual demand curve.</p> <p>d) Factors that may cause a shift in the demand curve:</p> <ul style="list-style-type: none"> <li>• changes in the price of substitutes or complementary goods</li> <li>• changes in real income</li> <li>• changes in tastes</li> <li>• changes in size and age distribution of the population</li> <li>• advertising.</li> </ul>
<p><b>3 Price, income and cross-elasticities of demand</b></p>	<p>a) The concepts of ‘price’, ‘income’ and ‘cross-elasticities of demand’.</p> <p>b) How to use formulae to calculate price, income and cross-elasticities of demand.</p> <p>c) Interpretation of numerical values of price elasticity of demand:</p> <ul style="list-style-type: none"> <li>• perfectly price elastic demand</li> <li>• price elastic demand</li> <li>• unitary price elastic demand</li> <li>• price inelastic demand</li> <li>• perfectly price inelastic demand.</li> </ul> <p>d) The factors influencing price elasticity of demand:</p> <ul style="list-style-type: none"> <li>• availability of substitutes</li> <li>• branding</li> <li>• percentage of total expenditure</li> <li>• addictiveness of product</li> <li>• durability of product.</li> </ul> <p>e) How to calculate total revenue.</p> <p>f) How price elasticity of demand varies along a straight line demand curve.</p>

### 1.3.2 Consumer behaviour and demand (*continued*)

What students need to learn:

<p><b>3 Price, income and cross-elasticities of demand</b> (<i>continued</i>)</p>	<p>g) The relationship between price elasticity of demand and total revenue.</p> <p>h) Interpretation of numerical values of income elasticity of demand:</p> <ul style="list-style-type: none"><li>• perfectly income elastic demand</li><li>• income elastic demand</li><li>• income inelastic demand</li><li>• perfectly income inelastic demand</li><li>• the distinction between normal goods and inferior goods.</li></ul> <p>i) Interpretation of numerical values of cross elasticity of demand. Significance for the degree to which goods are:</p> <ul style="list-style-type: none"><li>• substitutes</li><li>• complements</li><li>• unrelated.</li></ul> <p>j) The significance of price, income and cross-elasticities of demand for firms, consumers and the government.</p>
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### 1.3.3 Supply

What students need to learn:

<b>1 The supply curve</b>	a) The concept of 'supply'. b) The distinction between movements along a supply curve and shifts of a supply curve. c) Factors that may cause a shift in the supply curve: <ul style="list-style-type: none"><li>• changes in the costs of production</li><li>• the introduction of new technology</li><li>• indirect taxes (specific and ad valorem)</li><li>• government subsidies</li><li>• natural disasters.</li></ul>
<b>2 Price elasticity of supply</b>	a) The concept of 'price elasticity of supply'. b) Calculation and interpretation of numerical values of price elasticity of supply: <ul style="list-style-type: none"><li>• perfectly elastic supply</li><li>• elastic supply</li><li>• unitary elastic supply</li><li>• inelastic supply</li><li>• perfectly inelastic supply.</li></ul> c) Factors that influence price elasticity of supply: <ul style="list-style-type: none"><li>• the time period</li><li>• availability of stock/perishability</li><li>• mobility of factors of production</li><li>• legal constraints</li><li>• capacity.</li></ul> d) The distinction between the short run and long run in economics and its significance for price elasticity of supply.

### 1.3.4 Price determination

What students need to learn:

<b>1 Determination of market equilibrium</b>	<ul style="list-style-type: none"><li>a) Equilibrium price and quantity, and how they are determined.</li><li>b) Causes of changes in the equilibrium price and quantity as a result of shifts in demand and supply curves.</li><li>c) The operation of market forces to eliminate excess demand and excess supply.</li></ul>
<b>2 Consumer and producer surplus</b>	<ul style="list-style-type: none"><li>a) The distinction between consumer and producer surplus.</li><li>b) How changes in demand or supply might affect consumer and producer surplus.</li></ul>
<b>3 Functions of the price mechanism</b>	<ul style="list-style-type: none"><li>a) The rationing, incentive and signalling functions of the price mechanism for allocating scarce resources.</li><li>b) The price mechanism in the context of different types of markets, including local, national and global markets.</li></ul>
<b>4 Indirect taxes and subsidies</b>	<ul style="list-style-type: none"><li>a) The impact of indirect taxes on consumers, producers and the government.</li><li>b) The incidence of indirect taxes on consumers and producers.</li><li>c) The impact of subsidies on consumers, producers and the government.</li><li>d) The incidence of subsidies on consumers and producers.</li></ul>

### 1.3.5 Market failure

What students need to learn:

<p><b>1 Sources of market failure</b></p>	<p>a) Why market failure occurs: too much or too little of a good is produced and/or consumed compared to the socially optimal level of output.</p> <p>b) Sources of market failure:</p> <ul style="list-style-type: none"> <li>• externalities</li> <li>• the free-rider problem; non-provision of public goods</li> <li>• imperfect market information</li> <li>• moral hazard</li> <li>• speculation and market bubbles.</li> </ul>
<p><b>2 Positive and negative externalities</b></p>	<p>a) The distinction between private benefits, external benefits and social benefits.</p> <p>b) The distinction between private costs, external costs and social costs.</p> <p>c) The distinction between:</p> <ul style="list-style-type: none"> <li>• external benefits of production</li> <li>• external benefits of consumption</li> <li>• external costs of production</li> <li>• external costs of consumption.</li> </ul> <p>d) The use of diagrams, using marginal analysis, to illustrate:</p> <ul style="list-style-type: none"> <li>• the external benefits from consumption</li> <li>• the external costs from production</li> <li>• the distinction between the market and social optimum positions; identification of the welfare loss or gain areas.</li> </ul> <p>e) The impact of externalities in various contexts:</p> <ul style="list-style-type: none"> <li>• transport</li> <li>• health</li> <li>• education</li> <li>• environment</li> <li>• financial.</li> </ul>
<p><b>3 Non-provision of public goods</b></p>	<p>a) The distinction between public and private goods:</p> <ul style="list-style-type: none"> <li>• private goods: rival and excludable</li> <li>• public goods: non-rival and non-excludable.</li> </ul> <p>b) Why public goods may not be provided by the private sector making reference to the free-rider problem.</p>
<p><b>4 Imperfect market information</b></p>	<p>a) The distinction between symmetric and asymmetric information.</p> <p>b) The significance of information gaps.</p> <p>c) How imperfect market information may lead to a misallocation of resources in various contexts:</p> <ul style="list-style-type: none"> <li>• healthcare</li> <li>• education</li> <li>• pensions</li> <li>• insurance.</li> </ul>

### 1.3.5 Market failure (*continued*)

What students need to learn:

<b>5 Moral hazard</b>	a) How moral hazard can occur. b) The impact of moral hazard on consumers, producers, workers and governments in: <ul style="list-style-type: none"><li>• insurance</li><li>• banking.</li></ul>
<b>6 Speculation and market bubbles</b>	a) How market bubbles may arise. b) The impact of market bubbles on consumers, producers, workers and governments in various contexts: <ul style="list-style-type: none"><li>• housing</li><li>• stocks and shares.</li></ul>

### 1.3.6 Government intervention in markets

What students need to learn:

<b>1 Purpose and methods of government intervention</b>	a) The purpose of government intervention, including reference to market failure. b) Methods of intervention: <ul style="list-style-type: none"><li>• indirect taxation (<i>ad valorem</i> and specific)</li><li>• subsidies</li><li>• maximum and minimum (guaranteed) prices.</li><li>• tradeable pollution permits</li><li>• extension of property rights</li><li>• state provision</li><li>• regulation</li><li>• provision of information.</li></ul> c) Contexts in which governments may intervene: <ul style="list-style-type: none"><li>• health</li><li>• housing</li><li>• education</li><li>• transport</li><li>• environment</li><li>• energy</li><li>• agriculture</li><li>• commodities.</li></ul>
<b>2 Government failure</b>	a) 'Government failure' as intervention that results in a net welfare loss. b) Causes of government failure: <ul style="list-style-type: none"><li>• information gaps</li><li>• lack of incentives</li><li>• unintended consequences</li><li>• excessive administrative costs</li><li>• moral hazard.</li></ul>

# Unit 2: Macroeconomic performance and policy

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## IAS compulsory unit

## Externally assessed

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### 2.1 Unit description

This unit introduces the key measures of economic performance and the main objectives and instruments of economic policy in an international context. Students will learn how to use a basic AD/AS model to analyse changes in real output and the price level. Students will look at when demand and/or supply side policies may be appropriate ways of improving an economy's performance; consider these policies in an historical context; predict the possible impact of such policies and recognise the assumptions involved. Students should understand different approaches that may be used by policy makers to address macroeconomic problems and to identify criteria for success.

Students will need to be able to apply relevant quantitative skills to the content covered introduced in this unit, including calculations, the use of data and the drawing of diagrams. A full list of quantitative skills can be found in *Appendix 7: Quantitative skills*.

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### 2.2 Assessment information

- First assessment: June 2019.
  - The examination lasts 1 hour and 45 minutes.
  - The paper is out of 80 marks.
  - The paper will include multiple-choice, short-open response and extended-writing questions. Some of these will relate to sources provided in a Source booklet.
  - The paper will include questions that target quantitative skills. This may include making and interpreting calculations, and drawing and interpreting diagrams.
  - Calculators may be used in the examination. See *Appendix 8* for more information.
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## 2.3 Unit content

### 2.3.1 Measures of economic performance

What students need to learn:

<p><b>1 Economic growth</b></p>	<p>a) The rate of change of real Gross Domestic Product (GDP) as a measure of economic growth and living standards.</p> <p>b) Gross National Income (GNI) as an alternative measure of national income.</p> <p>c) The distinction between the following measures of GDP/GNI:</p> <ul style="list-style-type: none"> <li>• real and nominal</li> <li>• total and per capita</li> <li>• value and volume.</li> </ul> <p>d) Comparison of GDP/GNI rates of growth between countries and over time.</p> <p>e) The concept of Purchasing Power Parities (PPPs) in making international comparisons of real GDP/GNI.</p> <p>f) The distinction between positive economic growth rates and negative economic growth rates.</p> <p>g) The concept of 'recession' as two consecutive quarters of negative economic growth.</p> <p>h) The limitations of using GDP/GNI to compare living standards between countries and over time.</p> <p>i) National happiness and wellbeing:</p> <ul style="list-style-type: none"> <li>• indicators of national happiness and wellbeing</li> <li>• the relationship between real incomes and subjective happiness.</li> </ul>
<p><b>2 Inflation</b></p>	<p>a) The concepts of inflation, deflation and disinflation.</p> <p>b) Calculating inflation using a consumer price index (CPI), including role of weighted basket of goods and services.</p> <p>c) Limitations of the CPI as a measure of the rate of inflation.</p> <p>d) The producer (wholesale) price index as an indicator of future trends in the rate of inflation.</p> <p>e) Causes of inflation:</p> <ul style="list-style-type: none"> <li>• demand-pull</li> <li>• cost-push</li> <li>• excessive growth of money supply.</li> </ul> <p>f) Causes of deflation:</p> <ul style="list-style-type: none"> <li>• falling aggregate demand (AD)</li> <li>• increase in aggregate supply (AS)</li> <li>• fall in the money supply.</li> </ul>

### 2.3.1 Measures of economic performance (continued)

What students need to learn:

<p><b>2 Inflation</b> (continued)</p>	<p>g) Effects of inflation and deflation on:</p> <ul style="list-style-type: none"> <li>• Consumers</li> <li>• the government</li> <li>• firms</li> <li>• workers</li> <li>• income distribution</li> <li>• investment</li> <li>• competitiveness</li> <li>• the current account of the balance of payments.</li> </ul>
<p><b>3 Employment and unemployment</b></p>	<p>a) How unemployment is measured, using the International Labour Organization (ILO) definition.</p> <p>b) The causes of unemployment:</p> <ul style="list-style-type: none"> <li>• frictional</li> <li>• seasonal</li> <li>• structural</li> <li>• demand deficiency</li> <li>• real wage inflexibility.</li> </ul> <p>c) The effects of unemployment on:</p> <ul style="list-style-type: none"> <li>• consumers</li> <li>• firms</li> <li>• workers</li> <li>• public finances</li> <li>• resource utilisation and production possibility frontier</li> <li>• society.</li> </ul> <p>d) The distinction between unemployment and underemployment.</p> <p>e) The significance of changes in rates of employment, unemployment and economic inactivity.</p> <p>f) The significance of net migration for employment and unemployment.</p>
<p><b>4 Balance of payments</b></p>	<p>a) Components of the balance of payments, with particular reference to the current account.</p> <p>b) The distinction between deficits and surpluses in the trade in goods and services balance.</p> <p>c) The distinction between balance of payments deficits and surpluses on the current account.</p>

### 2.3.2 Aggregate demand (AD)

What students need to learn:

<p><b>1 The characteristics of AD</b></p>	<p>a) The concept of AD.</p> <p>b) Components of aggregate demand:</p> <ul style="list-style-type: none"> <li>• <math>C + I + G + (X - M) =</math></li> <li>• the AD curve.</li> </ul> <p>c) The distinction between a movement along, and a shift of, the AD curve.</p>
<p><b>2 Consumption (C)</b></p>	<p>a) Influences on consumption:</p> <ul style="list-style-type: none"> <li>• disposable income</li> <li>• interest rates</li> <li>• consumer confidence</li> <li>• level of welfare payments</li> <li>• wealth effects</li> <li>• availability of credit.</li> </ul> <p>b) The relationship between savings and consumption.</p> <p>c) The definition of the 'savings ratio'.</p> <p>d) Causes and effects of changes in the savings ratio.</p>
<p><b>3 Investment (I)</b></p>	<p>a) The distinction between gross investment and net investment.</p> <p>b) Influences on investment:</p> <ul style="list-style-type: none"> <li>• the rate of economic growth</li> <li>• interest rates</li> <li>• business confidence and expectations</li> <li>• availability of credit</li> <li>• tax on company profits.</li> </ul> <p>c) Government policy to promote investment:</p> <ul style="list-style-type: none"> <li>• tax relief</li> <li>• subsidies</li> <li>• reductions on the rate of corporation tax.</li> </ul>
<p><b>4 Government expenditure (G)</b></p>	<p>a) Influences on government expenditure:</p> <ul style="list-style-type: none"> <li>• fiscal policy</li> <li>• the level of economic activity</li> <li>• correction of market failures</li> <li>• political priorities.</li> </ul>
<p><b>5 Net trade balance (X - M)</b></p>	<p>a) The impact on the net trade balance of changes in:</p> <ul style="list-style-type: none"> <li>• real income</li> <li>• the exchange rate</li> <li>• the state of the global economy</li> <li>• degree of protectionism</li> <li>• non-price factors.</li> </ul>

### 2.3.3 Aggregate supply (AS)

What students need to learn:

<b>1 The characteristics of AS</b>	a) The concept of AS. b) The AS curve. c) The distinction between a movement along and a shift of the AS curve.
<b>2 Short-run AS (SRAS)</b>	a) Factors influencing SRAS. Changes in: <ul style="list-style-type: none"><li>• costs of raw materials and energy</li><li>• exchange rates</li><li>• tax rates.</li></ul>
<b>3 Long-run AS (LRAS)</b>	a) Different shapes of AS curve: <ul style="list-style-type: none"><li>• Keynesian</li><li>• classical.</li></ul> b) Factors influencing LRAS. Changes in: <ul style="list-style-type: none"><li>• the state of technology</li><li>• productivity</li><li>• education and skills</li><li>• government regulations and tax</li><li>• demography and net migration</li><li>• competition policy.</li></ul>

## 2.3.4 National income

What students need to learn:

<b>1 National income</b>	a) The circular flow of income. b) The distinction between income and wealth.
<b>2 Injections and withdrawals</b>	a) The distinction between injections and withdrawals. b) Injections: <ul style="list-style-type: none"><li>• investment</li><li>• government expenditure</li><li>• exports.</li></ul> c) Withdrawals: <ul style="list-style-type: none"><li>• savings</li><li>• taxation</li><li>• imports.</li></ul> d) The impact of net injections into, and net withdrawals from, the circular flow of income.
<b>3 Equilibrium level of real output</b>	a) The concept of equilibrium level of real national output. b) Causes of changes in equilibrium real national output, as a result of shifts in AD and/or AS curves.
<b>4 The multiplier</b>	a) The multiplier and multiplier process. b) Marginal propensities and their effects on the multiplier: <ul style="list-style-type: none"><li>• the marginal propensity to consume (MPC)</li><li>• the marginal propensity to save (MPS)</li><li>• the marginal propensity to tax (MPT)</li><li>• the marginal propensity to import (MPM).</li></ul> c) Calculations of the multiplier using the formula $1/(1-MPC)$ and $1/MPW$ , where $MPW = MPS + MPT + MPM$ . d) The significance of the multiplier for shifts in AD and the level of economic activity.

### 2.3.5 Economic growth

What students need to learn:

<p><b>1 Causes of growth</b></p>	<p>a) The distinction between actual and potential growth.</p> <p>b) Actual growth caused by an increase in the components of AD.</p> <p>c) The importance of international trade for export-led growth.</p> <p>d) Causes of potential growth:</p> <ul style="list-style-type: none"> <li>• domestic investment and foreign direct investment (FDI)</li> <li>• innovation</li> <li>• growth in size of labour force, including net migration</li> <li>• the degree of competition.</li> </ul> <p>e) The importance of productivity for the rate of economic growth.</p>
<p><b>2 Benefits of growth</b></p>	<p>a) Possible benefits of growth:</p> <ul style="list-style-type: none"> <li>• higher living standards</li> <li>• lower unemployment</li> <li>• increased profits for firms</li> <li>• higher levels of investment</li> <li>• increased tax revenues</li> <li>• improved public services.</li> </ul>
<p><b>3 Costs of growth</b></p>	<p>a) Possible costs of growth:</p> <ul style="list-style-type: none"> <li>• opportunity costs</li> <li>• environmental costs</li> <li>• balance of trade deficits</li> <li>• increased inequality</li> <li>• inflation.</li> </ul>
<p><b>4 Output gaps</b></p>	<p>a) The difference between actual growth rate and long-term trends in growth.</p> <p>b) The distinction between positive and negative output gaps.</p> <p>c) Characteristics of positive and negative output gaps.</p> <p>d) Difficulties of measuring output gaps.</p>

### 2.3.6 Macroeconomic objectives and policies

What students need to learn:

<p><b>1 Macroeconomic objectives</b></p>	<p>a) Economic growth.  b) Low and stable rate of inflation.  c) Low unemployment.  d) Balance of payments equilibrium on current account.  e) Balanced government budget.  f) Greater income equality.</p>
<p><b>2 Possible conflicts between macroeconomic objectives</b></p>	<p>a) Inflation and unemployment, including the short-run Phillips curve.  b) Economic growth and protection of the environment.  c) Inflation and equilibrium on the current account of the balance of payments.  d) Economic growth and income equality.</p>
<p><b>3 Macroeconomic supply-side policies</b></p>	<p>a) Supply-side policies designed to increase productivity, competition and incentives.  b) Free market policies: <ul style="list-style-type: none"> <li>• deregulation of product and labour markets</li> <li>• privatisation</li> <li>• reduction in taxation</li> <li>• changing the levels of welfare payments</li> <li>• cutting the costs of bureaucracy for firms.</li> </ul> c) Interventionist policies: <ul style="list-style-type: none"> <li>• investment in education, training and skills</li> <li>• incentives to encourage investment: tax incentive or subsidies</li> <li>• infrastructure investment</li> <li>• finance for business start-ups</li> <li>• regional policy.</li> </ul> d) Strengths and weaknesses of different supply-side policies.</p>

### 2.3.6 Macroeconomic objectives and policies (continued)

What students need to learn:

<b>4 Macroeconomic demand-side policies</b>	<p>a) Demand-side policies:</p> <ul style="list-style-type: none"><li>• the distinction between fiscal and monetary policy</li><li>• the distinction between reflationary and deflationary policies.</li></ul> <p>b) Fiscal policy instruments:</p> <ul style="list-style-type: none"><li>• government spending and taxation.</li></ul> <p>c) Monetary policy instruments:</p> <ul style="list-style-type: none"><li>• interest rates</li><li>• asset purchases to increase money supply (quantitative easing)</li><li>• changes in lending criteria</li><li>• reserve asset (liquidity) requirements.</li></ul> <p>d) The role of central banks in the conduct of monetary policy:</p> <ul style="list-style-type: none"><li>• implementation of monetary policy</li><li>• achieving an inflation target</li><li>• as banker to the government</li><li>• as banker to the banks – lender of last resort.</li></ul> <p>e) Strengths and weaknesses of different demand-side policies.</p>
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# Unit 3: Business behaviour

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## IAL compulsory unit

## Externally assessed

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### 3.1 Unit description

This unit develops the content of Unit 1 and examines how pricing and the nature of competition between firms is affected by the number and size of market participants. At the end of this unit, students should be able to analyse and evaluate the pricing and output decisions of firms in different contexts, and understand the role of competition in business decision making. They should also be capable of making an appraisal of government intervention aimed at promoting competitive markets.

Students will need to be able to apply relevant quantitative skills to the content covered introduced in this unit, including calculations, the use of data and the drawing of diagrams. A full list of quantitative skills can be found in *Appendix 7: Quantitative skills*.

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### 3.2 Assessment information

- First assessment: January 2020.
  - The examination lasts 2 hours.
  - The paper is out of 80 marks.
  - The paper will include multiple-choice, short-open response and extended-writing questions. Some of these will relate to sources provided in a Source booklet.
  - The paper will include questions that target quantitative skills. This may include making and interpreting calculations, and drawing and interpreting diagrams.
  - Questions may draw on any content covered in Units 1 and 2.
  - Calculators may be used in the examination. See *Appendix 8* for more information.
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## 3.3 Unit content

### 3.3.1 Types and sizes of businesses

What students need to learn:

<p><b>1 Types of business</b></p>	<p>a) Types of businesses:</p> <ul style="list-style-type: none"> <li>• private sector organisations</li> <li>• state-owned enterprises (public sector)</li> <li>• for-profit and not-for-profit organisations</li> <li>• co-operatives</li> <li>• joint ventures.</li> </ul>
<p><b>2 Size of businesses</b></p>	<p>a) The size of businesses:</p> <ul style="list-style-type: none"> <li>• SMEs (small- and medium-size enterprises)</li> <li>• large corporations.</li> </ul> <p>b) How businesses grow:</p> <ul style="list-style-type: none"> <li>• organic growth</li> <li>• merger/takeover:             <ul style="list-style-type: none"> <li>• forward vertical integration</li> <li>• backward vertical integration</li> <li>• horizontal integration</li> <li>• conglomerate integration.</li> </ul> </li> </ul> <p>c) Advantages and disadvantages of each type of merger/takeover.</p> <p>d) Constraints on business growth:</p> <ul style="list-style-type: none"> <li>• size of market</li> <li>• access to finance</li> <li>• owner objectives</li> <li>• government regulation and bureaucracy.</li> </ul> <p>e) Reasons some firms tend to remain small and others grow.</p> <p>f) Impact of growth of firms on businesses, workers and consumers.</p> <p>g) Demergers:</p> <ul style="list-style-type: none"> <li>• reasons for demergers</li> <li>• impact of demergers on businesses, workers and consumers.</li> </ul>
<p><b>3 Business objectives</b></p>	<p>a) Different business objectives:</p> <ul style="list-style-type: none"> <li>• profit maximisation</li> <li>• revenue maximisation</li> <li>• sales volume maximisation.</li> <li>• behavioural theories: satisficing.</li> </ul> <p>b) The significance of the divorce of ownership from control for business objectives: the principal-agent problem.</p> <p>c) Formulae for different business objectives:</p> <ul style="list-style-type: none"> <li>• profit maximisation</li> <li>• revenue maximisation</li> <li>• sales volume maximisation.</li> </ul>

### 3.3.2 Revenue, costs and profits

What students need to learn:

<p><b>1 Revenue</b></p>	<p>a) Formulae to calculate and understand the relationship between:</p> <ul style="list-style-type: none"> <li>• total revenue</li> <li>• average revenue</li> <li>• marginal revenue.</li> </ul> <p>b) Price elasticity of demand and its relationship to revenue concepts, including calculations.</p>
<p><b>2 Costs</b></p>	<p>a) Derivation of short-run cost curves from the assumption of diminishing marginal productivity.</p> <p>b) The law of diminishing returns.</p> <p>c) Formulae to calculate and understand the relationship between:</p> <ul style="list-style-type: none"> <li>• total cost</li> <li>• total fixed cost</li> <li>• total variable cost</li> <li>• average (total) cost</li> <li>• average fixed cost</li> <li>• average variable cost</li> <li>• marginal cost.</li> </ul> <p>d) The relationship between:</p> <ul style="list-style-type: none"> <li>• marginal product and marginal costs</li> <li>• average products and average cost</li> <li>• total product and total cost</li> <li>• short-run and long-run costs.</li> </ul>
<p><b>3 Economies and diseconomies of scale</b></p>	<p>a) The relationship between long-run cost curves and economies/diseconomies of scale.</p> <p>b) Minimum efficient scale.</p> <p>c) Distinction between internal/external economies of scale.</p> <p>d) Sources of internal economies of scale:</p> <ul style="list-style-type: none"> <li>• financial</li> <li>• technical</li> <li>• managerial</li> <li>• marketing</li> <li>• purchasing</li> <li>• risk bearing.</li> </ul> <p>e) Sources of external economies of scale:</p> <ul style="list-style-type: none"> <li>• availability of skilled labour</li> <li>• access to transport links</li> <li>• sharing knowledge.</li> </ul> <p>f) Sources of diseconomies of scale:</p> <ul style="list-style-type: none"> <li>• communication problems</li> <li>• coordination problems</li> <li>• X-inefficiency.</li> </ul>

### 3.3.2 Revenue, costs and profits (*continued*)

What students need to learn:

<b>4 Profits and losses</b>	a) The distinction between normal profit, supernormal profit and losses. b) Short-run and long-run shutdown points.
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### 3.3.3 Market structures and contestability

What students need to learn:

<p><b>1 Efficiency</b></p>	<p>a) The concepts of:</p> <ul style="list-style-type: none"> <li>• allocative efficiency</li> <li>• productive efficiency</li> <li>• dynamic efficiency</li> <li>• X-inefficiency</li> <li>• efficiency/inefficiency in different market structures.</li> </ul>
<p><b>2 Concentration ratio</b></p>	<p>a) Calculation of n-firm concentration ratios. b) The significance of concentration ratios.</p>
<p><b>3 Perfect competition</b></p>	<p>a) Assumptions of perfect competition. b) Profit-maximising equilibrium in the short run and long run. c) The short-run shutdown point. d) Productive and allocative efficiency in the short run and long run.</p>
<p><b>4 Monopolistic competition</b></p>	<p>a) Assumptions of monopolistic competition. b) Types of product differentiation:</p> <ul style="list-style-type: none"> <li>• physical – product features</li> <li>• marketing – advertising, packaging</li> <li>• distribution – shop, online, telephone.</li> </ul> <p>c) Profit-maximising equilibrium in the short run and long run. d) Productive and allocative efficiency in the short run and long run.</p>
<p><b>5 Oligopoly</b></p>	<p>a) Assumptions of oligopoly. b) Barriers to entry and exit:</p> <ul style="list-style-type: none"> <li>• economies of scale</li> <li>• limit pricing</li> <li>• patents</li> <li>• branding</li> <li>• sunk costs</li> <li>• legal.</li> </ul> <p>c) Interdependence of firms:</p> <ul style="list-style-type: none"> <li>• simple game theory – two firm/two outcome model</li> <li>• reasons for collusive and non-collusive behaviour</li> <li>• cartels</li> <li>• price leadership</li> <li>• price wars.</li> </ul> <p>d) Costs and benefits of collusion to producers, consumers, workers and governments. e) Price competition:</p> <ul style="list-style-type: none"> <li>• price wars</li> <li>• predatory pricing</li> <li>• limit pricing.</li> </ul>

### 3.3.3 Market structures and contestability (*continued*)

What students need to learn:

<b>5 Oligopoly</b> ( <i>continued</i> )	<p>f) Non-price competition:</p> <ul style="list-style-type: none"><li>• advertising and branding</li><li>• quality</li><li>• endorsement</li><li>• product placement</li><li>• after-sales service.</li></ul> <p>g) Costs and benefits of price and non-price competition to firms, consumers, employees and suppliers.</p>
<b>6 Monopoly</b>	<p>a) Assumptions of monopoly.</p> <p>b) Barriers to entry and exit.</p> <p>c) Profit-maximising equilibrium.</p> <p>d) Costs and benefits of monopoly to firms and consumers.</p> <p>e) The concept of 'natural monopoly' and its implications.</p> <p>f) Conditions necessary for third-degree price discrimination.</p> <p>g) Costs and benefits of price discrimination to firms and consumers.</p> <p>h) Productive, allocative and dynamic efficiency.</p>
<b>7 Monopsony</b>	<p>a) Assumptions and conditions for a monopsony to operate.</p> <p>b) Costs and benefits of a monopsony to firms, consumers and employees.</p>
<b>8 Contestability</b>	<p>a) Characteristics of contestable markets.</p> <p>b) Implications of contestable markets for behaviour of firms on:</p> <ul style="list-style-type: none"><li>• profitability</li><li>• pricing decisions (limit pricing).</li></ul> <p>c) Costs and benefits of contestability for firms and consumers.</p> <p>d) The significance of sunk costs for contestability.</p>

### 3.3.4 Labour markets

What students need to learn:

<p><b>1 The demand for labour</b></p>	<p>a) Factors that influence the demand for labour to a particular occupation:</p> <ul style="list-style-type: none"> <li>• demand for the final product (labour as a derived demand)</li> <li>• productivity of labour</li> <li>• price of the product</li> <li>• wage rate relative to price of capital.</li> </ul> <p>b) Factors that influence the elasticity of demand for labour.</p>
<p><b>2 The supply of labour</b></p>	<p>c) Factors that influence the supply of labour to a particular occupation:</p> <ul style="list-style-type: none"> <li>• size of population</li> <li>• net migration</li> <li>• income tax rates</li> <li>• level of welfare benefits</li> <li>• government regulations</li> <li>• trade unions.</li> </ul> <p>d) Factors that influence the elasticity of supply of labour.</p>
<p><b>3 The determination of wage rates in competitive and non-competitive markets</b></p>	<p>a) Labour market equilibrium.</p> <p>b) Causes of changes in the equilibrium wage rate and quantity of labour as a result of shifts in demand curves and supply curves.</p> <p>c) Wage setting in the public sector/state-owned enterprises.</p>
<p><b>4 Market failure in the labour market</b></p>	<p>a) Causes and consequences of the geographical immobility of labour.</p> <p>b) Causes and consequences of the occupational immobility of labour.</p>

### 3.3.5 Government intervention

What students need to learn:

<p><b>1 Government intervention in product markets</b></p>	<p>a) The case for government intervention.</p> <p>b) Measures to control monopolies and mergers:</p> <ul style="list-style-type: none"> <li>• price regulation</li> <li>• profit regulation</li> <li>• quality standards</li> <li>• performance targets</li> <li>• referral to regulatory authorities</li> <li>• legislation to control mergers and takeovers.</li> </ul> <p>c) Measures to promote competition and contestability:</p> <ul style="list-style-type: none"> <li>• tax incentives and grants to promote small businesses and FDI</li> <li>• deregulation</li> <li>• privatisation</li> <li>• competitive tendering for public sector contracts</li> <li>• trade liberalisation.</li> </ul> <p>d) Measures to protect suppliers and employees:</p> <ul style="list-style-type: none"> <li>• local sourcing of raw materials and components</li> <li>• employment legislation to protect workers from exploitation</li> <li>• barriers to entry of foreign firms</li> <li>• restrictions on the monopsony power of firms</li> <li>• nationalisation.</li> </ul> <p>e) The impact of each measure on:</p> <ul style="list-style-type: none"> <li>• price</li> <li>• profit</li> <li>• efficiency</li> <li>• quality</li> <li>• choice.</li> </ul> <p>f) Limits to government intervention:</p> <ul style="list-style-type: none"> <li>• regulatory capture</li> <li>• asymmetric information/information gaps</li> <li>• inadequate resources</li> <li>• lack of regulatory power.</li> </ul>
<p><b>2 Government intervention in labour markets</b></p>	<p>a) The case for government intervention.</p> <p>b) Types of government intervention in labour markets and their effects:</p> <ul style="list-style-type: none"> <li>• maximum wage controls</li> <li>• minimum wage controls</li> <li>• direct taxes e.g. national insurance contributions; corporation tax</li> <li>• measures to reduce geographical and occupational immobility of labour</li> <li>• measures to reduce discrimination and exploitation.</li> </ul>

# Unit 4: Developments in the global economy

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## IAL compulsory unit

## Externally assessed

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### 4.1 Unit description

This unit develops the knowledge and skills gained in Unit 2. The application, analysis and evaluation of economic models is required, as well as an ability to assess policies that might be used to deal with economic problems. An awareness of trends and developments in the global economy over the last 40 years, including contemporary issues, is required. Wider reading and research will enable students to use up-to-date and relevant examples in their analysis and evaluation of issues and developments in the global economy.

Students will need to be able to apply relevant quantitative skills to the content covered in this unit, including calculations, the use of data and the drawing of diagrams. A full list of quantitative skills can be found in *Appendix 7: Quantitative skills*.

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### 4.2 Assessment information

- First assessment: June 2020.
  - The examination lasts 2 hours.
  - The paper is out of 80 marks.
  - The paper will include multiple-choice, short-open response and extended-writing questions. Some of these will relate to sources provided in a Source booklet.
  - The paper will include questions that target quantitative skills. This may include making and interpreting calculations, and drawing and interpreting diagrams.
  - Questions may draw on any content covered in Units 1, 2 and 3.
  - Calculators may be used in the examination. See *Appendix 8* for more information.
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## 4.3 Unit content

### 4.3.1 Causes and effects of globalisation

What students need to learn:

<p><b>1 Characteristics of globalisation</b></p>	<p>a) Increase in trade as a proportion of GDP.</p> <p>b) Increase in importance of transnational companies (TNCs) and foreign direct investment (FDI).</p> <p>c) Increase in migration.</p>
<p><b>2 Causes of globalisation</b></p>	<p>a) Factors contributing to increased globalisation in the last 50 years:</p> <ul style="list-style-type: none"> <li>• trade liberalisation</li> <li>• increased number and size of trading blocs</li> <li>• political change (breakdown of the Soviet system and opening up of China)</li> <li>• reduced cost of transport and communications</li> <li>• increased significance of TNCs.</li> </ul> <p>b) FDI by TNCs:</p> <ul style="list-style-type: none"> <li>• reasons for FDI</li> <li>• the impact of FDI on recipient countries.</li> </ul>
<p><b>3 Effects of globalisation</b></p>	<p>a) Possible benefits of globalisation:</p> <ul style="list-style-type: none"> <li>• increased economic growth</li> <li>• increased tax revenue</li> <li>• economies of scale</li> <li>• lower prices and higher consumer surplus</li> <li>• more choice</li> <li>• higher living standards.</li> </ul> <p>b) Possible costs of globalisation:</p> <ul style="list-style-type: none"> <li>• displaced workers</li> <li>• exploitation of workers</li> <li>• environmental impact of increased trade</li> <li>• loss of tax revenue from transfer pricing</li> <li>• increased income inequality within countries</li> <li>• the influence of TNCs on domestic economic policy.</li> </ul>

### 4.3.2 Trade and the global economy

What students need to learn:

<p><b>1 Specialisation and comparative advantage</b></p>	<p>a) Benefits and costs of specialisation and trade in the international context.</p> <p>b) The theory of comparative advantage:</p> <ul style="list-style-type: none"> <li>• the distinction between absolute and comparative advantage</li> <li>• assumptions underlying the theory of comparative advantage</li> <li>• limitations of the theory of comparative advantage.</li> </ul>
<p><b>2 Patterns and volume of world trade</b></p>	<p>a) Factors influencing patterns of trade between countries and causes of changes in these patterns:</p> <ul style="list-style-type: none"> <li>• impact of emerging economies</li> <li>• changes in comparative advantage</li> <li>• growth in trading blocs and bilateral trading agreements</li> <li>• changes in relative exchange rates</li> <li>• changes in protectionism between countries.</li> </ul> <p>b) Changes in trade flows between countries, and the reasons for these changes.</p>
<p><b>3 Terms of trade</b></p>	<p>a) Understanding and calculation of the terms of trade.</p> <p>b) Factors influencing a country's terms of trade, changes in:</p> <ul style="list-style-type: none"> <li>• relative inflation rates</li> <li>• relative productivity rates</li> <li>• relative labour costs</li> <li>• the exchange rate</li> <li>• the prices of imports and exports.</li> </ul> <p>c) The impact of changes in a country's terms of trade on:</p> <ul style="list-style-type: none"> <li>• export revenues</li> <li>• living standards</li> <li>• balance of trade.</li> </ul>
<p><b>4 Trade liberalisation and trading blocs</b></p>	<p>a) The role of the World Trade Organization (WTO) in trade liberalisation.</p> <p>b) Types of trading blocs:</p> <ul style="list-style-type: none"> <li>• free-trade areas</li> <li>• customs unions</li> <li>• common markets</li> <li>• economic and monetary unions.</li> </ul> <p>c) Costs and benefits of membership of a trading bloc:</p> <ul style="list-style-type: none"> <li>• trade creation</li> <li>• trade diversion</li> <li>• costs and prices</li> <li>• economies of scale</li> <li>• transaction costs</li> <li>• movement of factors of production.</li> </ul> <p>d) Possible conflicts between trading blocs and the WTO.</p>

### 4.3.2 Trade and the global economy (continued)

What students need to learn:

<b>5 Restrictions on free trade</b>	<p>a) Reasons for restrictions on free trade:</p> <ul style="list-style-type: none"><li>• to protect infant and geriatric industries</li><li>• to protect domestic industries and employment</li><li>• to protect national security</li><li>• to prevent dumping</li><li>• to correct a deficit on the current account of the balance of payments</li><li>• to raise revenue.</li></ul> <p>b) Types of restrictions on free trade:</p> <ul style="list-style-type: none"><li>• tariffs</li><li>• quotas</li><li>• non-tariff barriers</li><li>• subsidies to domestic producers.</li></ul> <p>c) Impact of protectionist policies on:</p> <ul style="list-style-type: none"><li>• consumers</li><li>• producers</li><li>• governments</li><li>• living standards</li><li>• equality.</li></ul>
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### 4.3.3 Balance of payments, exchange rates and international competitiveness

What students need to learn:

<p><b>1 Balance of payments</b></p>	<p>a) Components of the balance of payments:</p> <ul style="list-style-type: none"> <li>• the current account</li> <li>• the capital and financial accounts.</li> </ul> <p>b) Causes of deficits and surpluses on the current account.</p> <p>c) Measures to reduce a country's imbalance on the current account.</p> <p>d) The significance of global trade imbalances.</p>
<p><b>2 Exchange rates</b></p>	<p>a) The distinction between fixed, managed and floating exchange rates.</p> <p>b) Government intervention in currency markets through:</p> <ul style="list-style-type: none"> <li>• foreign currency transactions</li> <li>• the use of interest rates</li> <li>• quantitative easing.</li> </ul> <p>c) Factors influencing floating exchange rates:</p> <ul style="list-style-type: none"> <li>• relative interest rates</li> <li>• relative inflation rates (purchasing power parity theory)</li> <li>• current account of the balance of payments</li> <li>• strength of the economy</li> <li>• capital flight</li> <li>• expectations and speculation</li> <li>• global factors, e.g. falls in commodity prices.</li> </ul> <p>d) The distinction between revaluation and appreciation of a currency.</p> <p>e) The distinction between devaluation and depreciation of a currency.</p> <p>f) The impact of changes in exchange rates on:</p> <ul style="list-style-type: none"> <li>• the current account of the balance of payments (with reference to Marshall-Lerner condition and to the J-curve effect)</li> <li>• the capital and financial accounts of the balance of payments</li> <li>• economic growth</li> <li>• employment and unemployment</li> <li>• rate of inflation</li> <li>• FDI flows.</li> </ul> <p>g) Competitive depreciations/devaluations and their consequences.</p>

### 4.3.3 Balance of payments, exchange rates and international competitiveness (continued)

What students need to learn:

<b>3 International competitiveness</b>	<p>a) Measures of international competitiveness:</p> <ul style="list-style-type: none"><li>• relative productivity rates</li><li>• relative unit labour costs</li><li>• relative export prices.</li></ul> <p>b) Factors influencing international competitiveness:</p> <ul style="list-style-type: none"><li>• productivity</li><li>• quality of human capital</li><li>• exchange rate</li><li>• wage and non-wage costs</li><li>• regulations</li><li>• quality of infrastructure</li><li>• non-price factors.</li></ul> <p>c) Measures to increase international competitiveness:</p> <ul style="list-style-type: none"><li>• policies to improve education and training</li><li>• investment incentives</li><li>• privatisation and deregulation</li><li>• measures to reduce the exchange rate of the currency</li><li>• trade liberalisation.</li></ul> <p>d) The significance of international competitiveness:</p> <ul style="list-style-type: none"><li>• advantages for an economy of being internationally competitive</li><li>• problems for an economy of being internationally uncompetitive.</li></ul>
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### 4.3.4 Poverty and inequality

What students need to learn:

<b>1 Poverty</b>	a) The distinction between absolute and relative poverty. b) Measures of absolute and relative poverty. c) Causes of changes in absolute and relative poverty: <ul style="list-style-type: none"><li>• economic growth</li><li>• education and training</li><li>• welfare benefits</li><li>• changes in tax structure</li><li>• structural changes in the economy</li><li>• aid</li><li>• civil wars and conflict.</li></ul>
<b>2 Inequality</b>	a) The distinction between wealth inequality and income inequality. b) Measurements of inequality: <ul style="list-style-type: none"><li>• the Lorenz curve</li><li>• the Gini coefficient.</li></ul> c) Causes of inequality in income and wealth within countries and between countries. d) The impact of inequality on: <ul style="list-style-type: none"><li>• enterprise</li><li>• incentives</li><li>• savings</li><li>• education</li><li>• migration</li><li>• life expectancy.</li></ul> e) The impact of economic change and development on inequality. f) The significance of the free market economy (capitalism) for inequality.

### 4.3.5 The role of the state in the macroeconomy

What students need to learn:

<p><b>1 Public expenditure</b></p>	<p>a) The distinction between capital expenditure, current expenditure and transfer payments.</p> <p>b) Reasons for the changing size and pattern of public expenditure in an international context:</p> <ul style="list-style-type: none"> <li>• changing incomes</li> <li>• changing age distributions</li> <li>• changing expectations.</li> </ul> <p>c) The significance of differing levels of public expenditure as a proportion of GDP on:</p> <ul style="list-style-type: none"> <li>• productivity and growth</li> <li>• crowding out</li> <li>• levels of taxation.</li> </ul>
<p><b>2 Taxation</b></p>	<p>a) The distinction between, and examples of, direct and indirect taxes.</p> <p>b) The distinction between progressive, proportional and regressive taxes.</p> <p>c) The economic effects of changes in direct and indirect tax rates on:</p> <ul style="list-style-type: none"> <li>• incentives to work</li> <li>• tax revenues: Laffer curve analysis</li> <li>• income distribution</li> <li>• real output and employment</li> <li>• the price level</li> <li>• the trade balance</li> <li>• FDI flows.</li> </ul>
<p><b>3 Public sector borrowing and public sector debt</b></p>	<p>a) The distinction between:</p> <ul style="list-style-type: none"> <li>• fiscal deficits and fiscal surpluses</li> <li>• automatic stabilisers and discretionary fiscal policy</li> <li>• a fiscal deficit and the national debt</li> <li>• structural and cyclical fiscal deficits.</li> </ul> <p>b) Factors influencing the size of fiscal deficits and national debts.</p> <p>c) The significance of the size of fiscal deficits and national debts:</p> <ul style="list-style-type: none"> <li>• impact on interest rates</li> <li>• debt servicing</li> <li>• intergenerational equity.</li> </ul>

### 4.3.5 The role of the state in the macroeconomy (continued)

What students need to learn:

<b>4 Macroeconomic policies</b>	<p>a) How governments use fiscal policy, monetary policy, exchange-rate policy, supply-side policies and direct controls to:</p> <ul style="list-style-type: none"><li>• reduce fiscal deficits and national debts</li><li>• control the rate of inflation</li><li>• respond to external shocks in the global economy</li><li>• reduce poverty and inequality.</li></ul> <p>b) Use of demand-side policies in response to the global financial crisis of 2008.</p> <p>c) Measures to control TNCs:</p> <ul style="list-style-type: none"><li>• to reduce tax avoidance</li><li>• the regulation of transfer pricing</li><li>• limits to government ability to control TNCs.</li></ul> <p>d) The impact of policy changes on:</p> <ul style="list-style-type: none"><li>• local economies</li><li>• national economies</li><li>• the global economy.</li></ul> <p>e) Problems facing policymakers when applying policies:</p> <ul style="list-style-type: none"><li>• inaccurate information</li><li>• risks and uncertainties</li><li>• inability to control external shocks.</li></ul>
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### 4.3.6 Growth and development in developing, emerging and developed economies

What students need to learn:

<p><b>1 Measures of economic development</b></p>	<p>a) The three components of the Human Development Index (HDI): education, health, income; how they are measured.</p> <p>b) Advantages and limitations of the HDI in comparing living standards between countries and over time.</p> <p>c) Other measures of development:</p> <ul style="list-style-type: none"> <li>• the percentage of adult male labour in agriculture</li> <li>• access to clean water</li> <li>• energy consumption per capita</li> <li>• access to internet per thousand of population</li> <li>• access to mobile phones per thousand of population</li> <li>• access to doctors per thousand of population.</li> </ul>
<p><b>2 Constraints on growth and development</b></p>	<p>a) The impact of economic factors in different countries:</p> <ul style="list-style-type: none"> <li>• volatility of commodity prices</li> <li>• primary product dependency (the Prebisch-Singer hypothesis)</li> <li>• savings gap (the Harrod-Domar model)</li> <li>• foreign currency gap</li> <li>• capital flight</li> <li>• demographic factors (size and age distribution of population; migration)</li> <li>• debt (household and overseas)</li> <li>• access to credit and banking</li> <li>• infrastructure</li> <li>• education and skills.</li> </ul> <p>b) The impact of non-economic factors in different countries:</p> <ul style="list-style-type: none"> <li>• corruption</li> <li>• poor governance</li> <li>• civil wars</li> <li>• migration</li> <li>• terrorism.</li> </ul>

### 4.3.6 Growth and development in developing, emerging and developed economies (continued)

What students need to learn:

<b>3 Measures to promote growth and development</b>	<p>a) The impact of market-orientated strategies:</p> <ul style="list-style-type: none"><li>• trade liberalisation</li><li>• promotion of FDI</li><li>• removal of government subsidies</li><li>• privatisation</li><li>• floating exchange rate systems</li><li>• microfinance schemes.</li></ul> <p>b) The impact of interventionist strategies:</p> <ul style="list-style-type: none"><li>• development of human capital</li><li>• protectionism</li><li>• managed exchange rates</li><li>• infrastructure development</li><li>• promoting joint ventures with TNCs</li><li>• buffer stock schemes.</li></ul> <p>c) The impact of other strategies:</p> <ul style="list-style-type: none"><li>• industrialisation (the Lewis structural dual-sector model)</li><li>• development of tourism</li><li>• development of primary industries</li><li>• debt relief</li><li>• aid.</li></ul> <p>d) The role of international institutions:</p> <ul style="list-style-type: none"><li>• the World Bank</li><li>• the International Monetary Fund (IMF)</li><li>• non-government organisations (NGOs).</li></ul>
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# Assessment information

## Assessment requirements

The Pearson Edexcel International Advanced Subsidiary in Economics consists of two externally-examined units.

The Pearson Edexcel International Advanced Level in Economics consists of four externally-examined units.

Students must complete all assessments.

Please see the *Assessment availability and first award* section for information on when the assessment for each unit will be available from.

Unit	IAS or IA2	Assessment information	Number of raw marks
Unit 1: Markets in action	IAS	<b>Written examination:</b> 1 hour, 45 minutes <b>Section A:</b> Six multiple-choice questions (6 marks). <b>Section B:</b> Five short-answer questions (20 marks). <b>Section C:</b> A five-part question, based on data provided in a Source booklet (34 marks). <b>Section D:</b> One 20-mark essay question from a choice of two (20 marks).	80 marks
Unit 2: Macroeconomic performance and policy	IAS	Same as for Unit 1.	80 marks
Unit 3: Business behaviour	IA2	<b>Written examination:</b> 2 hours <b>Section A:</b> Six multiple-choice questions (6 marks). <b>Section B:</b> A five-part question, based on data provided in a Source booklet (34 marks). <b>Section C:</b> Two 20-mark essay questions from a choice of three (40 marks).	80 marks
Unit 4: Developments in the global economy	IA2	Same as for Unit 3.	80 marks

## Sample assessment materials

Sample papers and mark schemes can be found in the *Pearson Edexcel International Advanced Subsidiary/Advanced Level in Economics Sample Assessment Materials (SAMs)* document.

A full list of command words that will be used in the assessments can be found in *Appendix 6* of this specification.

## Assessment objectives and weightings

		<b>% in IAS</b>	<b>% in IA2</b>	<b>% in IAL</b>
<b>A01</b>	Demonstrate knowledge of terms, concepts, theories and models to show an understanding of the behaviour of economic agents	27.5	18.8	23.1
<b>A02</b>	Apply knowledge and understanding to various economic contexts	30	22.5	26.3
<b>A03</b>	Analyse issues and evidence, showing an understanding of their impact on economic agents	22.5	28.8	25.6
<b>A04</b>	Evaluate economic arguments and use appropriate evidence to support informed judgements	20	30	25

NB Percentages may not add up to 100 due to rounding.

## Relationship of assessment objectives to units for the International Advanced Subsidiary qualification

<b>Unit number</b>	<b>Assessment objective</b>			
	<b>A01</b>	<b>A02</b>	<b>A03</b>	<b>A04</b>
Unit 1	13.8%	15%	11.3%	10%
Unit 2	13.8%	15%	11.3%	10%
<b>Total for International Advanced Subsidiary</b>	<b>27.5%</b>	<b>30%</b>	<b>22.5%</b>	<b>20%</b>

NB Percentages may not add up to 100 due to rounding.

## Relationship of assessment objectives to units for the International Advanced Level qualification

<b>Unit number</b>	<b>Assessment objective</b>			
	<b>A01</b>	<b>A02</b>	<b>A03</b>	<b>A04</b>
Unit 1	6.9%	7.5%	5.6%	5%
Unit 2	6.9%	7.5%	5.6%	5%
Unit 3	4.7%	5.6%	7.2%	7.5%
Unit 4	4.7%	5.6%	7.2%	7.5%
<b>Total for International Advanced Level</b>	<b>23.1%</b>	<b>26.3%</b>	<b>25.6%</b>	<b>25%</b>

NB Percentages may not add up to 100 due to rounding.

## Assessment availability and first award

Unit	January 2019	June 2019	October 2019	January 2020	June 2020
1	✓	✓	✓	✓	✓
2	x	✓	✓	✓	✓
3	x	x	x	✓	✓
4	x	x	x	x	✓
IAS award	x	✓	✓	✓	✓
IAL award	x	x	x	x	✓

From June 2020, **all four units will be assessed** in January, June and October for the lifetime of the qualifications.

From June 2020 **IAL and IAS will both be awarded** in January, June and October for the lifetime of the qualifications.

# Administration and general information

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## Entries and resitting of units

### Entries

Details of how to enter students for the examinations for these qualifications can be found in our *International Information Manual*. A copy is made available to all examinations officers and is available on our website, [qualifications.pearson.com](http://qualifications.pearson.com).

### Resitting of units

Students can resit any unit irrespective of whether the qualification is to be cashed in. If a student resits a unit more than once, only the better of the two most recent attempts of that unit will be available for aggregation to a qualification grade. Please refer to the *Entry, Aggregation and Certification* document on our website: [qualifications.pearson.com/IAL-entry-certification-procedures](http://qualifications.pearson.com/IAL-entry-certification-procedures).

## Access arrangements, reasonable adjustments, special consideration and malpractice

Equality and fairness are central to our work. Our equality policy requires all students to have equal opportunity to access our qualifications and assessments, and our qualifications to be awarded in a way that is fair to every student.

We are committed to making sure that:

- students with a protected characteristic (as defined by the UK Equality Act 2010) are not, when they are undertaking one of our qualifications, disadvantaged in comparison to students who do not share that characteristic
- all students achieve the recognition they deserve for undertaking a qualification and that this achievement can be compared fairly to the achievement of their peers.

### Language of assessment

Assessment of these qualifications will be available in English only. All student work must be in English.

We recommend that students are able to read and write in English at Level B2 of the Common European Framework of Reference for Languages.

## Access arrangements

Access arrangements are agreed before an assessment. They allow students with special educational needs, disabilities or temporary injuries to:

- access the assessment
- show what they know and can do without changing the demands of the assessment.

The intention behind an access arrangement is to meet the particular needs of an individual student with a disability without affecting the integrity of the assessment. Access arrangements are the principal way in which awarding bodies comply with the duty under the Equality Act 2010 to make 'reasonable adjustments'.

Access arrangements should always be processed at the start of the course. Students will then know what is available and have the access arrangement(s) in place for assessment.

## Reasonable adjustments

The Equality Act 2010 requires an awarding organisation to make reasonable adjustments where a student with a disability would be at a substantial disadvantage in undertaking an assessment. The awarding organisation is required to take reasonable steps to overcome that disadvantage.

A reasonable adjustment for a particular student may be unique to that individual and therefore might not be in the list of available access arrangements.

Whether an adjustment will be considered reasonable will depend on a number of factors, including:

- the needs of the student with the disability
- the effectiveness of the adjustment
- the cost of the adjustment; and
- the likely impact of the adjustment on the student with the disability and other students.

An adjustment will not be approved if it involves unreasonable costs to the awarding organisation, timeframes or affects the security or integrity of the assessment. This is because the adjustment is not 'reasonable'.

## Special consideration

Special consideration is a post-examination adjustment to a student's mark or grade to reflect temporary injury, illness or other indisposition at the time of the examination/assessment, which has had, or is reasonably likely to have had, a material effect on a student's ability to take an assessment or demonstrate their level of attainment in an assessment.

## Further information

Please see our website for further information about how to apply for access arrangements and special consideration.

For further information about access arrangements, reasonable adjustments and special consideration please refer to the JCQ website: [www.jcq.org.uk](http://www.jcq.org.uk).

## Candidate malpractice

Candidate malpractice refers to any act by a candidate that compromises or seeks to compromise the process of assessment or which undermines the integrity of the qualifications or the validity of results/certificates.

Candidate malpractice in examinations **must** be reported to Pearson using a *JCQ Form M1* (available at [www.jcq.org.uk/exams-office/malpractice](http://www.jcq.org.uk/exams-office/malpractice)). The form can be emailed to [pqsmalpractice@pearson.com](mailto:pqsmalpractice@pearson.com) or posted to: Investigations Team, Pearson, 190 High Holborn, London, WC1V 7BH. Please provide as much information and supporting documentation as possible. Note that the final decision regarding appropriate sanctions lies with Pearson.

Failure to report malpractice constitutes staff or centre malpractice.

## Staff/centre malpractice

Staff and centre malpractice includes both deliberate malpractice and maladministration of our qualifications. As with candidate malpractice, staff and centre malpractice is any act that compromises or seeks to compromise the process of assessment or which undermines the integrity of the qualifications or the validity of results/certificates.

All cases of suspected staff malpractice and maladministration **must** be reported immediately, before any investigation is undertaken by the centre, to Pearson on a *JCQ Form M2(a)* (available at [www.jcq.org.uk/exams-office/malpractice](http://www.jcq.org.uk/exams-office/malpractice)).

The form, supporting documentation and as much information as possible can be emailed to [pqsmalpractice@pearson.com](mailto:pqsmalpractice@pearson.com) or posted to: Investigations Team, Pearson, 190 High Holborn, London, WC1V 7BH. Note that the final decision regarding appropriate sanctions lies with Pearson.

Failure to report malpractice itself constitutes malpractice.

More-detailed guidance on malpractice can be found in the latest version of the document *JCQ General and vocational qualifications Suspected Malpractice in Examinations and Assessments*, available at [www.jcq.org.uk/exams-office/malpractice](http://www.jcq.org.uk/exams-office/malpractice).

## Awarding and reporting

The Pearson Edexcel International Advanced Subsidiary in Economics will be graded on a five-grade scale from A to E. The Pearson Edexcel International Advanced Level in Economics will be graded on a six-point scale A\* to E. Individual unit results will be reported. Only Units 1 and 2 will contribute to the International Advanced Subsidiary grade. All four units will contribute to the International Advanced Level grade.

The first certification opportunity for the Pearson Edexcel International Advanced Subsidiary in Economics will be in August 2019. The first certification opportunity for the Pearson Edexcel International Advanced Level in Economics will be in August 2020. A pass in an International Advanced Subsidiary subject is indicated by one of the five grades A, B, C, D, E, of which grade A is the highest and grade E the lowest. A pass in an International Advanced Level subject is indicated by one of the six grades A\*, A, B, C, D, E, of which grade A\* is the highest and grade E the lowest. Students whose level of achievement is below the minimum judged by Pearson to be of sufficient standard to be recorded on a certificate will receive an unclassified U result.

## Unit results

Students will receive a uniform mark between 0 and the maximum uniform mark for each unit.

The uniform marks at each grade threshold for each unit are:

### Units 1, 2, 3 and 4

Unit grade	Maximum uniform mark	A	B	C	D	E
	100	80	70	60	50	40

## Qualification results

The minimum uniform marks required for each grade:

### International Advanced Subsidiary (cash-in code: XEC11)

Qualification grade	Maximum uniform mark	A	B	C	D	E
	200	160	140	120	100	80

Students with a uniform mark in the range 0–79 will be Unclassified (U).

### International Advanced Level (cash-in code: YEC11)

Qualification grade	Maximum uniform mark	A	B	C	D	E
	400	320	280	240	200	160

Students with a uniform mark in the range 0–159 will be Unclassified (U).

To be awarded an A\*, students will need to achieve an A for the International Advanced Level qualification (at least 320 uniform marks) **and** at least 90% of the total uniform mark available across the IA2 units combined (at least 180 uniform marks).

# Student recruitment and progression

Pearson follows the JCQ policy concerning recruitment to our qualifications in that:

- they must be available to anyone who is capable of reaching the required standard
- they must be free from barriers that restrict access and progression
- equal opportunities exist for all students.

## Prior learning and other requirements

There are no formal prior learning or other requirements for these qualifications.

Students who would benefit most from studying these qualifications are likely to have a qualification in a numerate subject such as an International GCSE in Mathematics.

## Progression

Students can progress from these qualifications to:

- higher-education courses such as an economics degree with a focus on theory, or a degree in applied economics, such as environmental economics, labour economics, public sector economics or monetary economics. Alternatively, students may choose to go on to study a business economics, mathematical economics or business degree
- a wide range of careers ranging from finance, banking, insurance, accountancy, management and consultancy to becoming professional economists.



## Appendices

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## Appendix 1: Codes

Type of code	Use of code	Code
Unit codes	Each unit is assigned a code. This unit code is used as an entry code to indicate that a student wishes to take the assessment for that unit. Centres will need to use the unit codes only when entering students for their examination.	Unit 1: WEC11/01 Unit 2: WEC12/01 Unit 3: WEC13/01 Unit 4: WEC14/01
Cash-in codes	The cash-in code is used as a code to aggregate the student's unit scores to obtain the overall grade for the qualification.	International Advanced Subsidiary – XEC11 International Advanced Level – YEC11

## Appendix 2: Pearson World Class Qualification design principles

Pearson’s World Class Qualification design principles mean that all Edexcel qualifications are developed to be **rigorous, demanding, inclusive and empowering**.



We work collaboratively to gain approval from an external panel of educational thought-leaders and assessment experts from across the globe. This is to ensure that Edexcel qualifications are globally relevant, represent world-class best practice in qualification and assessment design, maintain a consistent standard and support learner progression in today’s fast-changing world.

Pearson’s Expert Panel for World-Class Qualifications is chaired by Sir Michael Barber, a leading authority on education systems and reform. He is joined by a wide range of key influencers with expertise in education and employability.

*"I’m excited to be in a position to work with the global leaders in curriculum and assessment to take a fresh look at what young people need to know and be able to do in the 21st century, and to consider how we can give them the opportunity to access that sort of education."* Sir Michael Barber.

## Endorsement from Pearson’s Expert Panel for World Class Qualifications for the International Advanced Subsidiary (IAS)/International Advanced Level (IAL) development process

**December 2015**

“We were chosen, either because of our expertise in the UK education system, or because of our experience in reforming qualifications in other systems around the world as diverse as Singapore, Hong Kong, Australia and a number of countries across Europe.

We have guided Pearson through what we judge to be a rigorous world class qualification development process that has included, where appropriate:

- extensive international comparability of subject content against the highest-performing jurisdictions in the world
- benchmarking assessments against UK and overseas providers to ensure that they are at the right level of demand
- establishing External Subject Advisory Groups, drawing on independent subject-specific expertise to challenge and validate our qualifications.

Importantly, we have worked to ensure that the content and learning is future oriented, and that the design has been guided by Pearson’s Efficacy Framework. This is a structured, evidenced process which means that learner outcomes have been at the heart of this development throughout.

We understand that ultimately it is excellent teaching that is the key factor to a learner’s success in education but as a result of our work as a panel we are confident that we have supported the development of Edexcel IAS and IAL qualifications that are outstanding for their coherence, thoroughness and attention to detail and can be regarded as representing world-class best practice.”

**Sir Michael Barber** (Chair)  
Chief Education Advisor, Pearson plc

**Professor Lee Sing Kong**  
Dean and Managing Director, National Institute of Education International, Singapore

**Dr Peter Hill**  
Former Chief Executive ACARA

**Bahram Bekhradnia**  
President, Higher Education Policy Institute

**Professor Jonathan Osborne**  
Stanford University

**Dame Sally Coates**  
Director of Academies (South), United Learning Trust

**Professor Dr Ursula Renold**  
Federal Institute of Technology, Switzerland

**Professor Bob Schwartz**  
Harvard Graduate School of Education

**Professor Janice Kay**  
Provost, University of Exeter

**Jane Beine**  
Head of Partner Development, John Lewis Partnership

**Jason Holt**  
CEO, Holts Group

All titles correct as at December 2015.

## Appendix 3: Transferable skills

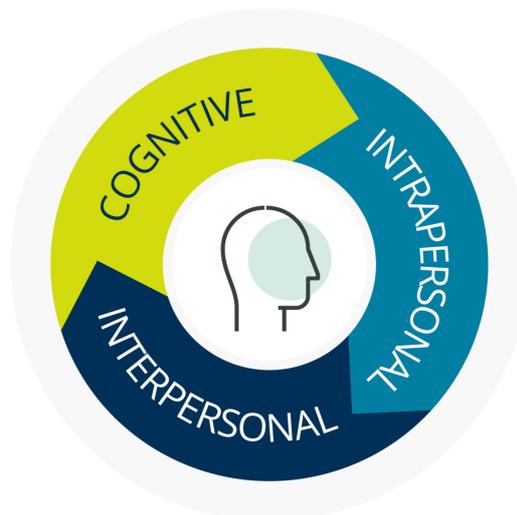
### The need for transferable skills

In recent years, higher-education institutions and employers have consistently flagged the need for students to develop a range of transferable skills to enable them to respond with confidence to the demands of undergraduate study and the world of work.

The Organisation for Economic Co-operation and Development (OECD) defines skills, or competencies, as 'the bundle of knowledge, attributes and capacities that can be learned and that enable individuals to successfully and consistently perform an activity or task and can be built upon and extended through learning.'<sup>[1]</sup>

To support the design of our qualifications, the Pearson Research Team selected and evaluated seven global 21st-century skills frameworks. Following on from this process, we identified the National Research Council's (NRC) framework <sup>[2]</sup> as the most evidence-based and robust skills framework, and have used this as a basis for our adapted skills framework.

The framework includes cognitive, intrapersonal skills and interpersonal skills.



The skills have been interpreted for this specification to ensure that they are appropriate for the subject. All of the skills listed are evident or accessible in the teaching, learning and/or assessment of the qualifications. Some skills are directly assessed. Pearson materials will support you in identifying these skills and developing these skills in students.

The table overleaf sets out the framework and gives an indication of the skills that can be found in economics and indicates the interpretation of the skill in this area. A full subject interpretation of each skill, with mapping to show opportunities for student development is given on the subject pages of our website: [qualifications.pearson.com](http://qualifications.pearson.com)

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<sup>1</sup> OECD – *Better Skills, Better Jobs, Better Lives* (OECD Publishing, 2012)

<sup>2</sup> Koenig, J A, National Research Council - *Assessing 21st Century Skills: Summary of a Workshop* (National Academies Press, 2011)

<b>Cognitive skills</b>	Cognitive processes and strategies	<ul style="list-style-type: none"> <li>• Critical thinking</li> <li>• Problem solving</li> <li>• Analysis</li> <li>• Reasoning/argumentation</li> <li>• Interpretation</li> <li>• Decision making</li> <li>• Adaptive learning</li> <li>• Executive function</li> </ul>	Thinking critically about economics ideas and issues. Using various economic concepts and economic data to synthesise the information to make judgements.
	Creativity	<ul style="list-style-type: none"> <li>• Creativity</li> <li>• Innovation</li> </ul>	
<b>Intrapersonal skills</b>	Intellectual openness	<ul style="list-style-type: none"> <li>• Adaptability</li> <li>• Personal and social responsibility</li> <li>• Continuous learning</li> <li>• Intellectual interest and curiosity</li> </ul>	The notion that businesses and individuals need to act for the benefit of society at large. Appreciate ethical issues relating to economic issues
	Work ethic/conscientiousness	<ul style="list-style-type: none"> <li>• Initiative</li> <li>• Self-direction</li> <li>• Responsibility</li> <li>• Perseverance</li> <li>• Productivity</li> <li>• Self-regulation (metacognition, forethought, reflection)</li> <li>• Ethics</li> <li>• Integrity</li> </ul>	
	Positive core self-evaluation	<ul style="list-style-type: none"> <li>• Self-monitoring/self-evaluation/self-reinforcement</li> </ul>	
<b>Interpersonal skills</b>	Teamwork and collaboration	<ul style="list-style-type: none"> <li>• Communication</li> <li>• Collaboration</li> <li>• Teamwork</li> <li>• Cooperation</li> <li>• Empathy/perspective taking</li> <li>• Negotiation</li> </ul>	The imparting or exchanging of information by speaking or writing. Able to communicate an Economic concept to others verbally or in written forms. Answer questions on the issue.
	Leadership	<ul style="list-style-type: none"> <li>• Leadership</li> <li>• Responsibility</li> <li>• Assertive communication</li> <li>• Self-presentation</li> </ul>	

## Appendix 4: Level 3 Extended Project qualification

### What is the Extended Project?

The Extended Project is a standalone qualification that can be taken alongside International Advanced Level (IAL) qualifications. It supports the development of independent learning skills and helps to prepare students for their next step – whether that be higher education or employment. The qualification:

- is recognised by higher education for the skills it develops
- is worth half of an International Advanced Level (IAL) qualification at grades A\*–E
- carries UCAS points for university entry.

The Extended Project encourages students to develop skills in the following areas: research, critical thinking, extended writing and project management. Students identify and agree a topic area of their choice for in-depth study (which may or may not be related to an IAL subject they are already studying), guided by their teacher.

Students can choose from one of four approaches to produce:

- a dissertation (for example an investigation based on predominately secondary research)
- an investigation/field study (for example a practical experiment)
- a performance (for example in music, drama or sport)
- an artefact (for example creating a sculpture in response to a client brief or solving an engineering problem).

The qualification is non-examination assessment based and students are assessed on the skills of managing, planning and evaluating their project. Students will research their topic, develop skills to review and evaluate the information, and then present the final outcome of their project.

The Extended Project has 120 guided learning hours (GLH) consisting of a 40-GLH taught element that includes teaching the technical skills (for example research skills) and an 80-GLH guided element that includes mentoring students through the project work. The qualification is 100% internally assessed and externally moderated.

### How to link the Extended Project with Economics

The Extended Project creates the opportunity to develop transferable skills for progression to higher education and to the workplace through the exploration of either an area of personal interest or a topic of interest from within the economics qualification content.

Through the Extended Project, students will develop skills that support their study of economics, including:

- conducting, organising and using research
- independent reading in the subject area
- planning, project management and time management
- defining a hypothesis to be tested in investigations or developing a design brief
- collecting, handling and interpreting data and evidence
- evaluating arguments and processes, including arguments in favour of alternative interpretations of data and evaluation of experimental methodology
- critical thinking.

In the context of the Extended Project, critical thinking refers to the ability to identify and develop arguments for a point of view or hypothesis and to consider and respond to alternative arguments. This supports the development of evaluative skills, through evaluating economic arguments and using qualitative and quantitative evidence to support informed judgements and propose evidence-based solutions to economic issues.

### Types of Extended Project related to economics

Students may produce a dissertation on any topic that can be researched and argued, such as:

- Is fair trade actually fair?
- Does income inequality help or harm economic growth?

The dissertation uses secondary research sources to provide a reasoned defence or a point of view, with consideration of counter-arguments.

An alternative might be an investigative project or field study involving the collection of data from primary research, for example a study of the impact of unemployment on a local community.

### Using the Extended Project to support breadth and depth

In the Extended Project, students are assessed on the quality of the work they produce and the skills they develop and demonstrate through completing this work. Students should demonstrate that they have extended themselves in some significant way beyond what they have been studying in economics. Students can demonstrate extension in one or more dimensions:

- **deepening understanding** – where a student explores a topic in greater depth than in the specification content
- **broadening skills** – where a student learns a new skill. This might be learning how to design a website or learning a new statistical technique that can be used in the analysis of either primary or secondary data collected by the student
- **widening perspectives** – where the student's project spans different subjects. A student studying economics with history may wish to research the influence of an economic thinker such as Keynes or Hayek. A student studying economics with geography may wish to research the economic development of a particular country or the impact of an industry on the landscape. A student studying economics with mathematics may wish to use statistical techniques to analyse macroeconomic data and research one aspect of the economy in more detail. A student studying economics with psychology may wish to conduct an experiment into economic behaviour.

A wide range of information to support the delivery and assessment of the Extended Project, including the specification, teacher guidance for all aspects, an editable scheme of work and exemplars for all four approaches, can be found on our website.

## Appendix 5: Glossary

Term	Definition
Assessment objectives	The requirements that students need to meet to succeed in the qualification. Each assessment objective has a unique focus, which is then targeted in examinations or coursework. Assessment objectives may be assessed individually or in combination.
External assessment	An examination that is held at the same time and place in a global region.
International Advanced Subsidiary	Abbreviated to IAS.
International Advanced Level	Abbreviated to IAL.
International A2 (IA2)	The additional content required for an IAL.
Linear	Linear qualifications have all assessments at the end of a course of study. It is not possible to take one assessment earlier in the course of study.
Modular	Modular qualifications contain units of assessment. These units can be taken during the course of study. The final qualification grade is worked out from the combined unit results.
Raw marks	Raw marks are the actual marks that students achieve when taking an assessment. When calculating an overall grade, raw marks often need to be converted so that it is possible to see the proportionate achievement of a student across all units of study.
Uniform Mark Scale (UMS)	Student actual marks (or raw marks) will be converted into a UMS mark so that it is possible to see the proportionate result of a student. Two units may each be worth 25% of a total qualification. The raw marks for each unit may differ but the uniform mark will be the same.
Unit	A modular qualification will be divided into a number of units. Each unit will have its own assessment.

## Appendix 6: Command word taxonomy

The table below lists the command words that will be used in the question papers along with an outline of what each type of question requires students to do.

Command	Number of marks	What students are required to do
Define	2	Requires knowledge and understanding only. Requires students to give the meaning of a term, concept or phrase.
Calculate	2 or 4	Assesses quantitative skills. Requires a calculation involving several stages based on given data and may involve the use of a prescribed diagram or formula. Calculators may be used. Students are advised to show workings.
Draw	4	Assesses quantitative skills. Requires students to construct an accurately labelled diagram, using quantitative skills. Students may be required to decide on a type of diagram, or the type required may be stated.
Explain	4	When asking students to explain a term or the characteristics, this requires knowledge, understanding and application. When asking students to explain a reason or impact, this also includes analysis as it requires a two-stage chain of reasoning.
Analyse	6	Requires knowledge, understanding, application and analysis. Requires an explanation which includes a chain of reasoning, and diagrams where appropriate. Focuses on depth rather than breadth. Any relevant data provided needs to be interpreted. Does not include evaluation.
Examine	8	Requires knowledge, understanding, application, analysis and evaluation. Requires an explanation which includes a chain of reasoning, and diagrams where appropriate. Focuses on depth rather than breadth. Any relevant data provided needs to be interpreted. There should be a brief assessment of the arguments/factors/evidence.
Discuss	14	Requires knowledge, understanding, application, analysis and evaluation. Logical and coherent chains of reasoning need to be developed with reference to context where appropriate. The validity and significance of arguments/models and concepts should be considered and supported by relevant chains of reasoning. There should also be a recognition of different viewpoints and/or a critical assessment of the evidence.
Evaluate/ To what extent	20	Requires knowledge, understanding, application, analysis and evaluation. Logical and coherent multi-stage chains of reasoning need to be developed with reference to context where appropriate. The validity and significance of arguments/models and concepts should be considered and supported by relevant chains of reasoning. There should also be a recognition of different viewpoints and/or a critical assessment of the evidence so that informed judgements arguments may be made.

## Appendix 7: Quantitative skills

Throughout the course of study, students will develop competence in the quantitative skills listed below. There are opportunities for students to develop these skills throughout the content and they are required to apply the skills to relevant economic contexts.

The assessment of quantitative skills 1–9 will constitute a minimum of 20% of the overall marks for both the International Advanced Subsidiary and the International Advanced Level.

IAS	IA2
<b>QS1</b> Calculate, use and understand ratios and fractions	<b>QS1</b> Calculate, use and understand ratios and fractions
<b>QS2</b> Calculate, use and understand percentages, percentage changes and percentage point changes	<b>QS2</b> Calculate, use and understand percentages, percentage changes and percentage point changes
<b>QS3</b> Understand and use the terms mean and median	<b>QS3</b> Understand and use the terms mean, median and relevant quantiles <sup>3</sup>
<b>QS4</b> Construct and interpret a range of standard graphical forms	<b>QS4</b> Construct and interpret a range of standard graphical forms
<b>QS5</b> Calculate and interpret index numbers	<b>QS5</b> Calculate and interpret index numbers
<b>QS6</b> Calculate total revenue	<b>QS6</b> Calculate cost, revenue and profit (marginal, average, totals)
–	<b>QS7</b> Make calculations to convert from money to real terms
<b>QS8</b> Make calculations of elasticity and interpret the result	<b>QS8</b> Make calculations of elasticity and interpret the result
<b>QS9</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms	<b>QS9</b> Interpret, apply and analyse information in written, graphical tabular and numerical forms

In addition, there are three quantitative skills that may be assessed but which do not contribute to the 20% target.

IAS	IA2
<b>QS10</b> Distinguish between changes in the level of a variable, and the rate of change	<b>QS10</b> Distinguish between changes in the level of a variable, and the rate of change
–	<b>QS11</b> Understand composite indicators
<b>QS12</b> Understand the meaning of seasonally adjusted figures	<b>QS12</b> Understand the meaning of seasonally-adjusted figures

<sup>3</sup> Percentile, decile, quintile, quartile

## Appendix 8: Use of calculators

Students may use a calculator in the assessments for these qualifications. Centres are responsible for making sure that calculators used by their students meet the requirements given in the table below.

Students must be familiar with the requirements before their assessments for these qualifications.

<p><b>Calculators must be:</b></p> <ul style="list-style-type: none"> <li>• of a size suitable for use on the desk</li> <li>• either battery or solar powered</li> <li>• free of lids, cases and covers which have printed instructions or formulas.</li> </ul>	<p><b>Calculators must not:</b></p> <ul style="list-style-type: none"> <li>• be designed or adapted to offer any of these facilities:             <ul style="list-style-type: none"> <li>○ language translators</li> <li>○ symbolic algebra manipulation</li> <li>○ symbolic differentiation or integration</li> <li>○ communication with other machines or the internet.</li> </ul> </li> <li>• be borrowed from another student during an examination for any reason*</li> <li>• have retrievable information stored in them – this includes:             <ul style="list-style-type: none"> <li>○ databanks</li> <li>○ dictionaries</li> <li>○ mathematical formulas</li> <li>○ text.</li> </ul> </li> </ul>
<p><b>The student is responsible for the following:</b></p> <ul style="list-style-type: none"> <li>• the calculator’s power supply</li> <li>• the calculator’s working condition</li> <li>• clearing anything stored in the calculator.</li> </ul>	

\*An invigilator may give a student a calculator.

Further information can be found in the JCQ documents *Instructions for conducting examinations and Information for candidates for written examinations*, available at [www.jcq.org.uk/exams-office](http://www.jcq.org.uk/exams-office).



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