

Year 12 Topic List A Level Economics

In year 12 we teach the following topics over the course of the year. Each topic develops and deepens the Core knowledge that will underpin all areas of the curriculum at KS5.

Micro-economics

Topic 1 - Economic methodology & the economic problem				
Topic	Rationale	Knowledge acquisition	Key Vocabulary	Skills and enrichment
1.1 Economic Methodology	Students need to understand how thinking as an economist may differ from other forms of scientific enquiry.	<ul style="list-style-type: none"> Economics as a social science. Similarities to and differences in methodology from natural and other sciences. The difference between positive and normative statements. How value judgements influence economic decision making and policy. People's views concerning the best option are influenced by the positive consequences of different decisions and by moral and political judgements. 	<ul style="list-style-type: none"> economics social science scientific methodology natural sciences positive statements normative statements value judgements economic decision making ethical moral political 	<ul style="list-style-type: none"> independence reading & comprehension literacy communication analysis meeting deadlines oracy quantitative skills data handling effective writing problem solving self-management self-monitoring
1.2 The nature and purpose of economic activity	Students need to understand the central purpose of economic activity.	<ul style="list-style-type: none"> The central purpose of economic activity is the production of goods and services to satisfy needs and wants. The key economic decisions are: what to produce, how to produce and who is to benefit from the goods and services produced. 	<ul style="list-style-type: none"> economic activity production goods services needs wants 	
1.3 Economic resources	Students need to understand economists' classification of economic resources.	<ul style="list-style-type: none"> The economists' classification of economic resources into land, labour, capital and enterprise, which are the factors of production. The environment is a scarce resource. 	<ul style="list-style-type: none"> economic resources land, labour capital enterprise factors of production 	

			<ul style="list-style-type: none"> • environment • scarcity 	
1.4 Scarcity, choice and the allocation of resources		<ul style="list-style-type: none"> • The fundamental economic problem is scarcity and that it results from limited resources and unlimited wants. • Scarcity means that choices have to be made about how scarce resources are allocated between different uses. • Choices have an opportunity cost. 	<ul style="list-style-type: none"> • economic problem • scarcity • finite resources • infinite wants • choices • allocation of resources • opportunity cost 	
1.5 Production possibility diagrams	Students need to be able to use production possibility diagrams to illustrate different features of the economic problem.	<ul style="list-style-type: none"> • Production possibility diagrams illustrate different features of the fundamental economic problem, such as: resource allocation, opportunity cost and trade-offs, unemployment of economic resources, economic growth. • Why all points on the boundary are productively efficient but not all points on the boundary are allocatively efficient. 	<ul style="list-style-type: none"> • production possibility diagrams • economic problem • resource allocation • opportunity cost • trade-offs • unemployment of economic resources • economic growth • productively efficient • allocatively efficient 	

Topic 3 – Price determination in a competitive market				
Topic	Rationale	Knowledge acquisition	Key vocabulary	Skills and enrichment
3.1 The determinants of the demand for goods and services	<p>Students need to understand the factors that influence the spending decisions of consumers.</p> <p>They should also appreciate that such decisions are influenced by social and emotional factors.</p>	<ul style="list-style-type: none"> • The factors which determine the demand for a good or service. • A demand curve shows the relationship between price and quantity demanded. • The causes of shifts in the demand curve. • The factors that influence the spending decisions of consumers, including: price, income, wealth, the price of substitutes and complementary goods, and individual preferences. 	<ul style="list-style-type: none"> • demand • law of demand • effective demand • good • service • demand curve • quantity demanded • movements • shifts • spending decisions • consumers 	<ul style="list-style-type: none"> • independence • reading & comprehension • literacy • communication • analysis • meeting deadlines • oracy • quantitative skills • data handling • effective writing

		<ul style="list-style-type: none"> • Decisions are also influenced by social and emotional factors. 	<ul style="list-style-type: none"> • determinants of demand • conditions of demand • price • real disposable income • wealth • substitutes • complementary goods • individual preferences • social and emotional factors • population • taxation 	<ul style="list-style-type: none"> • problem solving • self-management • self-monitoring
3.2 Price, income and cross elasticities of demand	Students need to be able to calculate and interpret numerical values of elasticities of demand.	<ul style="list-style-type: none"> • Calculate price, income and cross elasticities of Demand and interpret the numerical values • The relationship between income elasticity of demand and normal and inferior goods. • The relationship between cross elasticity of demand and substitute and complementary goods. • The relationships between price elasticity of demand and firms' total revenue (total expenditure). • The factors that influence these elasticities of demand. 	<ul style="list-style-type: none"> • price elasticity of demand • income elasticity of demand • cross elasticity of demand • elastic • inelastic • perfectly elastic • perfectly inelastic • unitary elastic • normal goods • inferior goods • substitute goods • complementary goods • total revenue • total expenditure 	<ul style="list-style-type: none"> • independence • reading & comprehension • literacy • quantitative skills • data handling • problem solving • self-management • self-monitoring
3.3 The determinants of	Students need to know that, under perfect competition,	<ul style="list-style-type: none"> • The factors which determine the supply of a good or service. 	<ul style="list-style-type: none"> • supply • law of supply • supply curve 	<ul style="list-style-type: none"> • independence • reading & comprehension

<p>the supply of goods and services</p>	<p>the supply curve is the marginal cost curve.</p>	<ul style="list-style-type: none"> • A supply curve shows the relationship between price and quantity supplied. • Understand that higher prices imply higher profits and that this will provide the incentive to expand production. • The causes of shifts in the supply curve. 	<ul style="list-style-type: none"> • quantity supplied • labour productivity • technology • production costs • taxation • subsidies • profit incentive • production/output • movements • shifts 	<ul style="list-style-type: none"> • literacy • analysis • oracy • quantitative skills • data handling • effective writing • problem solving • self-management • self-monitoring
<p>3.4 Price elasticity of supply</p>	<p>Students need to be able to calculate and interpret numerical values of price elasticity of supply.</p>	<ul style="list-style-type: none"> • Calculate price elasticity of supply and interpret the numerical value • The factors that influence price elasticity of supply. 	<ul style="list-style-type: none"> • price elasticity of supply • elastic • inelastic • perfectly elastic • perfectly inelastic • unitary elastic • spare capacity 	
<p>3.5 The determination of equilibrium market prices</p>	<p>Students need to be able to use demand and supply diagrams to help them to analyse causes of changes in equilibrium market prices.</p> <p>They need to be able to apply their knowledge of the basic model of demand and supply to a variety of real-world markets.</p> <p>They also need to be aware of the assumptions of the model of supply and demand.</p>	<ul style="list-style-type: none"> • How the interaction of demand and supply determines equilibrium prices in a market economy. • The difference between equilibrium and disequilibrium. • Why excess demand and excess supply lead to changes in price. • Use demand and supply diagrams to help them to analyse causes of changes in equilibrium market prices. 	<ul style="list-style-type: none"> • equilibrium prices • market economy • disequilibrium • excess demand • excess supply • market prices 	<ul style="list-style-type: none"> • independence • reading & comprehension • literacy • communication • analysis • oracy • quantitative skills • data handling • effective writing • problem solving • self-management • self-monitoring

3.6 The interrelationship between markets	Students need to be able to explore the impact of changes in demand, supply and price in one market upon other related markets.	<ul style="list-style-type: none"> • Changes in a particular market are likely to affect other markets. • The implications of joint demand, competitive demand, composite demand, derived demand and joint supply. 	<ul style="list-style-type: none"> • joint demand • competitive demand • composite demand • derived demand • joint supply 	
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Topic 2 - Individual economic decision making				
Topic	Rationale	Knowledge acquisition	Key vocabulary	Skills and enrichment
2.1 Consumer behaviour	Students need to appreciate that the hypothesis of diminishing marginal utility supports a downward sloping demand curve.	<ul style="list-style-type: none"> • Rational economic decision making and economic incentives. • Utility theory: total and marginal utility, and the hypothesis of diminishing marginal utility. • Utility maximisation. • The importance of the margin when making choices. 	<ul style="list-style-type: none"> • Rational consumer • economic incentive • utility • total and marginal utility • diminishing marginal utility • utility maximisation 	<ul style="list-style-type: none"> • independence • reading & comprehension • literacy • analysis • research • working collaboratively
2.2 Imperfect information	Students need to recognise that imperfect information makes it difficult for economic agents to make rational decisions and is a potential source of market failure.	<ul style="list-style-type: none"> • The importance of information for decision making. • The significance of asymmetric information. 	<ul style="list-style-type: none"> • imperfect information • asymmetric information • rational consumer • market failure • economic agents 	<ul style="list-style-type: none"> • oracy • quantitative skills • data handling • effective writing • problem solving
2.3 Aspects of behavioural economic theory	Students need to appreciate that behavioural economists question the assumption of traditional economic theory that individuals are rational decision makers	<ul style="list-style-type: none"> • Bounded rationality and bounded self-control. • Biases in decision making: rules of thumb, anchoring, availability and social norms. 	<ul style="list-style-type: none"> • bounded rationality • bounded self-control • biases • rules of thumb • anchoring, • availability 	<ul style="list-style-type: none"> • reflective practice • debate • self-monitoring • self-management

	<p>who endeavour to maximise their utility.</p> <p>They need to understand some of the reasons why an individual's economic decisions may be biased.</p>	<ul style="list-style-type: none"> • The importance of altruism and perceptions of fairness. 	<ul style="list-style-type: none"> • social norms. • altruism • perception • fairness 	
2.4 Behavioural economics and economic policy	<p>Students need to appreciate that insights provided by behavioural economists can help governments and other agencies influence economic decision making.</p>	<ul style="list-style-type: none"> • Choice architecture and framing. • Nudges. • Default choices, restricted choice and mandated choice. 	<ul style="list-style-type: none"> • choice architecture • choice framing • nudge • default choices • restricted choice • mandated choice 	

Topic 8 – The market mechanism, market failure and government intervention in markets				
Topic	Rationale	Knowledge acquisition	Key Vocabulary	Skills and enrichment
8.1 How markets and prices allocate resources & The meaning of market failure	<p>Students need to understand how economic incentives influence what, how and for whom goods and services are produced.</p> <p>They need to be able to assess the view that the price mechanism is an impersonal method of allocating resources.</p> <p>They also need to be able to assess the view that introducing the price mechanism and markets into some fields of human activity may be undesirable and is likely to affect the nature of the activity.</p> <p>They also need to be able to provide examples to inform their discussion of</p>	<ul style="list-style-type: none"> • The rationing, incentive and signalling functions of prices in allocating resources and coordinating the decisions of buyers and sellers in a market economy. • The price mechanism is the way in which the basic economic problem is resolved in a market economy. • How economic incentives influence what, how and for whom goods and service are produced. • The advantages and disadvantages of the price mechanism and of extending its use into new areas of activity. • Market failure occurs whenever a market leads to a misallocation of resources. • What is meant by a misallocation of resources. 	<ul style="list-style-type: none"> • rationing function • incentive function • signalling function • buyers and sellers • market economy • price mechanism • market mechanism • basic economic problem • economic incentives • market failure • misallocation of resources 	<ul style="list-style-type: none"> • independence • reading & comprehension • literacy • communication • analysis • oracy • quantitative skills • data handling • effective writing • problem solving • self-management • self-monitoring

	each of the causes of market failure.	<ul style="list-style-type: none"> • The difference between complete market failure (resulting in a missing market) and partial market failure (where a market exists but contributes to resource misallocation). • How public goods, positive and negative externalities, merit and demerit goods, monopoly and other market imperfections, and inequalities in the distribution of income and wealth can lead to market failure. • Provide examples to inform discussion of each of the causes of market failure. 	<ul style="list-style-type: none"> • complete market failure • missing market • partial market failure • public goods • positive externalities • negative externalities • merit goods • demerit goods • monopoly • market imperfections • inequalities distribution of income and wealth 	
8.2 Public goods, private goods and quasi-public goods	Students need to appreciate the relevance of the 'tragedy of the commons' for environmental market failures.	<ul style="list-style-type: none"> • Pure public goods are non-rival and non-excludable and recognition of the significance of these characteristics. • The difference between a public good and a private good. • Circumstances when a public good may take on some of the characteristics of a private good and become a quasi-public good. • The significance of technological change eg television broadcasting is now excludable. • The free-rider problem • The tragedy of the commons 	<ul style="list-style-type: none"> • pure public goods • non-rival • non-excludable • public good • private good • quasi-public good • technological change, • free-rider problem • the tragedy of the commons 	<ul style="list-style-type: none"> • independence • reading & comprehension • literacy • communication • analysis • research • working collaboratively • oracy • quantitative skills • data handling • effective writing • problem solving • evaluation • reflective practice • essay writing • self-management • self-monitoring

<p>8.3 Positive and negative externalities in consumption and production</p>	<p>Students need to be able to illustrate the misallocation of resources resulting from externalities in both production and consumption, using diagrams showing marginal private and social cost and benefit curves.</p>	<ul style="list-style-type: none"> Externalities exist when there is a divergence between private and social costs and benefits. Why negative externalities are likely to result in over-production and that positive externalities are likely to result in underproduction. Illustrate the misallocation of resources resulting from externalities in both production and consumption, using demand and supply diagrams. Why the absence of property rights leads to externalities in both production and consumption and hence market failure. 	<ul style="list-style-type: none"> positive externalities negative externalities consumption production divergence private and social costs and benefits over-production underproduction demand and supply diagrams property rights 	<ul style="list-style-type: none"> independence reading & comprehension literacy communication analysis research working collaboratively oracy quantitative skills data handling effective writing problem solving evaluation reflective practice essay writing debate self-management self-monitoring
<p>8.4 Merit and demerit goods</p>	<p>Students need to be able to illustrate the misallocation of resources resulting from the consumption of merit and demerit goods using diagrams showing marginal private and social cost and benefit curves.</p>	<ul style="list-style-type: none"> The classification of merit and demerit goods depends upon a value judgement. Such products may be subject to positive and negative externalities in consumption. How under-provision of merit goods and over-provision of demerit goods may also result from imperfect information. Illustrate the misallocation of resources resulting from the consumption of merit and demerit goods using demand and supply diagrams and diagrams showing marginal private and social cost and benefit curves. 	<ul style="list-style-type: none"> merit goods demerit goods value judgement positive externalities negative externalities consumption under-provision over-provision imperfect information misallocation of resources marginal private and social cost and benefits 	<ul style="list-style-type: none"> independence reading & comprehension literacy communication analysis
<p>8.6 Market imperfections</p>	<p>Students need to be able to illustrate the misallocation of resources resulting from market imperfections.</p>	<ul style="list-style-type: none"> Why imperfect and asymmetric information can lead to market failure. Why the existence of monopoly and monopoly power can lead to market failure. 	<ul style="list-style-type: none"> imperfect information asymmetric information monopoly monopoly power 	<ul style="list-style-type: none"> independence reading & comprehension literacy communication analysis

		<ul style="list-style-type: none"> • Why the immobility of factors of production can lead to market failure. 	<ul style="list-style-type: none"> • immobility of factors of production 	<ul style="list-style-type: none"> • research • working collaboratively • oracy • quantitative skills • data handling • effective writing • problem solving • evaluation • reflective practice • essay writing • debate • self-management • self-monitoring
8.5 Government intervention in markets	<p>Students need to be able to apply economic models to assess the role of markets and the government in a variety of situations.</p> <p>They need to be able to explain, analyse and evaluate the strengths and weaknesses of the market economy and the role of government within it.</p> <p>They need to be able to evaluate the case for</p>	<ul style="list-style-type: none"> • The existence of market failure, in its various forms, provides an argument for government intervention in markets. • Governments influence the allocation of resources in a variety of ways, including through public expenditure, taxation and regulation. • Governments have a range of objectives and these affect how they intervene in a mixed economy to influence the allocation of resources. • The use of indirect taxation, subsidies, price controls, state provision and regulation, the extension of property rights and pollution permits to correct market failure. 	<ul style="list-style-type: none"> • government intervention • public expenditure • taxation • regulation • objectives • indirect taxation • subsidies • price controls • minimum price • maximum price • state provision • regulation • extension of property rights • pollution permits • economic models • consequences 	<ul style="list-style-type: none"> • independence • reading & comprehension • literacy • communication • analysis • research • working collaboratively • oracy • quantitative skills • data handling • effective writing • problem solving • evaluation • reflective practice • essay writing

	and against government intervention in particular markets and to assess the relative merits of different methods of intervention.	<ul style="list-style-type: none"> • Apply economic models to assess the role of markets and the government in a variety of situations. • The consequences of government intervention in markets for consumers, producers and other economic agents. • Evaluate the case for and against government intervention in particular markets and to assess the relative merits of different methods of intervention. 	<ul style="list-style-type: none"> • economic agents 	<ul style="list-style-type: none"> • debate • self-management • self-monitoring
8.9 Competition policy	Students need to understand real-world applications of competition policies and be able to evaluate the use of economic models to explore economic behaviour and further develop their appreciation of the behaviour of firms.	<ul style="list-style-type: none"> • The general principles of UK competition policy • The costs and benefits of such policies. 	<ul style="list-style-type: none"> • competition policy • merger • take over • restrictive trade practices • windfall taxes • compulsory break-up • price controls 	<ul style="list-style-type: none"> • independence • reading & comprehension • literacy • communication • analysis • research • working collaboratively • oracy • quantitative skills • data handling • effective writing • problem solving • evaluation • reflective practice • essay writing • self-management • self-monitoring
8.10 Public ownership, privatisation, regulation and deregulation of markets	Students need to be able to assess the application of UK policies and be able to evaluate their effects on economic performance.	<ul style="list-style-type: none"> • The arguments for and against the public ownership of firms and industries. The arguments for and against the privatisation of state-owned enterprises. The arguments for and against the regulation of markets. • The arguments for and against the deregulation of markets. • The problem of regulatory capture. 	<ul style="list-style-type: none"> • public ownership • social welfare • dynamic efficiency • strategic importance • privatisation • state-owned enterprises • nationalisation • re-nationalisation • regulation of markets • deregulation of markets • regulatory capture 	<ul style="list-style-type: none"> • independence • reading & comprehension • literacy • communication • analysis • research • working collaboratively • oracy • quantitative skills • data handling • effective writing • problem solving • evaluation • reflective practice • essay writing • self-management • self-monitoring

<p>8.11 Government failure</p>	<p>Students need to appreciate that the possibility of government failure means that, even when there is market failure, government intervention will not necessarily improve economic welfare.</p>	<ul style="list-style-type: none"> • Government failure occurs when government intervention in the economy leads to a misallocation of resources. • Inadequate information, conflicting objectives and administrative costs are possible sources of government failure. • Governments may create, rather than remove, market distortions. • Government intervention can lead to unintended consequences. • Government failure can mean that, even when there is market failure, government intervention will not necessarily improve economic welfare. • Consumers and producers may not have access to the same information and that this may contribute to markets operating inefficiently. 	<ul style="list-style-type: none"> • government failure • misallocation of resources • inadequate information • conflicting objectives • administrative costs • market distortions • unintended consequences • economic welfare • operating inefficiently 	
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Topic 7 - The distribution of income and wealth: poverty and inequality				
Topic	Rationale	Knowledge acquisition	Knowledge acquisition	Skills and enrichment
<p>7.1 The distribution of income and wealth</p>	<p>Students need to have some knowledge of the distribution of household income and wealth in the UK.</p> <p>They need to understand that the degree of inequality can be measured but that</p>	<ul style="list-style-type: none"> • The difference between income and wealth. • The various factors which influence the distribution of income and wealth. • The difference between equality and equity in relation to the distribution of income and wealth. • The Lorenz curve and Gini coefficient. • The likely benefits and costs of more equal and more unequal distributions. 	<ul style="list-style-type: none"> • income • wealth • equality • inequitable • equity • Lorenz curve • Gini coefficient • relative poverty • absolute poverty 	<ul style="list-style-type: none"> • independence • reading & comprehension • literacy • communication • analysis • research • working collaboratively • oracy
<p>7.2 The problem of poverty</p>	<p>whether or not a given distribution of income is equitable (fair and just)</p>	<ul style="list-style-type: none"> • The difference between relative and absolute poverty. • The causes and effects of poverty. 		<ul style="list-style-type: none"> • quantitative skills • data handling

	<p>involves a value judgement.</p> <p>They need to be able to interpret measures of inequality such as the Gini coefficient.</p> <p>They also need to understand that excessive inequality is both a cause and consequence of market failure.</p>			<ul style="list-style-type: none"> • effective writing • problem solving • evaluation • reflective practice • essay writing • debate • self-management • self-monitoring
7.3 Government policies to alleviate poverty and to influence the distribution of income and wealth	Students need to be able to evaluate the various approaches to redistributing income and wealth and alleviating poverty, recognising the moral and political perspectives.	<ul style="list-style-type: none"> • The policies which are available to influence the distribution of income and wealth and to alleviate poverty. • The economic consequences of such policies. 		

Topic 4 – Production, costs and revenue				
Topic	Rationale	Knowledge acquisition	Key vocabulary	Skills and enrichment
4.1 Production and productivity	Students need to understand the difference between production and productivity.	<ul style="list-style-type: none"> • Production converts inputs, or the services of factors of production such as capital and labour, into final output. • The meaning of productivity, including labour productivity. 	<ul style="list-style-type: none"> • production • inputs • factors of production • capital • labour • output • Productivity • labour productivity 	<ul style="list-style-type: none"> • independence • reading & comprehension • literacy • analysis • research • working

4.1 Specialisation, division of labour and exchange	Students need to understand the importance of specialisation and division of labour in production.	<ul style="list-style-type: none"> • The benefits of specialisation and division of labour. • Why specialisation necessitates an efficient means of exchanging goods and services, such as the use of money as a medium of exchange. 	<ul style="list-style-type: none"> • Specialisation • division of labour • short run • long run • medium of exchange 	<ul style="list-style-type: none"> • collaboratively • oracy • quantitative skills • data handling • effective writing • problem solving • reflective practice • essay writing • debate
4.1 The law of diminishing returns and returns to scale	Students need to appreciate that both the law of diminishing returns and returns to scale explain	<ul style="list-style-type: none"> • The difference between the short run and the long run. • The difference between marginal, average and total returns. • The law of diminishing returns. 	<ul style="list-style-type: none"> • short run • long run • marginal product • marginal returns • average returns 	

	<p>relationships between inputs and output.</p> <p>They need to also understand that these relationships have implications for costs of production.</p>	<ul style="list-style-type: none"> • Returns to scale. • The difference between increasing, constant and decreasing returns to scale. 	<ul style="list-style-type: none"> • total returns • diminishing returns • returns to scale • constant returns to scale • decreasing returns to scale • increasing returns to scale 	<ul style="list-style-type: none"> • self-monitoring • self-management
4.2 Costs of production	<p>Students need to be able to calculate different costs from given data.</p> <p>They need to also be able to draw and interpret cost curves.</p>	<ul style="list-style-type: none"> • The difference between fixed and variable costs. • The difference between average and total costs. • Reasons for the shape of the marginal, average and total cost curves. • How factor prices and productivity affect firms' costs of production and their choice of factor inputs. • Calculate different costs from given data. • Draw and interpret cost curves. 	<ul style="list-style-type: none"> • fixed costs • variable costs • average fixed costs • average variable costs • total costs • average total costs • marginal costs • marginal cost curve • average cost curve • total cost curves • factor prices • productivity • factor inputs 	
4.1 Economies and diseconomies of scale	<p>Students need to be able to categorise and give examples of both internal and external economies of scale.</p> <p>They also need to understand the significance of the minimum efficient scale for the structure of an industry and barriers to entry.</p>	<ul style="list-style-type: none"> • The difference between internal and external economies of scale. • Reasons for diseconomies of scale. • The relationship between economies of scale, diseconomies of scale and the shape of the long-run average cost curve. The L-shaped long-run average cost curve. • The significance of the minimum efficient scale of production for the structure of an industry and barriers to entry 	<ul style="list-style-type: none"> • internal economies of scale • external economies of scale • diseconomies of scale • long-run average cost curve • L-shaped long-run average cost curve • minimum efficient scale • barriers to entry 	

			<ul style="list-style-type: none"> • managerial economies • technical economies • financial economies • marketing economies 	
4.2 Marginal, average revenue, total revenue.	<p>Students need to be able to calculate marginal, average and total revenue from given data.</p> <p>They need to also be able to draw and interpret revenue curves.</p>	<ul style="list-style-type: none"> • The difference between marginal, average and total revenue. • Why the average revenue curve is the firm's demand curve. • The relationship between average and marginal revenue. • The relationship between marginal revenue and total revenue. • Calculate marginal, average and total revenue from given data. Draw and interpret revenue curves. 	<ul style="list-style-type: none"> • marginal revenue • average revenue • total revenue • average revenue curve • demand curve • revenue curves 	
4.2 Profit	<p>Students need to be able to calculate profit.</p> <p>They also need an understanding the different types of profit.</p>	<ul style="list-style-type: none"> • Profit is the difference between total revenue and total costs. • The difference between normal and abnormal (supernormal) profit. • The role of profit in a market economy. 	<ul style="list-style-type: none"> • profit • normal profit • abnormal profit • supernormal profit • subnormal profit 	
4.3 Technological change	<p>Students need to understand how the process of creative destruction is linked to technological change.</p>	<ul style="list-style-type: none"> • The difference between invention and innovation. • Technological change can affect methods of production, productivity, efficiency and firms' costs of production. • Technological change can lead to the development of new products, the development of new markets and may destroy existing markets. • Technological change can influence the structure of markets. • 	<ul style="list-style-type: none"> • invention • innovation • technological change • productivity • efficiency • costs of production • creative destruction 	

Topic 5 - Perfect competition, imperfectly competitive markets and monopoly				
5.1 Market structures	Students need to understand the spectrum of competition.	<ul style="list-style-type: none"> The spectrum of competition ranging from perfect competition at one end of the spectrum to pure monopoly at the other end of the spectrum. Factors such as the number of firms, the degree of product differentiation and ease of entry are used to distinguish between different market structures. 	<ul style="list-style-type: none"> spectrum of competition market structures perfect competition pure monopoly number of firms product differentiation barriers to entry barriers to exit 	<ul style="list-style-type: none"> independence reading & comprehension literacy analysis research working collaboratively oracy quantitative skills data handling effective writing problem solving evaluation reflective practice essay writing debate self-monitoring self-management
5.2 The objectives of firms	Students need to be aware that firms may not all be profit maximisers, some may have different objectives.	<ul style="list-style-type: none"> The models that comprise the traditional theory of the firm are based upon the assumption that firms aim to maximise profits. The profit-maximising rule (MC=MR). The reasons for and the consequences of a divorce of ownership from control. Firms have a variety of other possible objectives. The satisficing principle. 	<ul style="list-style-type: none"> traditional theory of the firm profit-maximising (MC=MR) revenue maximisation growth maximisation satisficing survival divorce of ownership from control objectives of firms The satisficing principle 	<ul style="list-style-type: none"> independence reading & comprehension literacy analysis research working collaboratively oracy quantitative skills data handling effective writing problem solving evaluation reflective practice essay writing debate self-monitoring self-management
5.3 Perfect Competition	Students need to be aware that perfect competition, in both product and labour markets, provides a yardstick for judging the extent to which real world markets perform efficiently or inefficiently, and the extent to which a	<ul style="list-style-type: none"> The formal diagrammatic analysis of the perfectly competitive model in the short and long run. The implications of the following for the behaviour of firms and the industry: large numbers of producers, identical products, freedom of entry and exit, and perfect knowledge. Firms operating in perfectly competitive markets are price takers. 	<ul style="list-style-type: none"> perfect competition short run long run profit maximisation behaviour of firms industry producers homogeneous products barriers to entry 	<ul style="list-style-type: none"> independence reading & comprehension literacy analysis research working collaboratively oracy quantitative skills data handling effective writing problem solving evaluation reflective practice essay writing debate self-monitoring self-management

	<p>misallocation of resources occurs.</p> <p>They also need to be able to assess critically the proposition that perfectly competitive markets lead to an efficient allocation of resources.</p>	<ul style="list-style-type: none"> • The proposition that, given certain assumptions, relating for example to a lack of externalities, perfect competition will result in an efficient allocation of resources. 	<ul style="list-style-type: none"> • barriers to exit • perfect knowledge • price takers • productive efficiency • allocative efficiency • dynamic efficiency • X efficiency • allocation of resources • normal profit • sub normal profit • super normal profit • shut down • revenue • costs 	
5.4 Monopolistic competition	<p>Students need to be aware that monopolistic competition is a form of imperfect competition where there is some product differentiation.</p> <p>They also need to be able to assess critically the efficiency of this market structure.</p>	<ul style="list-style-type: none"> • The formal diagrammatic analysis of the monopolistically competitive model in the short and long run. • The main characteristics of monopolistically competitive markets. • Monopolistically competitive markets will be subject to non-price competition. 	<ul style="list-style-type: none"> • monopolistic competitive • short run • long run • non-price competition • product differentiation • revenue • costs • normal profit • sub normal profit • super normal profit • productive efficiency • allocative efficiency • dynamic efficiency • X efficiency 	<ul style="list-style-type: none"> • independence • reading & comprehension • literacy • analysis • research • working collaboratively • oracy • quantitative skills • data handling • effective writing • problem solving • evaluation
5.5 Oligopoly	<p>Students need to be aware of the various factors which affect the behaviour and</p>	<ul style="list-style-type: none"> • The main characteristics of oligopolistic markets. 	<ul style="list-style-type: none"> • oligopolistic markets • Oligopoly 	<ul style="list-style-type: none"> • reflective practice • essay writing • debate

	<p>performance of firms in a variety of real world markets.</p> <p>They need to be able to use the kinked demand curve model need to illustrate the interdependence between firms. They must realise that this is not the only model.</p> <p>They also need to recognise that collusion may allow oligopolists to act as a monopolist and maximise their joint profits.</p>	<ul style="list-style-type: none"> • Oligopolistic markets can be very different in relation to, for example, the number of firms, the degree of product differentiation and ease of entry. • Oligopoly can be defined in terms of market structure or in terms of market conduct (behaviour). • Concentration ratios and how to calculate a concentration ratio. • The difference between collusive and non-collusive oligopoly. • The difference between cooperation and collusion. • The kinked demand curve model. • The reasons for non-price competition, the operation of cartels price leadership, price agreements, price wars and barriers to entry. • The factors which influence prices, output, investment, expenditure on research and advertising in oligopolistic industries. • The significance of interdependence and uncertainty in oligopoly. • The advantages and disadvantages of oligopoly. 	<ul style="list-style-type: none"> • product differentiation • barriers to entry • barriers to exit • market conduct (behaviour) • Concentration ratios. • collusive oligopoly • non-collusive oligopoly • cooperation • collusion • tacit collusion • overt collusion • kinked demand curve model • non-price competition • cartels • price leadership • price agreements • price wars • interdependence • uncertainty • game theory • revenue • costs • normal profit • sub normal profit • super normal profit • productive efficiency • allocative efficiency • dynamic efficiency • X efficiency 	<ul style="list-style-type: none"> • self-monitoring • self-management
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<p>5.6 Monopoly and monopoly power</p>	<p>Students need to be aware that a firm does not need to have a pure monopoly to exert monopoly power.</p>	<ul style="list-style-type: none"> • The formal diagrammatic analysis of the monopoly model. • That monopoly power is influenced by factors such as barriers to entry, the number of competitors, advertising and the degree of product differentiation. • The advantages and disadvantages of monopoly. 	<ul style="list-style-type: none"> • monopoly • pure monopoly • legal monopoly • monopoly power • barriers to entry • product differentiation • price maker • revenue • costs • normal profit • sub normal profit • super normal profit • productive efficiency • allocative efficiency • dynamic efficiency • X efficiency • natural barriers to entry • economies of scales • legal barriers • sunk costs • concentrated market • innovation • natural monopoly • dead-weight losses 	<ul style="list-style-type: none"> • independence • reading & comprehension • literacy • analysis • research • working collaboratively • oracy • quantitative skills • data handling • effective writing • problem solving • evaluation • reflective practice • essay writing • debate • self-monitoring • self-management
<p>5.7 Price discrimination</p>	<p>Students need to be aware of real-world examples of price discrimination and be able to assess its impact on producers and consumers.</p>	<ul style="list-style-type: none"> • The conditions necessary for price discrimination. • The advantages and disadvantages of price discrimination. 	<ul style="list-style-type: none"> • price discrimination • first degree price discrimination • second degree price discrimination • third degree price discrimination • sub markets 	<ul style="list-style-type: none"> • independence • reading & comprehension • literacy • analysis • research

	They are also expected to be able to produce diagrammatic analysis of price discrimination.		<ul style="list-style-type: none"> • market segmentation • seepage • consumer surplus • producer surplus • price elasticity of demand 	<ul style="list-style-type: none"> • working collaboratively • oracy • quantitative skills • data handling • effective writing • problem solving • evaluation • reflective practice • essay writing • debate • self-monitoring • self-management
5.8 The dynamics of competition and competitive market processes	<p>Students need to understand that if firms have monopoly power and are making large profits, over time there will be an incentive for new firms to enter the market and to innovate to overcome the existing barriers to entry.</p> <p>They also need to understand that this process of creative destruction is a fundamental feature of the way in which competition operates in a market economy.</p>	<ul style="list-style-type: none"> • Both the short-run and long-run benefits which are likely to result from competition. • That firms do not just compete on the basis of price but that competition will, for example, also lead firms to strive to improve products, reduce costs and improve the quality of the service provided. • The process of creative destruction. 	<ul style="list-style-type: none"> • Concentrated markets • short-run • long-run • competition • price competition • non price competition • price war • dynamic efficiency • innovation • quality of the service • creative destruction 	
5.9 Contestable and non-contestable markets	Students need to be aware that making markets more contestable leads to incumbent firms behaving more competitively.	<ul style="list-style-type: none"> • The significance of market contestability for the performance of an industry. • Concepts such as sunk costs and hit-and-run competition. 	<ul style="list-style-type: none"> • market contestability • sunk costs • hit-and-run competition • incumbent firm • perfect information 	
5.10 Market structure, static efficiency, dynamic efficiency and	Students need to be able to apply efficiency concepts when comparing the performance of firms in markets with different	<ul style="list-style-type: none"> • The difference between static efficiency and dynamic efficiency. • The conditions required for productive efficiency (minimising average total 	<ul style="list-style-type: none"> • static efficiency • dynamic efficiency • productive efficiency • allocative efficiency 	

resource allocation	structures. They also need to understand how conduct and performance indicators can be used to compare market structures.	costs) and allocative efficiency (price = marginal cost). <ul style="list-style-type: none"> • Dynamic efficiency is influenced by, for example, research and development, investment in human and non-human capital and technological change. 	<ul style="list-style-type: none"> • research and development • human capital • non-human capital • technological change 	
5.11 Consumer and producer surplus	Students are expected to understand and be able to produce diagrammatic analysis of consumer and producer surplus.	<ul style="list-style-type: none"> • Be able to apply these concepts when discussing economic efficiency and welfare issues, such as price discrimination and the dead-weight losses associated with monopoly. 	<ul style="list-style-type: none"> • economic efficiency • economic welfare • price discrimination • dead-weight losses 	