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# IGCSE

**London Examinations IGCSE**

**Economics (4350)**

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Teacher's Guide

London Examinations IGCSE

**Economics (4350)**

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# Contents

# Introduction

This guide is for centres who are delivering the London Examinations IGCSE Economics specification.

The aims of this guide are to support teachers in delivering the specification content and to raise the achievement of students by

- summarising the structure of the assessment used and the content of the specification
- providing a scheme of work to show teachers how all the specification content could be taught over a two-year time-span
- giving sample lesson plans on three areas of the specification content, which include sample activities for both class and group work, as well as summarising the key points of a lesson and showing how coursework or preparation for Paper 3 can be incorporated into teaching
- providing a substantial and comprehensive glossary of economic terms that students and teachers will be expected to use and recognise by the end of the course
- giving full details of the optional coursework component, how coursework assignments can be created, what tasks should be included, and how these should be assessed. The guide also gives examples of coursework assignments which centres can use or adapt for their own specific groups
- demonstrating how the Coursework Record Sheet should be completed in conjunction with the assessment objectives of the component.

# Tiering

Students are entered for either Foundation Tier or Higher Tier.

The **Foundation Tier** paper is designed for students who are unlikely to achieve a high grade, but whose achievement can still be recognised with a grade at the appropriate level. No matter how well students may do on the Foundation Tier paper, the highest grade they can be awarded is grade C. Candidates who fail to achieve grade G will be awarded 'Ungraded'.

The highest grade which can be awarded on **Higher Tier** is A*, a grade reserved for only the highest achievers at the top of grade A. Questions in the Higher Tier are targeted at grades A* to D, but there is a 'safety net' for those who narrowly fail to achieve grade D. A grade E can be awarded to students who are within a few marks of grade D.  Students who fail to achieve the safety net grade E, will be awarded 'Ungraded'.

The Foundation and Higher Tier papers take place at the same time, so students cannot be entered for both examinations. This puts the responsibility on the teacher to ensure that a student is entered for the appropriate tier. Students who consistently achieve grade C standard work in practice tests would normally be entered for the Higher Tier, where they have the opportunity to achieve the higher grades.

Because of the overlap at grades C and D between the two tiers, there are some questions common to both tiers.

## Coursework and Paper 3

The only tiered papers are 1F and 2H. Coursework and Paper 3 are common to both tiers, for which grades from A* to G can be awarded.

# Structure of specification

The scheme of assessment consists of four components. Foundation Tier candidates will take Paper 1F and **either** component 3 **or** 4. Higher Tier candidates will take Paper 2H and **either** component 3 **or** 4.

| Paper/ component | Mode of assessment | Weighting | Length |
|---|---|---|---|
| 1 | Examination Paper 1F, targeted at grades C – G (Foundation Tier) | 80% | 1 hour and 45 minutes |
| OR | | | |
| 2 | Examination Paper 2H, targeted at grades A* – D (Higher Tier) | 80% | 2 hours and 15 minutes |
| AND | | | |
| 3 | Examination Paper 3, targeted at grades A* – G (common to both tiers) | 20% | 1 hour, plus reading time of 10 minutes |
| OR | | | |
| 4 | Coursework component 4, targeted at grades A* – G (common to both tiers) | 20% | - |

## Papers 1F and 2H

These papers will each consist of 4 questions linked to the 4 sections of the specification

- The market system
- Business economics
- Government and the economy
- The global economy

Not all the content of the specification will be tested in each exam, but over a period of years all of the material will be tested at least once.

Each of the 4 questions will consist of some data and/or stimulus material and then a series of questions some of which may be linked to further material. These questions may vary from one- or two-word answers to short sentences and the completion or drawing of diagrams. The final part of each question will require a longer answer and will carry more marks.

### Paper 3

This paper will consist of a scenario in which the candidate is asked to put himself or herself in the position of an economist writing a report. The report will not consist of free writing but of structured questions to direct the 'report', designed to allow candidates to demonstrate their understanding of and ability to manipulate the data. Candidates will be given a variety of source material which they will be expected to use in their report. This material will be sent to centres up to six weeks before the examination to allow candidates to familiarise themselves with it and to help further study of the issues. The material will be presented in a number of ways: numerical; graphical; written; pictorial; etc. The report will be structured for the candidate by a series of questions. In the exam room, candidates will be given a new copy of the material and the questions and are allowed 10 minutes reading time before being allowed to start to write.

### Component 4

For full details on this component, see the later section on coursework.

## Assessment objectives

Teachers are reminded of the four assessment objectives for this specification:

AO1 Demonstrate knowledge and understanding of the specified subject content

AO2 Apply knowledge and understanding using appropriate terms, concepts, theories and methods effectively to address problems and issues

AO3 Select, organise, analyse and interpret information from various sources to analyse problems and issues

AO4 evaluate evidence, make reasoned judgements and present conclusions accurately and appropriately.

# Course planning

Whilst the planning of delivery from the Specification is the responsibility of the centre, the following scheme of work for a two-year course may be a useful starting point. It will require adaptations by teachers to allow for tests and examinations as well as revision.

## Term 1 of 5 – The market system

| Content area | Topic | Activities |
|---|---|---|
| | **Topic A – The Market System** | |
| 1 | **Demand and Supply**<br>• Demand and supply curves<br>• Price Elasticity of Demand<br>• Income Elasticity of Demand<br>• Price Elasticity of Supply<br>• Application of elasticity concepts | Teacher explanation & notes.<br>Drawing of supply and demand diagrams.<br>Discussion of how different factors can affect (i) the demand curve, (ii) the supply curve.<br>Diagrams to illustrate elasticity.<br>Discussion of how knowledge of elasticity can influence decisions by firms and governments. |
| 2 | **The role of the market**<br>• Resolving scarcity<br>• Opportunity cost<br>• The mixed economy | Teacher explanation & notes.<br>Candidates investigate the role of public and private sectors in their economy and/or UK. |

## Term 2 of 5

| Content area | Topic | Activities |
|---|---|---|
| 3 | **The Labour Market**<br>• Wages and employment<br>• Division of labour<br>• Demand and supply of labour<br>• Interference in the labour market | Teacher explanation & notes.<br>Diagrams for demand and supply of labour.<br>Discussion of factors affecting labour and why governments intervene.<br>Visit by a Trade Union official to talk about how they influence wages. |
| | **Topic B – Business Economics** | |
| 1 | **Production**<br>• Production and productivity<br>• Production costs and revenue<br>• Economies and diseconomies of scale<br>• Productivity and wealth creation<br>• Externalities | Teacher explanation & notes.<br>Candidates use data from a range of different economies to understand production and productivity and how they differ.<br>Candidates investigate the changing importance of primary, secondary and tertiary sectors in their economy and/or the UK.<br>Candidates are able to calculate total cost, average cost, total revenue and profit.<br>Candidates investigate and discuss the existence of externalities in their economy and ways to deal with them. They apply this to one or more examples in their economy and/or the UK. |

## Term 3 of 5

| Content area | Topic | Activities |
|---|---|---|
| 2 | **Competition**<br>• Competitive markets<br>• Monopoly<br>• Oligopoly | Teacher explanation & notes. Candidates investigate the existence of monopolies and oligopolies in their economy and/or the UK and gain understanding of the advantages and disadvantages. |
| 3 | **Public and Private Sectors**<br>• Differences between public and private sectors<br>• Government regulation<br>• Privatisation | Teacher explanation and notes. Candidates investigate privatisation in their economy and/or the UK. |
| | ***Coursework***<br>*This may be a suitable time to introduce the idea of coursework and what is involved. Candidates could use some of the time before Term 4 to look at possible topics or to find suitable [sources of] information.* | *Teacher explanation and notes. Explanation of idea of an hypothesis to be tested.*<br>*The mark scheme explained in terms of how candidates could try to maximise their marks.*<br>*Candidates do a trial piece of coursework as a group.*<br>*Candidates look at previous work, where available.* |

# Term 4 of 5

| Content area | Topic | Activities |
|---|---|---|
| | **Topic C – Government and the economy** | |
| 1 | **Four macroeconomic objectives**<br>• Economic growth<br>• Control of inflation<br>• Control of unemployment<br>• Healthy balance of payments on current account | Teacher explanation & notes.<br>Candidates use simple economic data relevant to their economy/UK.<br>Candidates look at data for different regions of their country/UK to understand regional policies.<br>Discussion of causes and consequences. |
| 2 | **Policy Instruments**<br>• Fiscal<br>• Monetary<br>• Supply side | Teacher explanation & notes.<br>Candidates use simple data on the budget to understand changes and consequences.<br>Candidates collect data on interest rates and how these relate to consumers and firms.<br>Candidates investigate a supply side policy and discuss their findings. |
| 3 | **Relationship between objectives and policies** | Candidates link policies with data used for the 4 objectives.<br>Research into what their government has done and discuss how successful it has been. |
| | ***Coursework***<br>*Candidates might continue working on coursework or might start it.* | *Activities from Term 3 apply*<br>*-Candidates gather primary and secondary data*<br>*-They analyse it*<br>*-They evaluate it*<br>*-Coursework is written up and presented.* |

# Term 5 of 5

| Content area | Topic | Activities |
|---|---|---|
| | ***Coursework***<br>*Candidates should either be completing their work if started in a previous term or should be aiming to start and complete this term.* | *Activities from terms 4 and 5 apply.* |
| | **Topic D – The global economy** | |
| 1 | **Exchange Rates**<br>• The foreign exchange market<br>• Factors affecting the demand and supply of currencies<br>• Impact of exchange rate changes<br>• Price elasticity of demand for exports and imports<br>• Currency depreciation/devaluation | Teacher explanation & notes.<br>Candidates investigate how exchange rates have changed using a range of currencies.<br>Candidates draw demand and supply diagrams to analyse exchange rate determination.<br>Visit from a foreign exchange rate dealer. |
| 2 | **International Trade**<br>• Growth and change in international trade<br>• Free trade versus protection<br>• Changing patterns of world trade<br>• Trade blocs<br>• World Trade Organisation | Teacher explanation & notes.<br>Candidates investigate the trading patterns of their economy and/or the UK.<br>Diagrams are used to understand free trade and protection.<br>Candidates investigate a trading bloc. |
| 3 | **Globalisation**<br>• Integration and independence of economies<br>• Multinational companies<br>• Foreign investment and development aid<br>• Winners and losers from globalisation | Teacher explanation & notes.<br>Candidates should study the global operations of one MNC.<br>Candidates gather information and discuss the impact of foreign investment and aid on their economy. |
| | ***Case Study***<br>*If this has been selected rather than coursework, then work on preparing candidates for this should be started in this term.* | *Teacher explanation of how the paper works.*<br>*-Candidates do trial papers.*<br>*-Candidates discuss how to approach the type of questions which will be met on the paper.*<br>*-Candidates start to study the pre-released case study material.* |

**Any remaining time will be used for revision and further work, where applicable, on the case study material.**

# Lesson plans

The following lesson plans are for guidance to those who are new to the teaching profession or to the subject. There is one specimen lesson plan for sections A, B and C of the course. Each lesson is targeted towards students of average ability in the age range 13 to 16 years.

# Specimen lesson 1

**Topic: Price and income elasticity: The concept of price elasticity of demand: diagrams including importance of total revenue.**

## Introduction

The aim of this lesson is to introduce the students to the concept of elasticity of demand.

The specification states that

*Calculations using the formulae are* ***not*** *required. Diagrams with slopes showing elastic and inelastic demand curves are required. Use of total revenue calculations to show the relationship between a change in price and the change in total revenue for differing elasticities is important.*

Most teachers will have taught elasticity in the past using formulae and calculations. This plan adheres to the specification and only uses the formula for total revenue.

The students should have knowledge of the relationship between price and quantity demanded from previous lessons.

Without drawing diagrams the teacher should recap putting only the relationship **P**↑ **D**↓ and **P**↓ **D**↑ on the board.

## Activity 1

Using the relationship on the board ask the students to draw a diagram showing a demand curve (this should have been covered in previous lessons).

They should then compare their diagrams to those of other students in the class.

If their diagrams are correct, i.e. correct axes, the only difference should be the slope of the curve.

Ask the students to identify the difference. At this point, the teacher may help by asking two students to draw their diagrams on the board, ensuring that two with different slopes are chosen.

The words 'slope' or 'gradient' will probably be used to describe the differences. The teacher should now introduce the term '**elasticity**'.

It is important that the teacher emphasises that even though the slopes (elasticity) are different all the demand curves adhere to the original relationship **P**↑ **D**↓ and **P**↓ **D**↑.

## Activity 2

Using graph paper, ask the students to draw two sets of identical axes; they should label the quantity and price axes: quantity 0 to 20, price $0 to $10. The teacher may aid them by drawing these diagrams on the board.

The students should then find the intersection of quantity 10 and the price $4 and draw a demand curve with a shallow gradient elasticity going through this point on one of their diagrams.

On the other diagram they should find the same intersection and draw a steep demand curve going through the intersection.

## Activity 3

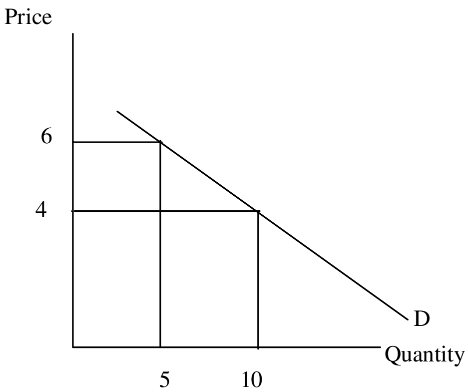
The teacher should now introduce the students to the concept of total revenue: the amount received by a firm from the sale of goods.

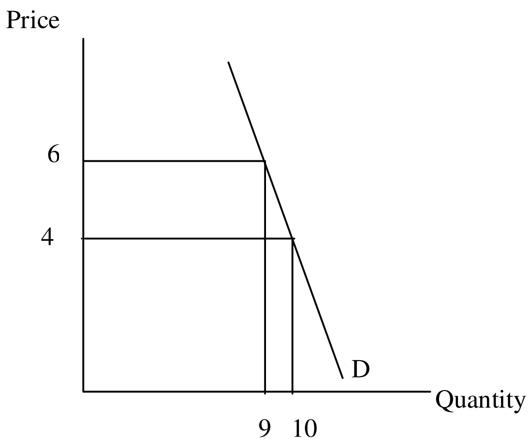
**Total revenue (TR) = price x quantity sold.**

The students should now draw the appropriate price and quantity lines on their graphs for their original price of $4.

The students should now draw the appropriate price and quantity lines on their graphs for a price higher than $4.

The teacher may at this point wish to draw the diagrams below on the board, or leave them till a later point in the lesson.




The students should now complete the following table for each graph.

| Price | Quantity | TR |
|---|---|---|
| 4 | 10 | 40 |
| 6 | 5 | 30 |

| Price | Quantity | TR |
|---|---|---|
| 4 | 10 | 40 |
| 6 | 9 | 54 |

The teacher can complete the corresponding table on the board.

The students should be asked about the differences brought about by the price changes. The responses should lead to the following summary:

- Where the demand curve is less steep: when price rises, total revenue falls.

  "The change in price brings about a more than proportionate change in quantity demanded." (In simple terms – a change in price will have a large effect on demand.)

- Where the demand curve is steep: when price rises, total revenue rises.

  "The change in price brings about a less than proportionate change in quantity demanded." (In simple terms – a change in price will have a small effect on demand.)

The teacher can now introduce the terms 'elastic' and 'inelastic' in the following table.

| Price change | Elastic | Inelastic |
|---|---|---|
| Fall in price | TR rises | TR falls |
| Rise in price | TR falls | TR rises |

## Summary

- Demand curves may have different price elasticities (gradients).
- The elasticity will affect the change total revenue brought about by a price change.
- When the demand curve is elastic a rise in price will bring about a fall in total revenue and vice versa.
- When the demand curve is inelastic a rise in price will bring about a rise in total revenue and vice versa.

### Follow–up in preparation for next lesson

Identify 2 goods or services which you think exhibit the characteristics of

(a) an elastic demand curve

(b) an inelastic demand curve.

Ensure that you have reasons for your choices.

# Specimen lesson 2

This is part of the Business Economics section. The teaching of the different sectors – primary, secondary and tertiary – is relatively easy but the specification includes the

> *changing importance of these sectors in terms of employment and output over time in developing and developed economies.*

The following lesson plan will hopefully aid teachers in this topic and show how the internet and data from their own countries can be used.

**Topic: The changing importance of primary, secondary and tertiary sectors in developing and developed economies.**

## Introduction

The aim of this lesson is to introduce the students to the changing importance of the three sectors in developing and developed countries with specific reference to their own economies.

The specification states that

> *modern examples, drawn from your own economy or the UK, required* [and] *data for developed and developing countries should be studied by considering the movement away from primary industry towards secondary and tertiary.*

The students should have knowledge of the sectors of the economy: primary, secondary and tertiary.

## Activity 1

The following data should be given to the students. Figures refer to %GDP.

**Country A**

| | **1992** | **2001** |
|---|---|---|
| **Primary** | 2.1 | 1.5 |
| **Secondary** | 30.0 | 27.2 |
| **Tertiary** | 67.9 | 71.3 |

**Country B**

| | **1992** | **2001** |
|---|---|---|
| **Primary** | 51.1 | 36.4 |
| **Secondary** | 13.2 | 20.9 |
| **Tertiary** | 35.7 | 42.8 |

Students should be asked to identify from the data the developed and developing country and give reasons. Teachers should be looking for some of the following and write them on the board.

| Country A (developed) Belgium | Country B (developing) Uganda |
|---|---|
| Primary sector falling: increased imports, exhausting natural resources. | Primary sector falling: growth of other sectors. |
| Secondary sector falling: cheap imports due to high wage costs. Fall in employment due to mechanisation. | Secondary sector rising: growth of home manufacturing industries and exports. Growth of multinationals. |
| Tertiary sector increasing: financial services – highly educated workforce. | Tertiary sector increasing: growth of retailing, tourism and transport. |

## Activity 2

If possible the teacher should now give data for their own country. The following internet site may be of use: http://worldbank.org/data/countrydata/countrydata.html

If it is not possible to access data for their own country then a similar country should be chosen.

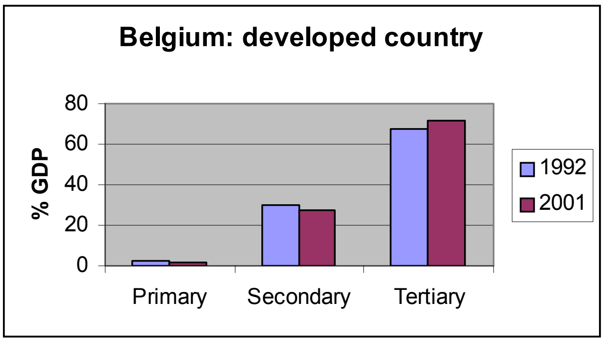
Using the data for their own country (or the chosen country) the students should draw and complete the table below with examples from their own economy and indicate whether or not they feel the industries are increasing or decreasing in terms of employment and output. The following table shows the response that might be given from students in a developing country.

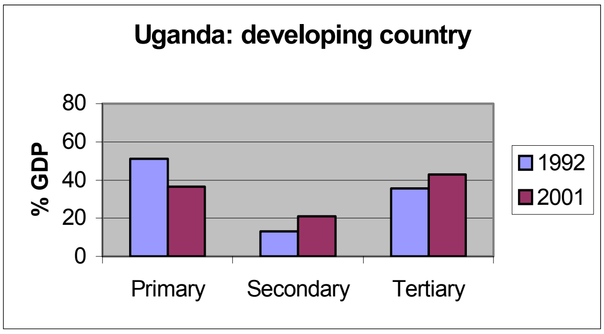
| Primary | Secondary | Tertiary |
|---|---|---|
| Farming ↓ | Garments ↑ | Financial ↑ |
| Fishing ↓ | Food processing ↑ | Tourism ↑ |
| Mining ↑ | Cars ↑ | Transport ↑ |

Where possible students should draw graphs

- to compare developing and developed countries
- of their own country or country of choice.

## Example




## Summary

- Developed countries are associated with
  - a decrease in importance of primary sector industries
  - decreasing manufacturing (deindustrialisation)
  - increasing importance of tertiary sector.

- Developing countries are associated with
  - a decrease in importance of primary sector industries
  - increasing importance of manufacturing
  - increasing importance of tertiary sector.

It is important that teachers emphasise that these are generalisations and not all countries will fit this pattern.

# Specimen lesson 3

**Topic: Inflation: students have already covered the measurement and causes of inflation. This lesson looks at the consequences of inflation.**

## Introduction

The specification says

*Consequences: effects on prices, savings, wages, balance of payments, unemployment, the functions of money*

and states that

*characteristics of money are not required.*

By the end of the lesson students should be able to

- know what the consequences are
- understand the results of these consequences
- discuss how important the consequences are for their economy referring to both past and present data.

## Activity 1

This should link the previous work on inflation with this lesson.

The teacher uses questions and answers to elicit knowledge and understanding of the measurement and causes of inflation.

The teacher then asks the students to give him the four macroeconomic objectives. These are placed on the board to remind students that inflation is one of them and that they should consider how inflation affects the other three.

## Activity 2

Students are divided into small groups, 2 or 4 would be ideal. They are given 10 minutes to produce a list of consequences which they should report back to the rest of the group.

The teacher then asks the class to agree a class list, which is put on the board. The teacher may want to have a prepared list ready for use with whatever display mechanism is available.

Students note down the agreed list.

## Activity 3

The teacher allocates each of the small groups one or more of the consequences and asks them to decide what the final results would be for the economy. If time permits different scenarios could be presented so that one group is told that there is high inflation and the other that inflation is low. This would then lead to further discussion.  Each group to produce an explanation which could be used for their notes. This should take about 15 minutes with teacher support. At the end each group can either read their piece out for the other students to note down, or the teacher could summarise the points or each group's work could be collected and copied for all.

## Summary/Activity 4

To bring the lesson back to a clear focus the teacher summarises how high inflation links with the 3 other macroeconomic objectives.

- Economic growth – would lead to a slow down and possibly a recession
- Unemployment – increasing as imports rise and exports fall
- Balance of payments – deterioration due to lack of price competitiveness

### Follow up

1. Assuming time did not permit students to compare the results of high versus low inflation, students are asked to write a short comparison – could be in table form – of the results for a number of the suggested points identified in Activity 2.
2. Students could be asked to find data on the four macroeconomic objectives for their economy and to see how changes in the rate of inflation have affected the other three. The data could be plotted using graph paper or a computer program such as Excel. This would then form the basis of a further lesson.

# Coursework

**40 marks**

Centres are reminded that coursework is only available to certain centres. Please see the section 'Availability of coursework to international centres' in Appendix 1 of the specification booklet. All other centres must enter candidates for Paper 3 instead.

## The assignment

The centre-assessed coursework assignment will consist of one piece of work. It must represent the individual candidate's own work, although this may draw upon information collected in a group. Such use of group data must be clearly indicated in the candidates' work. The analysis and evaluation of the material must be entirely each candidate's own work.

The title should be agreed between the candidate and a teacher so as to ensure that it is appropriate. Appropriate titles will be in the form of a problem, question or hypothesis which allows a candidate to investigate a real economic issue and to use the assessed skills to reach a supported conclusion. Centres may contact London Examinations in writing if they wish to seek confirmation that their proposed coursework titles are appropriate.

Work which has a clear and precise focus is likely to be more successful than very broad topics. Candidates should ensure before commencing their investigation that sufficient information, both primary and secondary, will be available for them to have a chance to complete the assignment successfully. Topics of current interest in the candidates' locality or region often provide the basis for successful coursework.

The work should be presented as a report. Essays are not an appropriate format, nor are portfolios of work.

The length of the assignment should be approximately 2,000 words. While there is no direct penalty for exceeding this length, candidates who greatly exceed it are unlikely to be able to gain the top level in assessment area 3.

The assignment may be undertaken at any point in the course up to the final submission date. Centres should ensure that enough of the course has been covered to provide candidates with a sound economic basis on which to undertake their investigations and write their reports.

## Format

The assignment should take the form of a report based on a question, problem or hypothesis. While there is no one right structure, a sensible one would be

- Title page
- Contents page
- Information concerning the purpose, focus and context of the investigation
- Methods
- Presentation of the material
- Analysis
- Evaluation and conclusion
- Bibliography
- Appendices.

In addition, some candidates may feel it is important to outline the economic concepts and theories they are intending to use. If such a section is included it should consist of the candidate's own work and not be lifted uncritically from textbooks or class notes.

## Teacher guidance

The work to be assessed must be that of the candidate. It is reasonable, however, for teachers to offer sufficient support to try to ensure that candidates have the opportunity to produce a sensible economic investigation.

Teachers should give guidance in the following areas

- the format of the report
- explanation of the mark scheme
- selection of an appropriate hypothesis
- ensuring that the candidate has sufficient sources of information
- the length of the work.

In addition, teachers are advised to give each candidate a copy of the mark scheme so that they can compare their work with the criteria.

# Examples of coursework assignments

## Title: An analysis of the causes of unemployment in my region and the effectiveness of government policies to overcome this unemployment.

### Hypothesis

To ascertain why unemployment has occurred and to test whether government policies are successful.

### Method

Research the unemployment figures for the region for the last 5 years.

*The region may be part of a country or the whole country depending upon the data available. The length of time may vary according to the figures available.*

Collect data which refers to why the unemployment has occurred, e.g. crop failure, factories closing, cheaper imports.

Find out the government policies to combat unemployment over the same period of time.

### Presentation

Draw graphs to show the changes in the level of unemployment. If possible split into sectors: primary, secondary, tertiary.

### Analysis

What changes have occurred in the level of unemployment?

Is there a difference in the level of unemployment in different sectors, e.g. has there been an increase in unemployment in the primary sector only?

What factors have caused the unemployment?

*It is important that students do not simply list the textbook causes of unemployment. Students should try to determine the type of unemployment and include some relevant data to support this, e.g. technological unemployment has occurred in the car industry with a relevant newspaper article.*

What government policies have been used to try and overcome the different causes of unemployment?

*Again it is important that the students do not simply list possible government policies but actual government policies.*

### Evaluation

From the research the main causes of unemployment should have been identified, together with the policies the government has adopted. The success or failure of these policies can be seen from the unemployment figures.

*However, it is important that students also allow for other factors which might have led to the success, or failure, of these policies, e.g. tropical storms may have had an adverse effect on the tourist trade and hence employment, despite government measures to promote tourism.*

## Title: The influence of competition on prices in the retail food sector.

### Hypothesis

To test the hypothesis that competition in the form of nearness to competitors leads to lower prices.

### Method

Collect data relating to prices of various foodstuffs on sale in a variety of outlets.

The outlets should include

- shops which are very close to each other selling the same products
- shops which are some significant distance from their closest rival
- shops which sell specialist items of food, not sold elsewhere
- market traders.

The items should include

- one essential item of food, e.g. rice
- one luxury item of food, e.g. chocolate
- one specialist item, e.g. an imported luxury – foreign cheese.

### Presentation

Draw graphs to compare the prices of

- the essential items in the shops close to each other
- the essential items in shops a significant distance apart
- the luxury items in the shops close to each other
- the luxury items in shops a significant distance apart.

**Analysis**

Looking at the graphs

- are the prices of the *essential goods* cheaper in shops which are close to their competitors, compared to those with no close competitor?
- are the prices of the *luxury goods* cheaper in shops which are close to their competitors, compared to those with no close competitor?

What reasons may account for the difference in price other than the proximity of competitors?

**Evaluation**

From comparing prices the hypothesis is either supported or not, i.e. competition due to the closeness of competitors reduces price.

However, there may be other more important reasons why prices differ, e.g. size of firms.

## Examples of other titles

- An investigation into the influence of the size of the firm on prices in the retail food sector.
  *(This could be adapted for any sector, e.g. retail car sales.)*

- Are cars and petrol true complementary goods?
  *(e.g. if the price of petrol increases does the demand for cars fall?)*

- An investigation into the relationship between public transport and private transport.
  *(e.g. are they really substitutes?)*

- An investigation into the effects of changes in the exchange rate on the tourist industry in my country.

- Economic growth and the tourist industry in my country: do the economic advantages outweigh the disadvantages?

- Do economies of scale exist in the newspaper industry?
  *(This could be adapted for any industry or firm.)*

- To what extent do changes in interest rates have an effect on savings and consumer spending in my economy?

- An investigation into the economic effects of Macdonald's opening outlets in my country.
  *(This can be adapted for any multinational setting up in the candidate's country but textbook accounts of the advantages and disadvantages of multinationals must be avoided unless supported by individual research.)*

# Assessment criteria

The coursework will be assessed by the centre in accordance with the following criteria.

## Assessment area 1: Knowledge and understanding

Candidates are required to show knowledge and understanding of the area of the report and of appropriate economic knowledge.

**Level 3**
Candidates are able to show that they have gathered appropriate and sufficient information from their studies and have made good use of relevant economic knowledge. There is good evidence that they understand the material.

7-8 marks

**Level 2**
Candidates have gathered some appropriate information and made some use of relevant economic knowledge, although some of this may have been copied. The material is sufficient to provide a basis for a conclusion. There is evidence that they understand the material.

4-6 marks

**Level 1**
Candidates have gathered some information, but this may not be appropriate or may be insufficient to provide the basis of a conclusion and may largely be copied. Understanding is limited.

1-3 marks

## Assessment area 2: Application of appropriate economic concepts, terms, theories and methods

Candidates are required to show that they can apply their economic ideas and use suitable economic methods.

**Level 3**
Candidates are able to make very good use of at least three relevant economic concepts and theories in the investigation. They should demonstrate precise use of economic terminology. Good use should be made of economic methods.

7-8 marks

**Level 2**
Candidates are able to make good use of at least two relevant economic concepts and theories. They should demonstrate good use of economic terminology. Appropriate use is made of economic methods.

4-6 marks

**Level 1**
Candidates make some attempt to apply at least one economic concept or theory. They demonstrate some use of economic terminology. There is some evidence of economic methods, but, also, many unsupported statements.

1-3 marks

## Assessment area 3: Select, organise, interpret and analyse information

Candidates are expected to select what is relevant from the information they have gathered (both primary and secondary sources), present it in an appropriate manner and analyse and explain its relevance.

**Level 3**
Candidates are able to select and present their information in an effective manner. There is clear evidence of analysis of all the source material, showing good understanding of its relevance.

9-12 marks

**Level 2**
Candidates are able to select and present their information so as to aid analysis. There is clear evidence of some relevant analysis.

5-8 marks

**Level 1**
Candidates have made some attempt to select and present the information. There may be some limited analysis, together with transposition of the information.

1-4 marks

## Assessment area 4: Evaluate, make judgements and draw conclusions

Candidates evaluate their analysis and make judgements of the material that will allow them to draw conclusions.

**Level 3**
Candidates are able to evaluate the evidence clearly and to make judgements using appropriate economic knowledge. A conclusion is reached which is clearly supported by the evidence.

9-12 marks

**Level 2**
Candidates are able to offer some evaluation and to make some judgements using economic knowledge. A conclusion is reached which is supported by limited evidence.

5-8 marks

**Level 1**
Candidates may make some attempt at evaluation and judgement. A conclusion is reached, but it will be based on either very limited or no supporting evidence.

1-4 marks

## Applying the assessment criteria

When assessing coursework the following is intended to offer guidance as to how to select the correct mark for each assessment area.

- Note that for assessment areas 1 and 2 there are 8 marks each, whereas for assessment areas 3 and 4 there are 12 marks each.
- Decide which level best fits the work.
- Where there are 3 marks available go to the middle of the level: e.g. for Level 2, Assessment area 1, go to 5 marks unless you did consider going to Level 3, in which case 6 is likely to be the correct mark, or you nearly went to Level 1 when 4 would be the correct.
- Where only 2 marks are available go to the top unless you were doubtful about the level.
- Do **not** award half marks.
- Please append a short justification for your mark for each assessment area. It may help if you write this before deciding finally on the mark so as to help clarify your thoughts.

# Glossary of economic terms

The following is not intended to be a definitive list of terms and definitions, but is given to show the depth of knowledge expected by the specification.

**Administrative regulations:** regulations imposed by the government of a country to regulate trade, usually applied to imports, e.g. insisting upon imports meeting minimum standards.

**Age distribution:** the number of people in each age group of the population. This can be shown on a population pyramid. It may be simplified into three categories: under working age, working age and retirement age groups.

**Ageing population:** the average age of the population is increasing.

**Allocation of resources:** economic decisions concerning the uses of the factors of production.

**Appreciate/appreciation (of a currency):** the value of a country's currency rises in terms of other currencies. Exports will become more expensive and imports cheaper.

**Average cost:** total cost divided by output.

**Balance of payments:** this is the record of a country's international financial transactions.

**Balance of payments on current account:** this shows the trade in goods and services, profits, interests and dividends (net income from abroad) and current transfers.

**Balance of trade:** visible exports – visible imports.

**Barriers to entry:** in competition, barriers to entry prevent or make it difficult for firms to enter an industry, e.g. brand image, government regulations (licensing).

**Barter:** exchange of goods and services without the use of money.

**Budget deficit:** government expenditure greater than government revenue.

**Budget surplus:** government expenditure less than government revenue.

**Bureaucracy:** a diseconomy of scale resulting from a more than proportionate increase in management and leading to difficulties in communication and decision-making.

**Capital:** goods used to produce other goods, e.g. machines in a factory.

**Cartel:** oligopolists work together (collude) to enjoy monopoly profits by agreeing on price and output.

**Central bank:** the main bank in a country which issues notes and coins and implements monetary policy. It is sometimes called the government's bank as it manages the government's accounts.

**Commodity trade:** trade in primary products.

**Competition:** the process by which firms selling similar products in the same market achieve a larger share of the market. It can be price or non-price competition.

**Complementary goods:** goods which are related to each other: if the price of one increases the demand for the other falls and vice versa, e.g. petrol and cars. The cross-elasticity of complementary goods is negative.

**Conglomerate:** a firm which consists of unrelated businesses.

**Cost-push inflation:** producers facing rising costs of production increase the prices of their goods and services, thus leading to inflation.

**Current private transfers:** transfers of money by individuals and firms to other countries. It is part of the balance of payments on current account.

**Cyclical unemployment:** this is caused by falling demand due to a downturn in the trade cycle.

**Deficit:** expenditure is greater than revenue. When applied to government expenditure and revenue it is called the budget deficit. When applied to visible imports and visible exports it is called the trade deficit.

**Deflationary (policy):** this is used to reduce economic activity in order to reduce inflation.

**Deindustrialisation:** the tendency in a developed economy for the manufacturing sector to decline.

**Demand curve:** a line which shows the relationship between price and quantity demanded.

**Demand-pull inflation:** excess demand in the economy puts pressure on prices leading to inflation.

**Demerit goods:** goods which are thought to be harmful to consumers/society, e.g. cigarettes and addictive drugs.

**Depreciate/depreciation (of a currency):** the value of a country's currency falls in terms of other currencies. Exports will become cheaper and imports more expensive.

**Deregulation:** the removal by the government of rules and regulations from businesses in order to promote competition.

**Devaluation:** depreciation of a currency brought about by official interference in exchange rates, usually associated with fixed exchange rates.

**Direct taxes:** taxes**:** on income and wealth, e.g. income tax and inheritance tax.

**Diseconomies of scale:** as output increases the average cost of production may rise due to diseconomies which include the disadvantages of division of labour and bureaucracy.

**Division of labour:** breaking down of a job into smaller tasks.

**Economies of scale:** as output increases the average cost of production may fall due to economies which include marketing, financial, managerial, technical and risk bearing.

**Economic growth:** the increase in gross domestic product over time.

**Efficiency:** this occurs when resources are used effectively, e.g. labour efficiency = productivity (output per worker).

**Elastic demand/elastic supply:** an increase in price will result in a more than proportionate increase in quantity demanded/supplied; elasticity will be greater than 1.

**Embargoes:** prohibit trade in a product with another country. They are usually imposed for political reasons.

**Enterprise/entrepreneur:** the factor of production which organises the other factors of production and bears the risk.

**Equilibrium price:** the price at which quantity demanded and quantity supplied are equal.

**Equity:** government policy relating to fairness, e.g. progressive taxation is based on ability to pay.

**Excess demand:** demand is greater than supply.

**Exchange control:** the price of one currency in terms of another e.g. £ = 1.3€ (Euro).

**Exchange rate:** this limits the amount of foreign currency available to importers, thus limiting the amount they can import.

**Exports:** goods and services sold to other countries.

**External economies of scale:** benefit the whole industry not just individual firms.

**Externalities:** costs and benefits which are the result of production but which are not accounted for in a firm's costs and revenues. The main externalities are negative (costs), e.g. pollution and congestion.

**Factors of production:** land, labour, capital and enterprise.

**Fiscal policy:** means by which the government controls the level of spending in an economy by manipulating government expenditure and government revenue.

**Foreign Direct Investment (FDI):** flows of private capital from one country to another.

**Foreign exchange market:** the market where currencies are bought and sold.

**Frictional unemployment:** this is caused by workers changing jobs. The time between leaving one job and starting another is called frictional unemployment. It is a temporary form of unemployment.

**Geographical immobility:** the inability of workers to move from one job in a particular area to a job in another area.

**Global economy:** the interdependence of the world's economies.

**Government grants:** money given to firms by the government which does not have to be repaid.

**Government's economic objectives:** these include full employment, low inflation, economic growth and eliminating balance of payments deficits.

**Government income (revenue):** this is obtained mainly from taxation but also includes income from rent, profits of state industries, fines and revenue from the sale of state-owned industries.

**Government expenditure:** the amount a government spends, e.g. on defence, social security benefits, health.

**Gross Domestic Product (GDP):** the sum total of a country's output over a period of time, usually a year.

**Human capital:** the levels of education and skill possessed by the factor of production, labour.

**Human Development Index:** a measure of the standard of living which considers the quality of life. It is constructed by the United Nations and takes into account other factors, e.g. life expectancy rather than just the income per person in a country.

**Imports:** goods and services brought into a country from abroad.

**Income elasticity of demand:** measures the responsiveness of demand to a change in income. Income elasticity of demand equals the % change in quantity demanded, divided by the % change in income.

**Industrial inertia:** historical reasons for location in a particular area disappear but firms do not move to new areas. There is no longer an economic reason for a firm to stay in that area.

**Inelastic demand/supply:** an increase in price will result in a less than proportionate increase in quantity demanded/supplied. Elasticity will be less than 1.

**Indirect taxes:** taxes on expenditure, e.g. value added tax (VAT).

**Inferior goods:** goods which decrease in demand as income increases. Income elasticity of demand for inferior goods is negative.

**Inflation:** the general and persistent rise in the level of prices in a country.

**Inflationary (policy):** this is used to increase economic activity in order to increase demand and employment.

**Infrastructure:** the man-made environment, e.g. transport links, schools, hospitals.

**Interest rate: (see Rate of interest)**.

**Internal economies of scale:** these benefit firms by decreasing average costs as production increases **(see Economies of scale)**.

**International debt:** the amount owed by one country to another. It is especially important for developing countries as they may have problems repaying international debt (loans and interest payments).

**International Labour Organisation (ILO):** organisation concerned with employment. The ILO unemployment rate is defined as people who are not working but who are actively seeking work.

**International Monetary Fund (IMF):** an international organisation set up in 1944. Mainly concerned with exchange rates and loans to countries with persistent trade deficits.

**Investment:** the purchase of capital equipment, e.g. machinery by firms and the government.

**Invisible balance:** invisible exports – invisible imports.

**Invisible exports:** services sold to other countries.

**Invisible imports:** services bought from other countries.

**Involuntary unemployment:** workers who are willing to work but cannot find employment.

**Land:** the factor of production which includes its fertility, mineral deposits, natural vegetation.

**Labour:** the factor of production comprising people in the process of production.

**Loans:** borrowed money which is paid back by instalments plus interest. Loans are issued for a fixed time period.

**Localisation:** industry (several firms producing the same good or service) situated in one area due to particular advantages to the industry, e.g. proximity to raw materials.

**Location:** the decision taken to place a firm in a particular part of a country.

**Macroeconomic objectives:** a government's aims for the economy as a whole, e.g. full employment, control of inflation.

**Market economy:** allows market forces (price mechanism) to determine the allocation of resources.

**Market forces:** the action of demand and supply on price.

**Minimum wage rates:** a legal minimum hourly wage set by the government of a country.

**Money:** anything which is generally acceptable in payment for goods and services.

**Money income:** income which does not take account of the rate of inflation.

**Money supply:** there are several different measures. The most common is notes and coins in circulation plus credit created.

**Monetary policy:** means by which the government controls the level of spending in an economy by controlling the amount of credit available and the cost of this credit (interest rates).

**Monopoly:** where there is a single producer in an industry. There is no competition.

**Mixed economy:** combination of a market and planned economies. Some resources are allocated through the price mechanism and some by the state.

**Multinationals:** firms which have their headquarters in one country but have manufacturing plants or outlets in others, e.g. Ford.

**National income:** the sum of all the incomes of the factors of production in an economy in one year.

**Nationalisation: the transfer of firms from the private to the public sector.**

**Negative externalities:** the costs of economic activity which are not paid by the producer but which affect others in an economy, e.g. pollution.

**Net income from abroad:** the difference between the interest, profit and dividends earned by firms and individuals of a country and which enter the country and the interest, profit and dividends which are earned by foreigners and sent out of the country. It is part of the balance of payments on current account.

**Non-price competition:** competitive practices not based on price, e.g. advertising, branding.

**Non-renewable resources:** these are fixed in supply and cannot be replaced, e.g. oil, minerals.

**Non-tariff barriers:** restrictions on trade which do not involve import taxes.

**Normal goods:** goods which increase in demand as income increases. Income elasticity of demand for normal goods is positive.

**Occupational immobility:** the inability of workers to move from one job to another in a different industry.

**Oligopoly:** a market made up of a few sellers. The firms are interdependent, i.e. they will react to changes in each other's price and quantity changes.

**Opportunity cost:** the cost of the next best alternative foregone.

**Personal savings:** income not spent. A sole trader can use his personal savings as a source of finance in his business.

**Price competition:** competitive practices based on price.

**Price elasticity of demand:** the responsiveness of quantity demanded to a change in price. Price elasticity of demand equals the % change in quantity demanded, divided by the % change in price.

**Primary sector:** that part of an economy which consists of farming, fishing, forestry, mining, i.e. the extractive industries.

**Private good:** goods produced by the private sector for a profit.

**Private sector:** the part of the economy owned and controlled by shareholders or individuals.

**Privatisation:** the sale of state-owned firms to the private sector.

**Production:** the amount produced by a firm or group of firms.

**Productivity:** the amount produced per unit, e.g.
labour productivity = amount produced / number of workers.

**Progressive taxation:** the proportion of income taken in tax increases as a person's income increases, e.g. income tax.

**Proportional taxation:** the proportion of income taken in tax remains the same as a person's income increases.

**Public goods:** goods provided by the state which are not charged according to their use, e.g. street lighting.  They are non-exhaustible and non-excludable.

**Public limited company:** a company with limited liability, owned by shareholders. The shares can be traded on a stock exchange.

**Public sector:** the part of the economy owned and controlled by the government on behalf of the country.

**Purchasing power of money:** the amount of goods and services an amount of money can buy.

**Quotas:** an import control (non-tariff) that limits the amount of particular imports brought into the country.

**Rate of interest:** the amount paid by the borrower to the lender for a loan.  Usually calculated over the period of a year.

**Real income:** money income adjusted for the rate of inflation.

**Regional imbalance**: the result of areas in a country having different employment and income levels.

**Regional policy:** this is the government's attempt to correct regional imbalances, e.g. giving firms incentives to move to areas of high unemployment.

**Regressive taxation:** the proportion of income taken in tax decreases as a person's income increases, e.g. value added tax.

**Retail Price Index:** a statistical measure of weighted average prices of a specified set of goods and services.  It is used as a measure of inflation.

**Retained profit:** the amount left over after everything has been paid by a firm including taxes and dividends.

**Savings:** the amount of consumers' income not spent.

**Scarcity:** this is caused by people's wants and needs being greater than the resources available to satisfy them.

**Secondary sector:** processing of primary products into manufactured goods.

**Seasonal unemployment:** unemployment which rises and falls according to the time of year, e.g. hotel workers in tourist resorts.

**Social benefits:** Social benefit = private benefit + external benefit (education, health).

**Social costs:** Social cost = private cost + external cost (pollution, congestion).

**Specialisation:** where one person/country concentrates upon one job/product, e.g. person – teacher; Brazil – coffee.

**Standard of living:** the amount of goods and services consumed by individuals with their incomes.

**Structural unemployment**: long-term unemployment caused by the decline in demand for the products of an industry.

**Subsidies:** money paid to a producer by the government. It shifts the supply curve to the right and reduces the price to the consumer.

**Substitute goods:** these have close alternatives, e.g. butter and margarine. If the price of one good increases the demand for the other increases and vice versa. The cross-elasticity of substitute goods is positive.

**Supply curve:** the line which shows the relationship between price and quantity supplied.

**Supply side policies:** encourage the free working of the market mechanism to achieve government objectives, e.g. reducing the power of trade unions in the labour market.

**Surplus:** revenue is greater than expenditure. When applied to government revenue and expenditure it is called the budget surplus. It can also be applied to trade balances in international trade when exports are greater than imports.

**Tariff barriers:** restrictions on trade which involve import taxes.

**Taxes:** money taken from individuals and businesses by the government. Taxes can be direct, e.g. income tax, or indirect, e.g. VAT. Taxes form a major part of government revenue.

**Technological unemployment:** long-term unemployment brought about by the introduction of machines which replace labour.

**Tertiary sector:** the sector of the economy which provides services.

**Trade cycle:** the tendency of economies to go through periods of boom followed by recession, slump, reflation and then returning to boom.

**Trading blocs:** group of countries that have a free trade agreement between themselves and apply a common external tariff to other countries.

**Trade unions:** workers' organisations which aim to improve wages and working conditions of their members.

**Unit elasticity:** an increase in price results in a proportionate increase in quantity demanded/supplied. Elasticity is equal to 1.

**Visible exports:** goods sold to other countries.

**Visible imports:** goods bought from other countries.

**Voluntary unemployment:** this is caused by workers making the decision not to work. This may be due to high social security benefits.

**World Trade Organisation (WTO):** regulates international trade. It replaced GATT (General Agreement on Tariffs and Trade) in 1995. It tries to reduce trade barriers and settle trade disputes.

# Support and training

## Training

A programme of INSET courses covering various aspects of the specifications and assessment will be arranged by London Examinations on a regular basis. Full details may be obtained from

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## Edexcel publications

Support materials and further copies of this specification can be obtained from

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The following support materials will be available from 2004:

Specimen papers and mark schemes (Publication code: UG014341)

Teacher's Guide (Publication code: UG014351)

Teachers should check the Edexcel International website where mark schemes and examiners' reports will be posted after each examination session.

# Appendix

The following page shows how to complete the coursework record sheet for this specification.

# Appendix 1 – Example of completed coursework record sheet

- This Coursework Record Sheet must be completed individually for each candidate. Photocopies should be made as necessary.
- The teacher must enter the mark for each Assessment area in the boxes below. The teacher must indicate the cumulative total (maximum mark 40).
- The teacher must enter a brief comment to justify a particular mark to the moderator. Further comments on the work overall may be entered in the appropriate space below to bring other issues to the attention of the moderator.

| | |
|---|---|
| **Centre number:** *9xxxx* | **Centre name:** *International College* |
| **Candidate number:** *6611* | **Candidate name:** *Yanis Georgiou* |
| **Name of teacher:** Milton Keynes | **Examination session:** May / ~~November~~ 20*06* |
| **Title of coursework:** *Price is the most important factor determining the demand for take-away food.* | |

| Assessment area | Teacher's mark | Teacher's comments | Moderator's mark | Moderator's comments |
|---|---|---|---|---|
| **Assessment area 1** (max. mark 8) | *8* | *Good economic knowledge shown. Has gathered a lot of useful and relevant information* | | |
| **Assessment area 2** (max. mark 8) | *8* | *Has made relevant use of 4 economic concepts. Uses economic terminology correctly. Methods are appropriate* | | |
| **Assessment area 3** (max. mark 12) | *10* | *Information is well presented. Analysis is good, but could have been fuller in places.* | | |
| **Assessment area 4** (max. mark 12) | *8* | *While a supported conclusion is reached, evaluation is limited and not all judgements are clearly backed by economic knowledge.* | | |
| **Teacher's total (max. mark 40)** | 34 | Moderator's total (max. mark 40) | | |

**Teacher's overall comments (optional)** *A good piece of work which needed more time spent on analysis and evaluation.*

**Signature of teacher:** ______________________ **Date:** __________

***Note:*** *By signing, I confirm that the work submitted for assessment has been carried out without assistance other than that which is acceptable under the regulations of the specification.*

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