

## **AMENDMENTS TO EDEXCEL ADVANCED SUBSIDIARY AND ADVANCED GCE IN ECONOMICS (8121/9121)**

Key changes to the specification are listed below and will also be identified in a fully revised version of the above AS and Advanced GCE specification available on the Edexcel website ([www.edexcel.org.uk](http://www.edexcel.org.uk)). Printed versions will subsequently be available from our publications department. We will notify you through our website when the printed specifications are available.

<b>Unit</b>	<b>Assessment details up to and including January 2003</b>	<b>Assessment details from Summer 2003</b>
6351	Duration: 1¼ hrs Weighting: 15% Max UMS Marks: 90 Max Raw Marks: 40 Style: 10 supported multiple choice questions plus a choice of one of two data response questions. Each of the data response questions with five parts.	Duration: 1 hr Weighting: 15% Max UMS Marks: 90 Max Raw Marks: 40 Style: Eight supported multiple choice questions plus a choice of one of two data response questions. Each of the data response questions will have four parts.
6352	Duration: 1¼ hrs Weighting: 15% Max UMS Marks: 90 Max Raw Marks: 40 Style: A choice of one of two data response questions. Each of the data response questions with five parts.	Duration: 1 hr Weighting: 15% Max UMS Marks: 90 Max Raw Marks: 40 Style: A choice of one of two data response questions. Each of the data response questions with four parts.
6353	Duration: 1¾ hrs Weighting: 20% Max UMS Marks: 120 Max Raw Marks: 60 Style: One structured essay in three parts from a choice of two plus one data response question from a choice of two.	Duration: 1 hr Weighting: 20% Max UMS Marks: 120 Max Raw Marks: 40 Style: One data response question in seven parts to include one part requiring extended prose. A choice of one of two questions.

- The balance of the assessment objectives will remain the same within each unit. The weightings will also remain the same.
- The revised AS assessment would take effect from summer 2003. The movement of some content from Unit 3 to Unit 6 would require a slight change to the A2 content. This will be first assessed in June 2004.
- It is no longer a QCA requirement that the synoptic unit is taken by students in their final examination sitting.

## Replacement for Page 11

# Specification content

For first assessment summer 2003

## Unit 1: Markets – how they work

This unit provides an introduction to the nature of economics and examines the operation of markets for goods and services. At the end of this unit, students should be able to understand the price mechanism as a means of allocating resources and be able to apply supply and demand analysis to real world situations.

Content	Students should be able to:
<b>Positive and normative economics.</b>	Distinguish between objective statements and value judgements.
<b>Scarcity and opportunity cost.</b>	Understand the problem of unlimited wants and finite resources.
<b>The production possibility boundary or frontier.</b>	Use this analysis to illustrate the concept of opportunity cost and the efficient allocation of resources.
<b>Specialisation and the division of labour.</b>	Understand the benefits of specialisation and its significance for trade between countries.
<del><b>Economies of scale.</b></del> <i>This section has moved to Unit 2</i>	<del><b>Give examples of economies of scale and understand that they will result in lower average costs.</b></del>
<b>The advantages of international trade: the principle of comparative advantage.</b>	Understand the gains from trade, eg increased choice for consumers, larger markets for firms, and be able to distinguish between absolute and comparative advantage.
<b>Consumer and producer surplus.</b>	Define and distinguish between these concepts and be able to illustrate them.
<b>The price mechanism as a means of allocating resources.</b>	Explain the functions of the price mechanism. Examine how prices respond to changes in consumer preferences and provide incentives to producers.
<b>The role of the price mechanism in resource allocation in free market and mixed economies.</b>	Analyse the advantages and disadvantages of the free market economy and why there are mixed economies.  Understand the economic effects of the transition of Eastern European economies away from central planning.
<b>The supply of, and demand for, goods and services.</b>	Understand the distinction between a shift of, and movement along, demand and supply curves. They should also understand the causes of such movements and shifts.

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<p><b>The concept of elasticity with respect to both supply and demand.</b></p> <p><b>Applications of supply and demand analysis in the product and factor markets.</b></p> <p><b>Entry and exit of firms.</b></p> <p><b>Government intervention in markets: rationale for such intervention and the effects on consumers, producers and the government.</b></p> <p><i>This section has moved to Unit 2</i></p> <p><b>Indirect taxes and subsidies.</b></p>	<p>Define, measure and interpret price elasticity of supply, price, income and cross elasticity of demand. They should understand the distinction between normal and inferior goods.</p> <p>Apply the price mechanism in markets, such as commodities, agriculture, housing, labour and exchange rates.</p> <p>Understand the impact of a new supplier and/or new product on price and output.</p> <p><del>Explain the reasons for government intervention in different markets. In the case of commodity markets, the analysis of buffer stocks to offset fluctuations in prices and output; in the case of agricultural markets, measures to stabilise farm incomes—the analysis of the impact of minimum guaranteed prices in agricultural markets; in the case of labour markets, the analysis of the effects of a national minimum wage.</del></p> <p>Use supply and demand analysis to demonstrate the impact and incidence of taxes and subsidies on consumers, producers and the government.</p>
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### Unit 2: Markets – why they fail

This unit examines the nature of market failure, its causes and possible policy remedies. At the end of this unit, students should be able to understand why markets might not allocate resources efficiently and the methods of dealing with market failure, together with an evaluation of their effectiveness.

Content	Students should be able to:
<p><u><b>Economies of scale.</b></u> (Content moved from Unit 1)</p> <p><b>Market failure.</b></p> <p><u><b>Government intervention in markets: rationale for such intervention and the effects on consumers, producers and the government.</b></u> (Content moved from Unit 1)</p> <p><b>Types of market failure:</b></p> <ul style="list-style-type: none"><li>• monopoly: reasons for market dominance.</li><li>• <b>public, merit and demerit goods.</b></li></ul> <p><b>Externalities.</b> The distinction between private costs and social costs (= external costs). The distinction between private benefits and social benefits (= external benefits). The reasons for government intervention in markets, such as transport and the environment, health and education. The case for and against an expansion of the private sector in such markets.</p>	<p><u><i>Give examples of economies of scale and understand that they will result in lower average costs.</i></u></p> <p>Explain reasons why the price mechanism may not allocate resources efficiently, eg when there is only one supplier or when externalities are present. (Detailed knowledge of productive and allocative efficiency is not required.)</p> <p><u><i>Explain the reasons for government intervention in different markets. In the case of commodity markets, the analysis of buffer stocks to offset fluctuations in prices and output; in the case of agricultural markets, measures to stabilise farm incomes – the analysis of the impact of minimum guaranteed prices in agricultural markets; in the case of labour markets, the analysis of the effects of a national minimum wage.</i></u></p> <p>Explain barriers to entry of new firms, eg ownership of raw materials, patents, economies of scale. Analyse the implications of the existence of a single supplier and absence of competition for the firm and for consumers. A diagrammatic treatment is NOT required.</p> <p>Define and give appropriate examples of government provision.</p> <p>Explain the impact of production and consumption on third parties. Consider examples such as road congestion, environmental pollution, health care and provision of education.</p> <p>Examine factors that might cause market failure in the markets for health and education. Illustrate external costs and benefits with appropriate diagrams.</p>

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<p><b>Information problems</b></p> <p><b>Remedies for market failure:</b></p> <ul style="list-style-type: none"><li>• for monopoly: regulation and encouragement of entry of new firms</li><li>• for external costs and demerit goods: regulation; taxation; extension of property rights; tradeable permits.</li><li>• for external benefits and merit goods: subsidies to producers and consumers.</li></ul>	<p>Asymmetric information; unequal distribution of income</p> <p>Understand the broad methods of regulating monopolies, eg by regulations relating to market share and mergers; by government measures to promote the growth of new firms. However, detailed knowledge of legislation concerning UK and EU competition policy is NOT required.</p> <p>Analyse the application of these policies using supply and demand diagrams where appropriate. Evaluate the arguments for and against public transport provision.</p>
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**For first assessment summer 2003**

<p><b>Government failure.</b></p>	<p>Understand how government action may reduce economic efficiency by inappropriate responses or lead to unintended results, eg outcomes of agricultural stabilisation policies. They should also examine other sources of government failure, eg administrative costs; how subsidies might prevent exit from the industry.</p>
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### **Unit 3: Managing the economy**

This unit provides an introduction to the key measures of economic performance and the main objectives and instruments of government policy. At the end of this unit, students should have an understanding of the key goals of government policy, the basic aggregate demand/aggregate supply model and the policies that can be used in the management of the economy.

<b>Content</b>	<b>Students should be able to:</b>
<p><b>Measures of the economic performance of countries:</b></p> <ul style="list-style-type: none"><li>• The Retail Price Index</li><li>• The Level of Unemployment</li><li>• The Balance of Payments</li><li>• Gross Domestic Product</li></ul> <p><b>Economic growth:</b></p> <ul style="list-style-type: none"><li>• causes of differences of growth rates between countries.</li><li>• the desirability and costs of economic growth.</li></ul> <p><b>Aggregate demand:</b></p> <ul style="list-style-type: none"><li>• components of aggregate demand – consumption, investment, government expenditure, exports-imports.</li></ul> <p><b>Aggregate supply:</b> The short-run and long-run aggregate supply curves.</p>	<p>Understand how the rate of inflation is measured by the Retail Price Index and consider its limitations.</p> <p>Understand alternative methods of measuring unemployment and consider their limitations.</p> <p>Understand the main components of the Balance of Payments with special reference to the current account (trade in goods, trade in services, investment income).</p> <p>Understand the meaning of GDP and be able to distinguish between nominal and real GDP. (Detailed knowledge of the measurement of GDP is NOT required.) Understand the limitations of GDP as an indicator of comparative living standards between countries and over time.</p> <p>Understand the limitations of GDP as an indicator of comparative living standards between countries and over time. Contrast growth rates between the rich and poor countries.</p> <p>Understand the meaning of each of these components of aggregate demand and of the factors influencing their size. (The income/expenditure approach of the basic Keynesian model is NOT required.) The multiplier effect should also be understood using a descriptive approach.</p> <p>Explain the factors influencing aggregate supply, such as technological advances, improvement in skills of the workforce.</p>

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<p><b>The relationship between aggregate demand and the price level and between aggregate supply and the price level</b></p>	<p>Understand the distinction between shifts of, and movements along, the aggregate demand curve and between shifts of, and movements along, the aggregate supply curve.</p>
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<p><b>The equilibrium level of real output.</b></p> <p><b>Macroeconomic policy objectives in an EU context:</b> Full employment, price stability, economic growth, Balance of Payments equilibrium, income redistribution and concern for the environment. Reasons why these objectives might not be achieved.</p> <p><del>Conflicts between these objectives.</del></p> <p><i>This section has moved to Unit 6</i></p> <p><b>The relative merits of supply side and/or demand side policies as means of realising policy objectives:</b></p> <p>Supply side policies to include reference to education and training, reduction in trade union power, reduction in unemployment benefits.</p> <p>Demand side policies to include reference to fiscal policy, monetary policy (use of interest rates), and exchange rates.</p>	<p>Illustrate and explain the interaction of aggregate demand and aggregate supply. Analyse causes of changes in the equilibrium level of real output, eg changes in world oil prices, financial crises within the global economy.</p> <p>Understand the causes, costs and effects of unemployment, inflation, Balance of Payments disequilibrium and inequality in income distribution.</p> <p><del>Explain possible trade-offs between inflation and unemployment with the application of the simple Phillips curve. Other possible conflicts should also be considered, eg between economic growth and Balance of Payments equilibrium.</del></p> <p>Analyse the short-run and long-run effects of supply side and demand side policies on the rate of inflation, the level of unemployment, the rate of growth and on the Balance of Payments.</p> <p>Use the aggregate demand/aggregate supply model in analysis.</p>
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### **Unit 6: The UK in the global economy**

**This unit develops the content of units 1 and 3 by examining the position of the UK in the context of the world economy. It focuses on international trade and exchange rate issues. At the end of this unit, students should be able to evaluate the macroeconomic performance of the UK in a European Union and global perspective.**

<b>Content</b>	<b>Students should be able to:</b>
<b>Factors contributing to globalisation.</b>	Understand the significance of the factors that have enhanced the interdependence of economies, eg the reduction in trade barriers, capital mobility, the growth of MNCs and technological developments, eg the Internet.
<b>International exchange.</b>	Understand the importance of trade between developed economies, relative to world trade as a whole.
<b>Trade liberalisation and protectionism.</b> Reasons for tariffs, quotas and non-tariff barriers and the consequences of their use.	Explain the global efforts to reduce tariff barriers and analyse the impact of protectionist measures on resource use in an international context, eg the impact of the CAP on world trade in commodities.
<b>Sources of possible conflict between trading blocs and the role of the World Trade Organisation (WTO).</b>	Explain how membership of the WTO constrains the use of protectionist policies by countries particularly in times of global recession.
<b>The Balance of Payments.</b>	Understand the main elements of the current account. Only a brief knowledge of capital transactions is required.  Understand recent trends in the UK's accounts (links with unit 3).
<b>International competitiveness.</b>	Understand various measures of the competitive position of the leading countries in international trade, eg unit costs and relative export prices.
<b>The UK's changing international competitive situation.</b>	Make an appraisal of the competitiveness of British industry in both home and overseas markets.  Explain the UK's export performance and import penetration.

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<p>Factors affecting international competitiveness and government policies to enhance the UK's relative position.</p>	<p>Understand how successive UK governments have taken measures to enhance competitiveness, eg through deregulation measures, encouragement of inward investment and the enhancement of labour skills.</p>
<p><b>Balance of payments disequilibrium.</b>  Policy remedies including:</p> <ul style="list-style-type: none"> <li>• exchange rate adjustment</li> <li>• demand management</li> <li>• supply side policies.</li> </ul>	<p>} Evaluate the impact of these alternative policy measures (links with unit 3).</p>
<p><b>Exchange rate systems.</b>  Fixed and floating rates.</p>	<p>Explain how exchange rates are determined under a system of floating rates (links with unit 1).</p>
<p>Factors affecting exchange rates.</p>	<p>Understand influences on exchange rates such as relative interest rates, relative inflation rates and speculative capital flows.</p>
<p>Exchange rates as a policy instrument.</p>	<p>Explain the effects of changes in exchange rates on the level of economic activity in different countries.</p>
<p><b>European Monetary Union.</b>  The costs and benefits of monetary union in the EU.</p>	<p>Evaluate the implications of monetary union for the conduct of monetary and fiscal policies by individual countries in Europe.</p>
<p><b>Inward foreign investment by MNCs.</b></p>	<p>Analyse the role, benefits and disadvantages of capital inflows from MNCs in an EU context.</p>
<p><b>External shocks to the global economy.</b></p>	<p>Examine adverse impacts on the world level of economic activity, eg higher oil prices.</p>
<p><b>Public expenditure and taxation.</b>  Different types of taxes.  The impact of public expenditure and taxation on income distribution.</p>	<p>Explain reasons for the changing size and composition of public expenditure in the UK.  Evaluate the relative merits of direct and indirect taxation and examine the effects of changes in fiscal policy for different groups in the UK.</p>
<p>Public sector borrowing.</p>	<p>Explain the factors influencing the size of public sector borrowing.</p>
<p>International comparisons of public finances.</p>	<p>Explain and evaluate the implications of differences between countries in their public finances.</p>

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<p><b>The working of fiscal, monetary and supply side policies.</b></p>	<p>Appraise policy instruments in achieving policy objectives and evaluate associated problems that may be encountered, eg time lags; the accuracy of economic data on the state of the economy.</p>
<p><b><u>Conflicts between these objectives.</u></b></p>	<p><u>Explain possible trade-offs between inflation and unemployment with the application of the simple Phillips curve. Other possible conflicts should also be considered, eg between economic growth and Balance of Payments equilibrium.</u></p>
<p><i>Content from Unit 3</i></p>	
<p><b>Unemployment and inflation in an EU and global context.</b></p>	<p>Understand the causes and consequences of trends in the numbers out of work and the rate of increase in the price level within the EU (links with Unit 3).</p>
<p><b>The relationship between real output and the non-accelerating inflation rate of unemployment (NAIRU).</b></p>	<p>Understand the distinction between the short-run Phillips curve and the long-run Phillips curve.</p>