How to Answer CIE IGCSE Economics Questions

For CIE IGCSE (0455) Syllabus - 2021 and beyond

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Contents:

Paper 1 > Multiple Choice (30 marks):

Total Marks: 30 marks	**Weightage**: 30% of final grade	**Duration**: 45 mins

General Tips:

- Use the **process of elimination.** Often, there will be **two obviously incorrectly answers** so cross them out. Then decide which answer is **more correct** between the two remaining ones.
- Go through **ALL** the answer choices and **read every single word** carefully.
- If you have time, it is a good idea to **correct the answer you think it is wrong**. This way, you are providing a backup to support your point and will be less likely to mistakenly eliminate a correct answer.
- **Draw** out the **diagrams** (demand and supply diagrams) and **annotate** them rather than doing it in your head.
- If it is a **calculation** question, **substitute** the values back in.
- Use **common sense** and **logic** to evaluate the answer.

🗎 **NOTE**: Often, the multiple-choice exam is near the end of the exam period. Do not be discouraged by this nor take the exam lightly. This exam takes up 30% of your final grade and may cause a difference to your grade.

Overview of Paper 2:

Total Marks: 90 marks	**Weightage**: 70% of final grade	**Duration**: 2hr 15mins

Section A: Case Study (30 marks)
Section B: Long-answered questions (60 marks) – answer **three** of four questions
Recommended Timings: 40 min (Section A), 30 min/question (Section B), 5 min (check)

Paper 2 > Section A: Case Study (30 marks)

General Tips:

- The first question is normally a 1-mark **calculation** question. The data needed is normally presented in a **table/graph**. You should understand and memorise the formulas in the course.
- Some questions require you to write a **specific number of answers.** Only write this number of answers because if **n** answers are required, only the **first n answers** will be considered.
- In section A, you must answer some questions **based on the extract.** If the answer is in the case study extract, even if you write something else that is logically correct, you will **NOT** get the mark.
- If a question asks to **EXPLAIN,** do not just identify the points. You will also need to explain them using your knowledge of economics.

- You should write on the case study and annotate it freely to actively engage with the passage.
- Leave a blank line between each paragraph to make it easier for the examiner to read.\

Common Types of Questions:

Analyzing the relationship between two factors: (normally 4-5 marks):

This type of question requires you to analyse a table/graph and provide a written analysis. There is always one question of this type in every paper and the best thing is that there is a FORMAT to guarantee that you get ALL the marks!!

General Answer Structure:

1) Describe the relationship (e.g. As X increases, Y increases OR when X is high, Y is high AND positive/negative relationship)
2) Give **TWO** examples using the data given with units (usually give the highest/lowest value)
3) State whether it is the expected relationship and give a reason using your own knowledge of economics
4) Identify the exception to the relationship
5) Use data from the case study to describe why the exception does not follow the relationship.
6) (OPTIONAL: Explain why the exception does not follow the relationship)

Past year example: (from 0455_w20_qp_23)

country	consumer expenditure ($bn)	imports ($bn)
Brazil	1322.6	160.6
Argentina	412.3	61.2
Philippines	240.9	93.2
Chile	168.2	60.1
Peru	137.2	40.2
Costa Rica	37.5	15.8
Panama	28.9	9.2

Q: Analyse the relationship between the countries' consumer expenditure and imports. [5]

As consumer expenditure increases and is high, the imports increases too (1) and this is a positive relationship. (1) This is seen as Brazil has the highest consumer expenditure of $1322.6 bn and it also has the highest import expenditure of $160.6 bn (1). Also, Panama has the lowest consumer expenditure of $28.9 bn and it also has the lowest imports expenditure of $9.2 bn (1). This is the expected relationship because when consumer expenditure is high, this indicates that consumers have higher disposable income and are more likely to purchase luxury imports. However, the exception is Argentina (1) because even though it has a higher consumer expenditure of $412.3 bn than Philippines of $240.9 bn, it has a lower import expenditure of $61.2 bn compared to Philippines of $93.2 bn. (1)

Paper 2 > Section B (60 Marks)

- You will need to answer **three** questions from four of the questions.
- Each question is worth 20 marks
- There are 4 parts to each question with marks ranging from (2, 4, 6, and 8 marks)

What do you need to think about if a question asks about a particular group/stakeholder?

Particular group/stakeholder:	Think About:
Consumers	incomes, employment, living standards, quality of life
Firms	profit, revenue, costs, economies of scale
Government	tax revenue, government spending,
Economy	macroeconomic objectives (economic growth, low unemployment, low inflation, balance of payment equilibrium, income equality)

Common Types of Questions:

Definition Question (normally 2 marks):

The first question from each question set in section B is normally a definition question, asking you to define a certain key term. Therefore, it is highly recommended that you memorise all the key definitions to secure the two “free” marks for each question set.

Useful Tip: You may want to include a few **examples** to support your definition. Sometimes, there might be marks available for valid examples.

Useful Tip: Use **Anki** to memorise the key definitions. Using the **spaced repetition method**, you will be soon putting these definitions into your **long-term memory**. Of course, you will need to make sure you **fully understand** them too!

Advantages and Disadvantages Question (normally 6-8 marks):

These questions ask you to identify **and explain** the advantages/disadvantages. Our Anki flashcards and quiz cards have many examples that you should understand and memorise. Often, you can also use **common sense** to determine the adv/dis.

Sometimes the question will be **implicit** and will not directly ask you for the advantages or disadvantages. They will phrase it deliberately to confuse you, but they are essentially asking for the adv/dis. Here are some examples:

- **Discuss whether or not a country should switch from a fixed foreign exchange rate system to a floating foreign exchange rate system. [8]**
    - To answer this, explain the adv/dis of fixed and floating foreign exchange rate system

- **Discuss whether or not a government should encourage more people to cycle. [8]**
    - To answer this, explain the adv/dis of cycling linking it to economics

Cause and Effect Question (normally 6-8 marks):

These questions normally ask you to **analyse/explain how** a cause leads to an effect.

Steps to Approach the question:

1) Read and analyse the question
    a. Circle the command term
    b. Underline the key terms (Identify the cause and effect)
    c. Look at the marks awarded
2) Make several link relationships between the cause and effect
3) Write out your paragraphs (1 paragraph for each link relationship) using connectives to "connect the dots"

Useful Tip: For longer 6-8 mark questions, it is always worth writing down a **definition** for the key terms in the question. Sometimes, the definition may gain you some marks!

Example Walkthrough 1: (Command Word Analyse)

Q: Analyse how a rise in investment could increase a country's economic growth rate. [6]

Because the command word is "**analyse**", we only need to develop an **one**-**sided** answer. You should aim to write 1 paragraph for each 2 marks. For a 6-mark answer, this is **3 fully-developed paragraphs**. However, only if you have time, you might want to write **extra paragraphs** just in case one of your paragraph is incorrect.

Link Relationships: You must start with the cause and end with the effect. You are essentially building the backbone of your answer.

Useful Tip: Use up/down arrows instead of increase/decrease and use short form symbols like AD/AS/GDP/IR etc… to save time!

2) Build 3 Link Relationships:

1) ↑Investment ---> ↑ Capital Equipment ---> ↑ productivity ---> ↑ output per machine ---> ↑AD (because AD = C+I+G+(X-M)) ---> ↑ GDP ---> ↑ economic growth rate
2) ↑Investment ---> ↑ Capital Equipment ---> capital intensive ---> ↓ cost of production ---> ↓ prices & ↑ quality ---> ↑ int price competitiveness ---> ↑ exports ---> CA surplus ---> ↑ (X-M) ---> ↑AD ---> ↑ economic growth rate
3) ↑Investment in merit goods (e.g. edu & healthcare) ---> ↑ skills & ↑ healthier ---> ↑ productivity ---> ↑output ---> ↑GDP ---> ↑ economic growth rate

3) Write it out in paragraphs with connectives to "connect the dots"

A rise in **investment** due to firms investing more in **capital** equipment (1) can increase productivity (1), which means that there is greater **output per machine**. As **Investment** is a component of **AD**, because **AD = C+I+G+(X-M)**, **AD** increases (1). Therefore, this means that **GDP** increases, leading to higher **economic growth rate**.

Additionally, a rise in **investment** due to firms investing more in **capital** equipment can push the firm from **labour-intensive** to being **capital**-**intensive**. This will decrease firms' **cost of production** (1), allowing them to charge a lower price (1) and also produce higher quality products (1). As a result, this increases their **international price competitiveness**, leading to an increase in **demand** for **exports** from **foreign consumers** (1). This may lead to a **current account deficit** when **export revenue** is greater than **import expenditure**. As **(X-M)** increases, **AD** increases, leading to higher **economic growth rate**.

Moreover, a rise in **investment** due to the government investing more in **merit goods** like education and healthcare (1) can increase the skills of the **labour force**, as well as the health of workers. This will increase **labour productivity** (1), which will increase **output** (1) and **GDP**, leading to higher **economic growth rate**.

Example Walkthrough 2: (Command Word Discuss)

Q. Discuss whether or not a reduction in a country's <u>trade protection</u> will reduce its <u>current account surplus.</u> [8]

Because the command word is "**<u>discuss</u>**", we need to develop a **two**-**sided** answer. You should aim to write 1 paragraph for each 2 marks.

2) Build 4 Link Relationships: (2 Yes and 2 No)

<u>Yes:</u>

1) ↓ Country's trade protection (tariffs) ---> ↓ less tax on imports ---> ↓ price of imports ---> ↑ demand for imports ---> ↑ import expenditure ---> ↓ gap between export revenue and import expenditure ---> ↑ CA deficit & ↓CA surplus
2) ↓ Country's trade protection (quotas) ---> ↓ physical limit on imported goods ---> ↑ imports purchased ---> ↑ CA deficit & ↓CA surplus

<u>No:</u>

3) ↓ Country's trade protection (tariffs) ---> ↓ less tax on imports ---> ↓ price of imports ---> IF demand for imports is inelastic ---> ↑Qd by less ---> ↓ import expenditure ---> will NOT ↓CA surplus
4) ↓ Country's trade protection (tariffs) ---> If ER depreciate ---> ↑ import prices & ↓export prices ---> ↓ import expenditure & ↑ export revenue ---> will NOT ↓CA surplus

3) Write it out in paragraphs with connectives to "connect the dots"

When a country reduces its **trade protection** by removing **tariffs**, this means that the **tax** on **imports** will decrease, which decreases the price of **imports**. Due to the **law of demand**, the **demand** for **imports** increase so **import expenditure** increases. This reduces the gap between **export revenue** and **import expenditure**, which increases a **current account deficit** and reduces a **current account surplus**.

Additionally, when a country reduces its **trade protection** by removing **quotas**, this means that there is less physical limit on **import** goods. This increases the quantity of **imports** purchased, which increases a **current account deficit** and decreases a **current account surplus**.

However, when a country reduces its **trade protection**, it may not reduce a **current account surplus**. This is because when there are less **tariffs**, there is less **tax** on **imports** so the price of **imports** will decrease. But, if the **demand** for **imports** is **price inelastic**, a percentage decrease in price of **imports** will lead to a smaller percentage increase in **quantity demanded**. This therefore reduces **import expenditure** and will not reduce **current account surplus**.

Moreover, when a country reduces its **trade protection**, if the country's **exchange rate depreciates**, the **import price** will be higher and the **export price** will be lower. This will decrease **import expenditure** and increase **export revenue**, which will not reduce a **current account surplus**.

Discuss Question (normally 8 marks):

For ALL the "Discuss" questions, you MUST give a well-balanced response that considers BOTH SIDES of the argument (yes or no).

Answer structure: (paragraph structure)

- It is important that you split your answer into PARAGRAPHS to produce a coherent and organised response.
- Each paragraph should include a clear point followed by a concise and well-developed explanation. You should convey your thinking logically using connective words/phrases like therefore/additionally/moreover…

Useful Tip: Include as many **economic terms** and **concepts** as possible. (e.g. do not just write pollution but you can write **external costs** such as pollution.) However, you should not simply just use them for the sake of including them. The key terms should be integrated into your response and the examiner should be able to know that you understand them. To do this, review the concepts and make sure you fully understand each key term.

New Mark Scheme for 8 marks discuss question:

Level	Descriptors	Mark
3	A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall, both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.	6-8
2	A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development or may be one-sided. There is relevant use of economic concepts, terminology, information, and data appropriate to the question.	3-5
1	There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.	1-2
0	A mark of zero should be awarded for no creditable content.	0

Drawing Demand/Supply Curve Diagrams (4-6 marks)

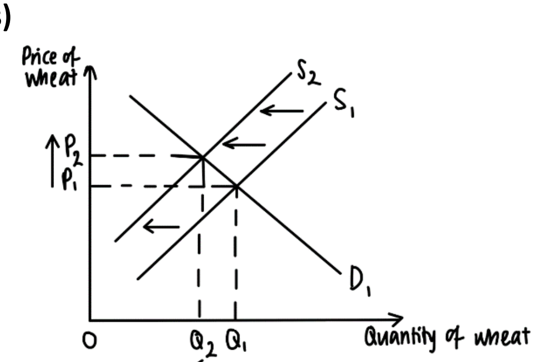
These types of questions can be found in both section A (case study) and section B (structured questions). We will introduce an answer structure for the written analysis that will definitely get you all of the marks!

IMPORTANT: Know how to differentiate between questions asking you to **"draw a demand and supply diagram…"** and questions asking you to **"Analyse, using a demand and supply diagram.."**

- **"Draw a demand and supply diagram**…" – this ONLY asks you to draw. You do NOT need to explain.
- **"Analyse, using a demand and supply diagram.."** this asks you to BOTH draw and explain.

Drawing Diagrams: (general mark scheme – 4 marks)

- **1 mark** for labelling the axes (price on y-axis and quantity on x-axis)
- **1 mark** for labelling the demand and supply curves (D and S)
- **1 mark** for showing the equilibrium (shown by lines P_1, P_2, Q_1, Q_2)
- **1 mark** for showing the change/shift in demand or supply curve using arrows.



How to determine whether demand shifts or supply shifts?

- You should underline the cause and then check with the table below whether it affects demand OR supply.

Causes of shift in demand	Causes of shift in supply
1. Changes in income	1. Costs of production
2. Changes in tastes and fashion	2. Technology
3. Changes in population	3. Indirect taxes
4. Price of other goods – substitutes	4. Subsidies
5. Price of other goods – complimentary	5. Weather
6. Advertising	6. Price of other goods
7. Seasonal fluctuations	
8. Interest rates	

Answer structure for the written analysis:

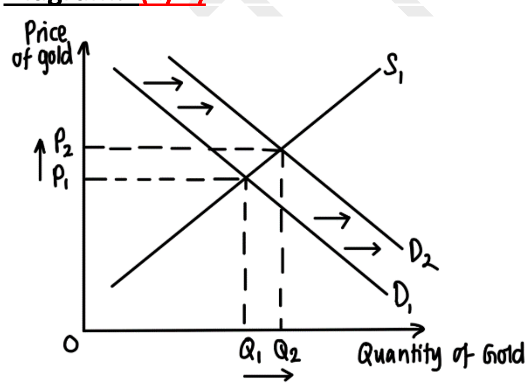
1. **Curve:** Demand/Supply shifts to the right/left and increases/decreases from S1 to S2/D1 to D2. This is because of [reason].
2. **Price:** Price increases/decreases from P1 to P2
3. **E/C of the other curve:** There is a(n) extension/contraction of [the other curve – demand/supply] as more/less is supplied/demanded at the higher/lower price.

Example Walkthrough 1: [Demand shifts]

Q: Analyse, using a demand and supply diagram, how a rise in income may affect the market for gold.

The cause is a "rise in income". According to the table, this is the (1) cause of a shift in **demand.**

Diagram: (4/4)



Written Analysis: (2/2)

Curve: Demand shifts to the right and increases from D1 to D2. This is because of a rise in income. As gold is a luxury good, as incomes rise and people's purchasing power increases (1), the demand for gold will increase.

Price: Price increases from P1 to P2 (1)

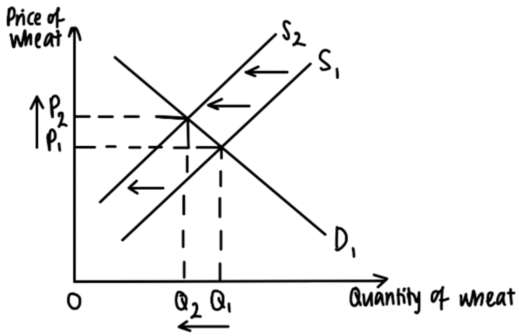
E/C of the other curve: There is an extension of supply as more is supplied at the higher price.

Example Walkthrough 2: [Supply shifts]

Q: Analyse, using a demand and supply diagram, how bad weather may affect the market for wheat.

The cause is "bad weather". According to the table, this is the (5) cause of a shift in **supply**.

Diagram: (4/4)



Written Analysis: (2/2)

Curve: Supply shifts to the left and decreases from S1 to S2. This is because of bad weather. As wheat is an agricultural good, this damages wheat production. (1)

Price: Price increases from P1 to P2 (1)

E/C of the other curve: There is a contraction of demand as less is demanded at the higher price.

💡 **Useful Tip:** Memorise the factors that shift demand/supply. They will be very helpful in the exam!

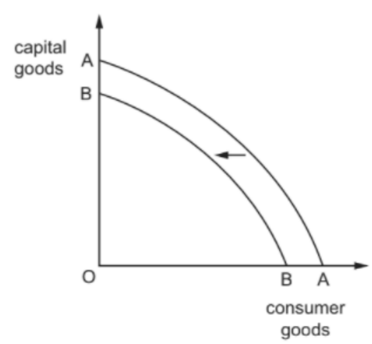
💡 **Useful Tip:** Memorise the written analysis structure and general diagram. It is highly recommended that you choose the question set that asks you to draw diagrams because you can often get 6 easy marks (and it is quicker to complete than other questions too).

Drawing Production Possibility Curve (PPC) Diagrams

"A Production Possibility Curve shows the maximum potential of two goods and services that can be produced using all the resources an economy has available."

Drawing Diagrams: (general mark scheme – 4 marks)

- **1 mark** for labelling the axes (capital goods on y-axis and consumer goods on x-axis)
- **1 mark** for initial curve drawn
- **1 mark** for new curve/two production points drawn
- **1 mark** for labelling the movement of production point/shift in PPC using arrows



Answer structure for the written analysis [for when the PPC shifts]:

a) PPC shifts inwards/outwards from PPC1 to PPC2 because of [reason].
b) A(n) increase/decrease in the quantity/quality of land/labour/capital/enterprise, which is a factor of production will shift the PPC inwards/outwards.
c) This means that the economy's productive capacity increases/decreases

How to know whether the PPC shifts OR the production point moves?

PPC Shifts Outwards	PPC Shifts Inwards	Production point moves inwards	Production point moves along the current
Increase in the quality/quantity of the factors of production **Examples:** • Better Technology • Higher labour productivity	Decrease in the quantity/quality of the factors of production **Examples:** • Fewer capital goods used • Destruction of Power plants	There are unemployed resources or inefficient use of resources, causing the output to be lower than the potential output. This may reduce GDP and lead to a recession. **Examples:** • Increase in unemployment	More resources is spent on one good than another but there is NO CHANGE in the quantity/quality of resources.

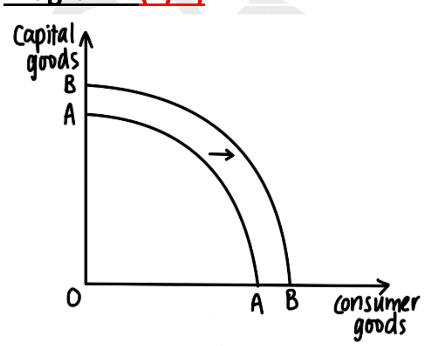
Factor of Production	Factor that increases quantity	Factor that increases quality
Land	Land reclamation	Irrigation Fertilisers
Labour	Immigration Increase in birth rate	Education and training Higher labour productivity
Capital	Investment	Technological Advancements Innovation
Enterprise	More firms setting up a business	Education and training

Example Walkthrough 1 (PPC shifts outwards):

Q: Analyse, using a production possibility curve (PPC) diagram, the effect of advances in technology on an economy. [6]

The cause is "advances in technology". This **increases quality of capital** so the PPC shifts **outwards**.

Diagram: (4/4)



Written Analysis: (2/2)

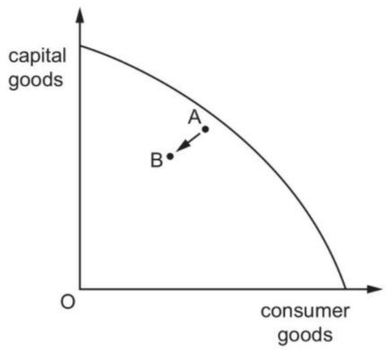
PPC shifts outwards from PPC1 to PPC2 because of advances in technology. An increase in the quality of capital (1), which is a factor of production will shift the PPC outwards. This means that the economy's productive capacity increases. (1)

Example Walkthrough 2 (Production Point moves inwards):

Q: Analyse, using a production possibility curve (PPC) diagram, the effect of an increase in unemployment on an economy. [6]

The cause is "increase in unemployment". Because the unemployed people are still in the labour force and are actively seeking work and willing to work, this does **NOT** decrease the quantity of labour. There are **unemployed resources** so the **production point moves inwards.**

Diagram: (4/4)



Written Analysis: (2/2)

The production point on the PPC moves inwards from A to B. This is because of an increase in unemployment in the economy, meaning that there are unemployed resources (1). The inefficient use of resources (1) reduces GDP, leading to a recession. (1)

Useful Tip: Always use a ruler to draw your graphs and draw them big so that the examiner can easily see!

Key Terms and Definitions List:

Key Term	Definition
Resources	Factors of production used to produce goods and services
Economic good	There is an opportunity cost in producing the good as it takes resources to produce
Free good	A good that is free because there is more than enough available to satisfy the demand for them
Factors of Production	The scarce resources used in the production of goods and services
Land	Natural resources that is used in production
Labour	Labour is the mental and physical contribution of the workers to the production process.
Capital good	Any human made good that is used to produce other goods and services - they are aids to production
Enterprise	Enterprise is undertaken by entrepeneurs who take a risk (with their money, time...) and bring together the other 3 factors of production to start a business in order to make a profit.
Opportunity cost	Opportunity cost is the benefit lost from the next (second) best alternative given up when making a decision

Microeconomics	Microeconomics is the study of the decision making of individuals, households and firms.
Macroeconomics	Macroeconomics is the study of the whole economy. An example of a macroeconomic topic is unemployment
Industry	Firms that produce the same product.
Free/market system	In a free market system, goods and services are **freely exchanged** through a market without the need for government intervention.
Mixed economy	A **mixed economy** is one in which there is **both a private sector** (in which resources are allocated by the price mechanism) **and a public sector** (in which resources are allocated by the state/government)
Planned economy	In a **planned economic system**, decisions are made **centrally, by government.**
State-owned enterprise	A firm owned by the government in the public sector
Demand	The willingness and ability to buy a product.
Supply	The amount of a product which suppliers will offer to the market at any given price at a particular time.
Equilibrium	Where the demand and supply curve intersect. The market point is set where the quantity demanded is equal to the quantity supplied. There is no pressure for price to change (there is balance).
Excess supply	Excess supply occurs when price is set above the equilibrium price. There is a contraction of demand and an extension of supply. Therefore, supply is greater than demand = excess supply.
Excess demand	Excess demand occurs when price is set below the equilibrium price. There is a contraction of supply and an extension of demand. Therefore, demand is greater than supply = excess demand.
Price elasticity of demand	Measures the responsiveness of demand to a change in price Formula: % change in Quantity Demanded / % change in Price
Perfectly inelastic demand	A percentage change in price leads to no change in quantity demanded. PED = 0
Inelastic demand	A percentage change in price leads to a smaller percentage change in quantity demanded PED = <1
Unitary elastic demand	A percentage change in price leads to the same percentage change in quantity demanded PED = 1
Elastic demand	A percentage in price leads to a greater percentage in quantity demand PED = >1
Perfectly elastic demand	A percentage change in price leads to an infinite change in quantity demanded PED = infinite
Price elasticity of supply	Measure the sensitivity of supply to a change in price. Formula: % change in Quantity Supplied / % change in Price
Perfectly inelastic supply	A percentage in price leads to no change in quantity supplied. PES = 0

Inelastic supply	A percentage change in price leads to a smaller change in quantity supplied PES = <1
Unitary elastic supply	A percentage change in price leads to the same percentage change in quantity supplied. PES = 1
Elastic supply	A percentage in price leads to a greater percentage change in quantity supplied PES = >1
Perfectly elastic supply	A percentage change in price leads to an infinite change in quantity supplied. PES = infinite
Merit good	Goods about which there is a lack of information about how beneficial they are for the consumer. This leads to them being underconsumed (consumed below the social optimum).
Demerit goods	Goods about which there is a lack of information as to how harmful they are for the consumer leads to them being overconsumed.
Externalities	Something that results from a business' activity that is felt by the community or environment. They can be either costs or benefits.
Private costs	The costs a firm pays i.e. the cost of the land labour and capital involved in the production of a product.
Private benefits	The sales revenue received by a firm from selling its products
External Costs	Harmful effects on third parties External costs = Social costs - private costs
External benefits	Benefits enjoyed by the third party who are neither involved in the production or consumption of goods and services. For example, training employees.
Social costs	Private costs + external costs = social costs
Social benefits	Private benefits + external benefits = social benefits The total benefit to society of an economic activity
Market Failure	Occurs when the market mechanism (demand and supply) does not lead to an efficient allocation of resources and therefore it results in an under or over production/consumption of a good.
Indirect Tax	A tax on expenditure. It is paid by the consumer indirectly. An example is VAT
Subsidy	Money given by the government to firms in order to lower their cost of production so that they can charge a lower price and increase output.
Regulations	The imposition of government rules backed by penalties that are intended to modify the behavior of individuals or firms
Privatisation	The sale of state-owned assets to the private sector
Nationalisation	Government transfer of private sector organisations into the public sector
Maximum price	A price that producers cannot change above a price ceiling set by the government
Money	Anything that is generally accepted as a means of payment for goods and services.
Central Banks	In most countries Central Banks are owned by the government but run independently of the government
Commercial Banks	A financial institution that offers services to people/household firms. It is profit orientated and is usually in the private sector. An example is HSBC.
Minimum wage	An amount of pay set by the government below which an employer cannot pay an employee.

Specialisation	This is a process by which individuals, firms, regions and economies concentrate on producing those goods and services in which they have an advantage.
Specialisation of labour (division of labour)	Occurs when a task is broken up into many smaller tasks in which one person specialises on each smaller task. Rather than one person doing all the tasks, many people do one small repetitive task each. This increases productivity.
Trade Union	An organisation that workers join, which represents them in negotiations with company managers. The idea is that the Trade Union speaks for everybody (collective bargaining) and therefore the workers have strength in numbers and are more likely to have their demands met by managers.
Collective bargaining	A process of negotiation over pay and conditions between a trade union, who represent the workers, and employers.
Industrial action	An action taken by trade unions to try to force an employer to give in to their demands.
Primary sector	Firms involved in the growing and extraction of raw materials are in the primary sector.
Secondary sector	Firms in manufacturing and construction are in the secondary sector.
Tertiary sector	Firms involved in the provision of services are in the tertiary sector.
Private sector firms	The private sector is made up of firms that are run and owned by individuals. Their main objective is to make a profit
Public sector organisations	Public sector organisations are in the public sector . They are owned by the people of a country (the public) and run by the government. Their main objective is to provide a good service.
Chain of production	The stages a product goes through from raw material to finished good ready for sale.
Horizontal integration	A merger or takeover between 2 firms from the same stage of the same chain of production.
Backward vertical integration	A merger or takeover between one firm and another firm from further back in the same chain of production
Forward vertical integration	A merger or takeover between one firm and another firm from further forward in the same chain of production
Conglomerate Integration	Merger or takeover between 2 firms in completely different chains of production.
Internal economies of scale	The **factors** that lead to a decrease in **unit cost** for one firm as more is produced. Managerial, Marketing, Purchasing, Financial, Technical and Risk spreading are the factors that lead to a reduction in unit costs.
Diseconomies of scale	The **factors** that lead to an increase in the **unit** cost of production as output increases ***past a certain point.*** Examples: bureaucracy, labour relations and control & coordination.
External diseconomies of scale	Factors that lead to a higher unit cost for all firms in the same industry or region. Examples: Congestion, Increased competition for resources
Labour intensive production	Labour intensive production is a production process that employs mostly labour as a means of completing tasks rather than capital. For example making clothes
Capital intensive production	Capital intensive production is a production process that employs mostly capital (machinery) as a means of completing tasks rather than labour. For example car production

Productivity	The amount of outputs (goods or services) that can be produced from a given amount of inputs (factors of production) over a given period of time.
Production	Production is the total output over a period of time e.g. week.
Wage	A payment/reward to labour/workers
Saving	Income minus spending Putting money in the bank for future use.
Profit	Sales revenue - total costs
Total sales revenue	Selling price x quantity sold
Fixed costs	Costs that do not change as the quantity of output changes. For example, rent and insurance and salaries
Variable costs	Costs that change as output changes. For example, labour and raw materials
Break even	The amount of units that need to be sold in order for a firm not to make a loss. At breakeven a firm neither makes a profit or a loss.
Total costs	Fixed cost + variable costs = Total costs
Total revenue	The total income from a firm's sales. Price multiplied by quantity sold.
Average revenue	Sales revenue divided by quantity sold
Average costs	Total costs divided by quantity
Average fixed costs	Fixed costs divided by the amount produced.
Average variable cost	Variable costs divided by quantity
Profit maximisation	When a firm produces at the level of output which makes the highest profit for the firm where the gap between total revenue and total cost is the greatest.
Competitive markets	There are a large number of firms are in competition with each other to satisfy customers.
Monopoly	A firm with 100% of the market (only one seller)
Living standards:	The economic well being and quality of life of members of a country's population.
Balance of payments	A record of the flow of money into and out of a country.
Current Account	A component of the balance of payments in which the inflows and outflows of money from trade in goods and services and income flows are recorded.
Trade deficit	When imports of goods and services and greater than exports.
Trade surplus	When exports of goods and services and greater than imports.
Infrastructure	Facilities that are essential for an economy to function such as roads, rail, ports, communications network, electricity etc
Welfare services	Financial support provided by the government to those in need such as pensions for the elderly, unemployment benefits for the unemployed.
Merit goods	Goods about which there is a lack of information about how beneficial they are for the consumer. This leads to them being underconsumed
Public goods	- non-excludable i.e. it is impossible to stop someone who has not paid for them from consuming them. - non-rivalrous i.e. the consumption of it by one person does not prohibit the consumption of it by another person
Public services	Services provided by the government for the general public that are considered essential for modern society to function effectively e.g. police force, rubbish collection, fire service

Economic Growth	Increase in the country's real GDP over time
Gross Domestic Product	GDP measures the (total) output/income/expenditure of a country/economy
Real GDP	The total **value** of all goods and services produced by an economy in a year - adjusted for inflation.
Money (nominal GDP)	The total ***value*** of all goods and services produced by an economy in a year - ***not*** adjusted for inflation.
Final goods and services	Goods and services that are ready to be used by the end consumer (both households and firms) when they are purchased e.g. TVs, machinery
Recession	A fall in GDP in 2 consecutive quarters (6 months).
Aggregate supply	All the individual supply curves of all the producers in an economy added together. The aggregate supply curve shows what happens to the total output of all the goods and services in the economy as the general level of prices changes.
Consumer confidence	The extent to which consumers feel optimistic about the future
Business confidence	The extent to which businesses feel optimistic about the future
Employment	The state of having paid work
Unemployment	The state of being willing and able to work but being unable to find work
Full employment	Occurs when there is no cyclical unemployment, although other forms of unemployment may exist.
Labour force	All individuals of working age that are either employed or unemployed
Formal economy	The official economy that is controlled by the government and subject to taxation.
Informal economy	The unofficial economy, which is not taxed or controlled by the government.
Natural rate of unemployment	A certain amount of unemployment that will always exist in an economy.
Unemployment level	The number of people unemployed
Frictional unemployment	The time spent between leaving one job and finding another.
Seasonal unemployment	When people are unemployed at particular times of the year when demand for labour is lower than usual.
Technological unemployment	When new technology (capital equipment) replaces workers
Structural unemployment	Occurs when there is a change in the structure of an economy. This means that the skills of the economy's labour force no longer match the jobs that are available.
Cyclical unemployment	Occurs in a recession when demand for goods and services falls in the economy. Labour is derived demand and therefore less workers are needed.
Inflation	A persistent rise in the general prices of goods and services over a period of time, usually measured yearly
Deflation	Deflation is the sustained fall in the general level of prices of goods and services in an economy over time.
Weighted price index	An index (with a base year of 100) in which prices of goods are weighted according to their importance

Consumer price index	A measure of the changes in the prices of a selection of goods and services normally purchased by a typical household
Weighted average	Attained by calculating the percentage change in an item by its weight
Basket of goods	A selection of goods and services normally purchased by a typical household which is used in the calculation of the CPI.
Base year	A random year allocated a value of 100 index points against which other years are compared.
Purchasing power	The value of money in terms of the quantity of goods and services it can buy
Cost of living	Day to day living expenses incurred by an individual
Fixed income earners	People who receive a set amount of income and have no power to increase it e.g. pensioners.
Menu costs	The costs incurred by firms when changing their prices
Shoe leather costs	The costs incurred by businesses when searching for the best prices from their suppliers.
Wage-price-spiral	The inflationary cycle of higher wages, leading to higher production costs, leading to higher prices and living costs (cost push inflation), leading to higher wage demands and so on
Fiscal policy	The use of taxation and government spending to achieve macroeconomic objectives
Direct tax	A tax paid directly to the government by the persons on whom it is imposed.
Income tax	This is a tax on individuals' incomes (or wealth). It is usually a progressive tax.
Corporation tax	A tax on companies' profits.
Indirect tax	Indirect tax is a tax on expenditure. It is regressive. Indirect tax increases the cost of goods and services. An example is GST
Progressive taxation	a tax system that takes a higher proportion of the income of high earners than low earners
Regressive taxation	a tax system that takes a higher proportion of the income of low earners than high earners
Proportional taxation	a tax system that takes an equal proportion of income from all earners
Multinational company (MNC)	A firm that operates in more than one country.
Tax evasion	Illegal non-payment of taxes to the government
Tax avoidance	The process of finding legal ways to minimise the amount of tax paid to the government
Expansionary fiscal policy	Increases in government spending and/or decreases in taxation in order to increase aggregate demand (AD)
Contractionary fiscal policy	Decreases in government spending and/or increases in taxation in order to decrease aggregate demand (AD)
Demand Side Policies	Demand side policies are Fiscal Policy and Monetary policy. They are used to influence the total level of demand in the economy
Budget deficit	Government Spending > Government Tax revenue
Budget surplus	Government tax revenue > Government Spending.
Balanced budget	Government spending = Government tax revenue

Public Sector Net Cash Requirement (PSNCR).	The money a government needs to borrow if it runs a budget deficit for the year. Adds to national debt.
National debt	The total amount of money borrowed by the government - cumulative PSNCRs
Monetary policy	A demand-side policy to control the supply of money by changing interest rates/exchange rates/quantitative easing in order to achieve certain macroeconomic objectives.
Money supply	The amount of money in circulation in an economy
Expansionary monetary policy	An increase in the money supply through lowering i/r, QE or devaluing the currency leading to a rise in aggregate demand.
Contractionary monetary policy	A decrease in the money supply through raising i/r or revaluing the currency leading to a fall in aggregate demand
Interest rates	Interest rates are the cost of borrowing money, or the reward for lending/saving money.
Devaluation	A fall in the value of a fixed exchange rate due to a government intervening in the foreign exchange market.
Revaluation	A rise in the value of a fixed exchange rate due to a government intervening in the foreign exchange market.
Supply side policies	Any government action which leads to an increase in aggregate supply in an economy by improving either the quality or quantity of the factors of production.
Productive capacity	When aggregate supply in an economy increases, this indicates an increase in the economy's productive capacity. This means that the economy is capable of producing more goods and services.
Deregulation	The removal of rules/regulation to encourage competition. It makes it easier for a business to operate in an industry.
Grant	A sum of money given by the government to a business which does not have to be repaid.
Budget	A plan of a government's future income from taxation and expected spending over a period of time (usually a year)
Human development index (HDI)	a measure of human development and wellbeing that takes into account the three dimensions of GNI per capita, health and education
Life expectancy	the number of years a person in a country is expected to live
Gross national income (GNI)	total income earned by the residents of a country (individuals and businesses) at home and abroad
Poverty	An obstacle which prevents individuals from enjoying opportunities that should be available to everyone and therefore their quality of life is decreased. Opportunities include necessities such as clothes and food.
Absolute poverty:	A situation in which an individual does not have enough income to satisfy their most basic needs of food, clothes, clean water, shelter, education and healthcare. Living on less than $1.9 a day.
Relative poverty	A situation in which an individual does not have enough money to buy goods and services normally consumed by members of that society e.g. a street coffee
Population growth	The change (increase or decrease) in the number of people living in a particular geographical area.
Birth rate	The number of live births for every 1,000 people in a country in a year.

Death rate	The number of deaths for every 1,000 people in a country in a year.
Fertility rate	The average number of children per women of childbearing age (15 to 44 years) in a country.
Infant mortality rate	The number of babies who die before their first birthday for every 1,000 live births in a country in a year.
Immigration	The movement of people into a country who will reside there permanently.
Emigration	The movement of people out of a country to reside permanently elsewhere.
Net migration	The difference between immigration into a country and emigration out of a country.
Net inward migration	Total immigration greater than total emigration
Net outward migration	Total emigration greater than total immigration
Population growth rate	The rate of change as a percentage in the number of people residing in a country.
Subsistence economy	An economy in which people are self sufficient, producing only enough to satisfy their basic needs of food, clothing etc.
Ageing population	The increase in the median age of the population of a country over time.
Remittance	A sum of money sent by a worker in a foreign country to relatives in their home country.
Dependent population:	Consists of people who do not earn an income themselves and rely on others to provide the goods and services they need. Includes children, the elderly, the disabled etc
Overpopulation	A situation where there are not enough resources to sustain the population of a country.
Underpopulation	A situation where some of the resources of a country are left unused or wasted because there are not enough people to fully exploit them.
Optimal population	A situation where a population is sufficient to ensure that all resources in a country are fully utilised and output is maximised. There is no shortage or surplus of resources.
Age distribution	The proportion of the population who fall into certain age groups
Gender distribution	The number of males compared to the number of females in the population
Occupational mobility	The ease with which an individual can change from one job in a particular industry to a job in another industry.
Geographical mobility	The ease with which an individual can change from one location to another for work purposes.
Occupational distribution	The proportion of people working in each of the primary, secondary and tertiary sector in an economy.
Geographical distribution	The way people are spread across a country or region
Population density	The number of people living in a certain area, usually one square kilometer.
Population pyramid	Shows the age and gender distribution of the population of a country.
Economics development	An improvement in the living standards and quality of life of the population of a country as it transitions from being reliant on the primary sector for employment and output towards the secondary and tertiary sector.
Developing country	A country that has a low income and is generally reliant on the agricultural industry for its employment and output.

Developed country	A country that has high income and living standards with most of its economic activity based in the tertiary sector.
Corruption	The dishonest behavior of people in power for their own personal gain.
International trade	The importing and exporting of goods and services between countries
Factor endowments	The factors of production that a country has available to produce goods and services
Globalisation	The integration of local markets into a single global market
Home country	A country where the MNC was originally established and where the headquarters is based
Host country	Any country in which an MNC produces that is not its home country
Free trade	The exchange of goods and services between countries without any government imposed restrictions on volume or price (no tariffs, quotas etc)
Free trade agreement (FTA)	An agreement between two or more countries to reduce restrictions on some or all products traded between them
Barriers to trade	Restrictions imposed by a government that prevents the free trade of exports and imports between countries
Protectionism	Protectionism is the deliberate attempt to limit imports or promote exports. The government imposes trade barriers (tariffs, quotas, subsidies, embargoes) that restrict free trade between countries.
Tariffs	Tariffs are a tax on imports which increase the price of imported goods
Quotas	Physical limit on the number of imports of a particular good
Export subsidy:	A subsidy is designed to increase exports i.e. given to exporters
Embargoes	A complete ban on the import of a product or all products from a certain country.
Infant industry	An emerging or newly-established industry that is still too small to benefit from internal economies of scale and is therefore unable to compete with large foreign rivals.
Declining industry	An industry that is experiencing falling sales due to a change in the structure of the economy.
Strategic industry	An industry that is important to the long term well being of a country.
Dumping	The sale of **imported goods** at a price below what cost to produce them
Exchange rates	An exchange rate is the price of one country's currency expressed in terms of another country's currency. For example: £1 = 1.5 euros.
Appreciation	A rise in the value of a currency/exchange rate caused by market forces
Depreciation	A fall in the value of a currency/exchange rate caused by market forces
Foreign Exchange Market (Forex)	The place where buyers and sellers meet to trade foreign currencies.
Floating exchange rate system	The price of a currency is determined by the market forces of demand and supply in the Foreign Exchange Market.
Fixed exchange rate system	Fixed exchange rate system
Credit item	Any money flowing into a country’s current account
Debit item	Any money flowing out of a country’s current account
Trade in goods balance	Exports minus imports of goods/visible items. e.g. food, machinery.
Balance of Invisibles	Export and import of services, e.g. banking, tourism, interest, communications.

Primary income	Earnings that come from a factor of production (land, labor, capital or enterprise)
Dividends	The portion of a firm's profit that is paid to shareholders who are the owners of the business.
Secondary income	Income received through current transfers
Current transfers	A transfer is a sum of money that is given to an individual, firm or government but not in payment for a good or service.
Net errors and omissions	A balancing item included in the balance of payments which accounts for mistakes made in calculating inflows and outflows of money to and from a country
Foreign currency reserves	A store of foreign currency held in a country's Central Bank.
Capital Account/Financial Account	A record of the money flowing into and out of the country from investments, savings and foreign currency transactions to stabilise the exchange rate.
Balance on Transfers (secondary income)	Foreign aid paid overseas, money given to and received from the EU (UK), inward and outward remittances by expatriate workers.
market	An arrangement that brings buyers and sellers into contact. There are buyers and sellers

Conclusion + Final Tips:

Hopefully, after you have read this guide, you will be more confident in answering IGCSE Economic questions.

Remember, revising for economics is not just about memorizing the advantages/disadvantages/definitions; it is about fully understanding the concepts and being able to make links.

Final Tips:

- Use Anki to memorise and understand the key definitions (list on previous page)
- Practice drawing demand/supply diagrams and PPC diagrams.
- Learn how to write the written analysis of demand/supply diagrams and PPC diagrams
- Memorise and understand the formulas
- Practice making link relationships for cause and effect questions. This is especially important for the longer 6-8 mark questions as it will help structure your response. After some practice, you may notice that you are building the same link relationships over and over again as the past-year question repeat.
- Do as many PAST PAPER QUESTIONS as possible in TIMED CONDITIONS. Past year questions are the closest to what you will get in the actual exam.
    - If you are short on revision time or the exams are approaching, I recommend you to write the link relationships and do not spend time writing the paragraphs. The link relationships should include the key points of you paragraph; writing full paragraphs may be a waste of time.

Good luck on your IGCSE Exams! ☺