HOLIDAY HOMEWORK 假期作业

# AS-Level Economics

Exercise sheets and past-paper practice, topic by topic.

每个单元：练习卷 + 历年真题。

For class or self-study • no answer keys included.

## Contents 目录

# 1 The economic problem – Part 1

Name: ______ Class: ______ Date: ______

## Vocabulary 词汇

*Write each word three times.* 把每个单词抄写三遍。

| English | 中文 | Write it 3 times (English) | | |
|---|---|---|---|---|
| Scarcity | 稀缺性 | | | |
| Resources | 资源 | | | |
| wants | 欲望 | | | |
| economic problem | 经济问题 | | | |
| Opportunity cost | 机会成本 | | | |
| alternative | 替代选择 | | | |
| factors of production | 生产要素 | | | |
| reward | 报酬 | | | |
| land | 土地 | | | |
| labour | 劳动 | | | |
| capital | 资本 | | | |
| enterprise | 企业家才能 | | | |
| entrepreneur | 企业家 | | | |

## Recall

You make choices with limited money every day. Bring this with you:

- You cannot buy everything you want —money runs out.
- A country, too, has only limited resources.

At AS, economics begins with this one big problem: we can never have everything we want.

## New ideas

### ■ 1 Scarcity and the economic problem

**Scarcity** 稀缺性 is the central idea of economics. **Resources** 资源 (the things we use to make goods and services) are **limited**, but human **wants** 欲望 are **unlimited**. People always want more.

Because wants are bigger than resources, this is the **economic problem** 经济问题. Every society must answer three questions: **what** to produce, **how** to produce it, and **for whom**.

**Micro-check.** State why resources are described as scarce. [1]

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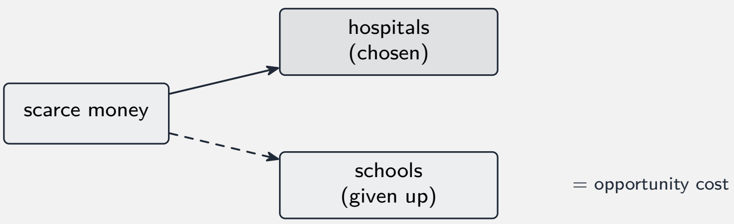
### ■ 2 Opportunity cost

Because resources are scarce, you must **choose** —and every choice means giving something up.

**Opportunity cost** 机会成本 is the next best **alternative** 替代选择 you give up when you make a decision.

*Worked example.* A government spends its money on new hospitals. Its opportunity cost is the new schools that the same money could have built.




**Micro-check.** You spend your money on a phone instead of a holiday. State the opportunity cost. [1]

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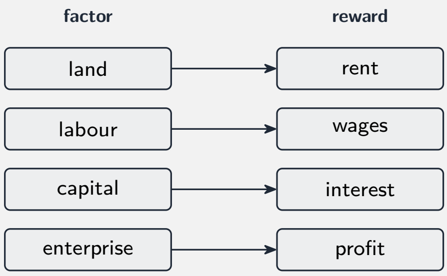
### ■ 3 Factors of production

The **factors of production** 生产要素 are the four kinds of resource used to make goods and services. Each earns a **reward** 报酬:

- **land** 土地—natural resources (fields, water, oil) → earns rent;

- **labour** 劳动—human work → earns wages;
- **capital** 资本—man-made things used to produce (machines, factories) → earns interest;
- **enterprise** 企业家才能—the skill of the **entrepreneur** 企业家, who brings the others together and takes the risk → earns profit.




**Micro-check.** State which factor of production earns **wages**. [1]

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**Watch out:** opportunity cost is the *next best* alternative given up —only *one* thing, not everything you didn't choose. The four factors each earn a reward: land → rent, labour → wages, capital → interest, enterprise → profit.

## Practice

**1.1** Explain what is meant by **scarcity**, using the words *resources* and *wants*. [2]

**1.2** Define **opportunity cost** and give one example. [2]

**1.3** Name the **four** factors of production. [4]

**1.4** State the reward earned by (a) land, (b) labour, (c) capital. [3]

**1.5** A farmer uses a field to grow wheat instead of keeping cattle. State the opportunity cost. [1]

**1.6 Challenge.** A student spends an evening studying instead of working a paid shift or meeting friends. Explain why the opportunity cost is only *one* of these, not both. [2]

Name: A-Level Economics: **w25 14**

**1** What is characterised as a free good?

**A** one that has zero opportunity cost

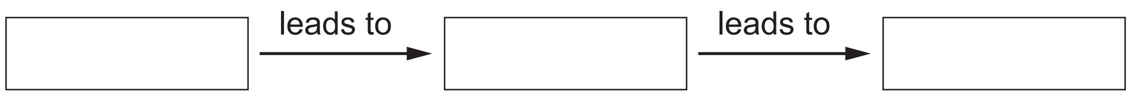
**B** one that is non-excludable and non-rivalrous

**C** one that is supplied by the government with no charge

**D** one that receives a 100% government subsidy

A-Level Economics: **s25 12**

**2** The diagram is from a chapter on 'The Fundamental Economic Problem' in an Economics textbook. It should contain the terms *opportunity cost*, *scarcity* and *choice* in the order that identifies the fundamental economic problem.




What is the correct order for the terms to appear in the diagram?

**A** choice → opportunity cost → scarcity

**B** choice → scarcity → opportunity cost

**C** scarcity → choice → opportunity cost

**D** scarcity → opportunity cost → choice

**6** Which statement defines market equilibrium?

**A** when *ceteris paribus* no longer applies

**B** when quantity demanded equals quantity supplied

**C** when quantity demanded is equal to price

**D** when supply can no longer expand

A-Level Economics: **s25 12**

**1** What is the best definition of a positive economic statement?

**A** A statement that is based on fact and can be tested.

**B** A statement that attempts to influence economic decisions.

**C** A statement that is subjective and cannot be confirmed.

**D** An encouraging economic update in the opinion of the central bank.

A-Level Economics: **Specimen 1**

**1** The demand for a product is inversely related to its price, *ceteris paribus*.

What does *ceteris paribus* mean in this context?

**A** Factors affecting demand other than price are held constant.

**B** Factors affecting price other than demand are held constant.

**C** Price changes result from changes in demand.

**D** Price falls result in increased quantity demanded.

**2** What is meant by the division of labour?

**A** A process is split into a series of individual tasks.

**B** Some workers work part-time and others work full-time.

**C** The same amount of output per hour is produced by each worker.

**D** Wages are divided equally between workers.

A-Level Economics: **w25 14**

**2** Which combination correctly identifies the rewards to each factor of production?

| | capital | enterprise | labour | land |
|---|---|---|---|---|
| **A** | interest | profit | rent | wages |
| **B** | interest | profit | wages | rent |
| **C** | profit | interest | wages | rent |
| **D** | rent | wages | interest | profit |

A-Level Economics: **Specimen 1**

**6** What is **not** an example of the role of the factor enterprise in a modern economy?

**A** deciding on new export markets for the firm's goods and services

**B** making payments to suppliers for raw materials and capital goods

**C** reducing costs through the introduction of a new shift system for employees

**D** transforming the production process with the introduction of technological improvements

# 1 The economic problem – Part 2

Name: ____________ Class: ________ Date: __________

## Vocabulary 词汇

*Write each word three times.* 把每个单词抄写三遍。

| **English** | **中文** | **Write it 3 times** (English) | | |
|---|---|---|---|---|
| production possibility curve | 生产可能性曲线 | | | |
| unemployment | 失业 | | | |
| economic growth | 经济增长 | | | |
| allocate | 配置 | | | |
| market economy | 市场经济 | | | |
| planned economy | 计划经济 | | | |
| mixed economy | 混合经济 | | | |
| price mechanism | 价格机制 | | | |
| private good | 私人物品 | | | |
| public good | 公共物品 | | | |
| national defence | 国防 | | | |
| free-rider problem | 搭便车问题 | | | |
| merit good | 优值品 | | | |
| demerit good | 劣值品 | | | |

## Recall

In **Part 1** you met scarcity, the economic problem, opportunity cost, and the four factors of production. Part 2 adds a **diagram** of an economy's choices, how countries **organise** their economy, and the main **types of good**.

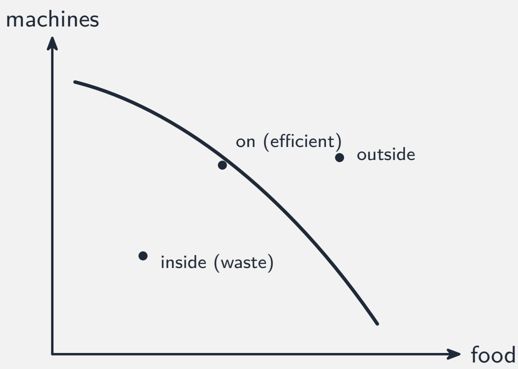
## New ideas

### ■ 1 The production possibility curve

A **production possibility curve** 生产可能性曲线 (PPC) shows the largest combinations of two goods an economy can make when all its resources are fully and well used.

- a point **on** the curve —all resources used, so it is **efficient**;
- a point **inside** the curve —resources are wasted (for example **unemployment** 失业);
- a point **outside** the curve —impossible today, because resources are scarce.

Moving along the curve shows **opportunity cost** —to make more of one good, you give up some of the other. The whole curve shifts **outward** with **economic growth** 经济增长 (more or better resources).




**Micro-check.** What does a point **inside** the PPC show? [1]

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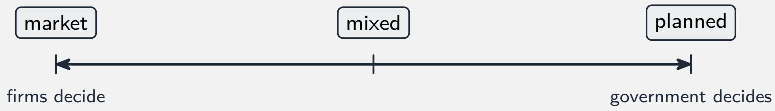
### ■ 2 Economic systems

A country must decide how to **allocate** 配置 (share out) its scarce resources. There are three systems:

- a **market economy** 市场经济—firms and people own resources, and prices decide what is made;
- a **planned economy** 计划经济—the government owns resources and decides what is made;
- a **mixed economy** 混合经济—a blend of the two (almost every real country).

In a market, the **price mechanism** 价格机制 does three jobs: it **signals** where goods are wanted, gives an **incentive** to supply, and **rations** scarce goods to those willing to pay.




**Micro-check.** In which system does the **government** own most resources? [1]

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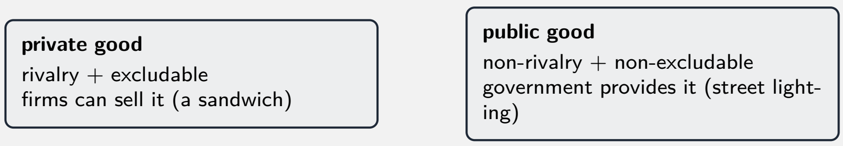
### ■ 3 Types of goods

- a **private good** 私人物品 is scarce: it has **rivalry** (if I use it, you cannot) and is **excludable** (you can be stopped from using it unless you pay);
- a **public good** 公共物品 (street lighting, **national defence** 国防) has **non-rivalry** and **non-excludability**, so private firms cannot make a profit from it (the **free-rider problem** 搭便车问题) —the government must provide it.

A **merit good** 优值品 (like education) is good for you, so people buy too **little**; a **demerit good** 劣值品 (like cigarettes) is harmful, so people buy too **much**.




**Micro-check.** Is education a **merit** or a **demerit** good? [1]

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**Watch out:** on the PPC = efficient; inside = wasteful (e.g. unemployment); outside = impossible now. A *public* good has *both* non-rivalry and non-excludability (the free-rider problem). Merit goods are *under*-consumed; demerit goods *over*-consumed.

## Practice

**1.1** On a PPC, state what each point shows: (a) on the curve, (b) inside the curve, (c) outside the curve. [3]

**1.2** State what causes the whole PPC to shift **outward**. [1]

**1.3** State one difference between a **market economy** and a **planned economy**. [2]

**1.4** State the two features of a **public good**. [2]

**1.5** State whether each is a **merit** or a **demerit** good: (a) health care, (b) alcohol. [2]

**1.6 Challenge.** Explain why a private firm is unlikely to provide street lighting, so the government must instead. [2]

A-Level Economics: **w25 12**

3 What is **not** a characteristic of a planned economy?

**A** Consumers have limited influence on what is produced.

**B** Profit is the motive for increasing output.

**C** Resources are owned by the government.

**D** There is limited competition in the market.

A-Level Economics: **s25 11**

5 How can a public good become a private good?

**A** Consumers are dissatisfied with the performance of state-run services.

**B** New technological developments make the good excludable.

**C** The government privatises the industry producing the good.

**D** The price of the good increases so it becomes more profitable.

A-Level Economics: **Specimen 1**

2 What is likely to be introduced in the market for bus travel if an economy moves from a mixed economy to a market economy?

**A** allowing companies to bid for bus routes

**B** free bus travel for school children

**C** maximum prices for bus travel

**D** subsidies to bus operators

**10** What is an example of direct provision by a government?

**A** The government introduces a subsidy on renewable fuels to help the environment.

**B** The government introduces a unit tax on cigarettes to discourage consumption.

**C** The government sets a maximum rent on housing to protect tenants.

**D** The government takes over a private library to improve local services.

A-Level Economics: **w25 13**

**29** An economy specialises in the production of one product. It exports this product to obtain another product.

Which type of diagram can show the combinations of these products?

**A** the production possibility curve

**B** the aggregate demand curve

**C** the principle of absolute advantage

**D** the trading possibility curve

A-Level Economics: **w25 22**

**3** **(a)** With the help of a diagram, explain the difference between a movement along a production possibility curve (PPC) and a shift of this curve **and** consider whether a decision to produce more of one product will always incur an equal opportunity cost. [8]

**(b)** Assess the extent to which it is always necessary to increase the size of the labour factor of production in order to cause an outward shift of the production possibility curve. [12]

## Section C

Answer **one** question.

**EITHER**

**11** What is a characteristic of a public good?

**A** Households cannot accurately value the benefits of a good.

**B** Households cannot be excluded from consuming the good.

**C** The amount of the good available diminishes as households consume it.

**D** Households are rivals in the consumption of the good.

**13** What is an example of direct public provision of goods and services?

**A** a charity hospital funded by public donations that offers free treatment to the rural poor

**B** a mobile government library that travels to rural villages offering access to books

**C** a private-sector pharmacy that provides treatment directly to the public

**D** a private school that offers free places to children of low income families

A-Level Economics: **s25 11**

**3** Which goods are **least** likely to be allocated by market forces in a mixed economy?

**A** hospitals

**B** railways

**C** street lighting

**D** television programmes

A-Level Economics: **s25 12**

**3** What is a statement of the non-rivalrous nature of public goods?

**A** It is not possible to stop a non-payer from using the product.

**B** One person consuming the product does not reduce the amount of it available to others.

**C** People consume too little of the product because they are unaware of its true benefits.

**D** There is an unlimited supply of the product.

# 2 Price determination – Part 1

Name: ____________ Class: ________ Date: __________

## Vocabulary 词汇

*Write each word three times.* 把每个单词抄写三遍。

| English | 中文 | Write it 3 times (English) | | |
|---|---|---|---|---|
| Demand | 需求 | | | |
| price | 价格 | | | |
| quantity demanded | 需求量 | | | |
| demand curve | 需求曲线 | | | |
| substitute | 替代品 | | | |
| complement | 互补品 | | | |
| Supply | 供给 | | | |
| supply curve | 供给曲线 | | | |
| subsidy | 补贴 | | | |
| equilibrium | 均衡 | | | |
| equilibrium price | 均衡价格 | | | |
| excess demand | 超额需求 | | | |
| shortage | 短缺 | | | |
| excess supply | 超额供给 | | | |

## Recall

In topic 1 you saw that prices guide a market. Bring this with you:

- Buyers want **low** prices; sellers want **high** prices.
- The price settles somewhere in between.

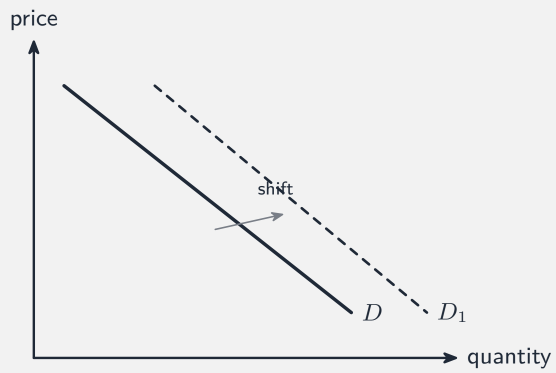
At AS we draw **demand** and **supply** as curves and find the market price where they meet.

## New ideas

### 1 Demand

**Demand** 需求 is how much of a good buyers will buy at each **price** 价格. The **law of demand**: when the price rises, the **quantity demanded** 需求量 falls. So the **demand curve** 需求曲线 slopes **downward**.

A change in the good's own price is a **movement along** the curve. Other causes **shift** the whole curve: income, the price of a **substitute** 替代品 or **complement** 互补品, and tastes.




**Micro-check.** What happens to the quantity demanded when the price rises? [1]

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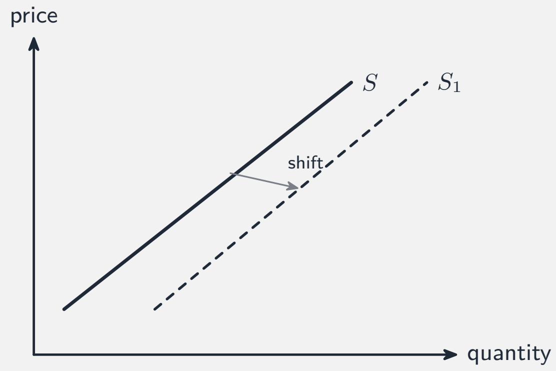
### 2 Supply

**Supply** 供给 is how much of a good sellers will offer at each price. The **law of supply**: when the price rises, the quantity supplied rises (more profit). So the **supply curve** 供给曲线 slopes **upward**.

Other causes shift it: production costs, technology, and a **subsidy** 补贴 (raises supply) or a tax (lowers it).




**Micro-check.** Why does the supply curve slope upward? [1]

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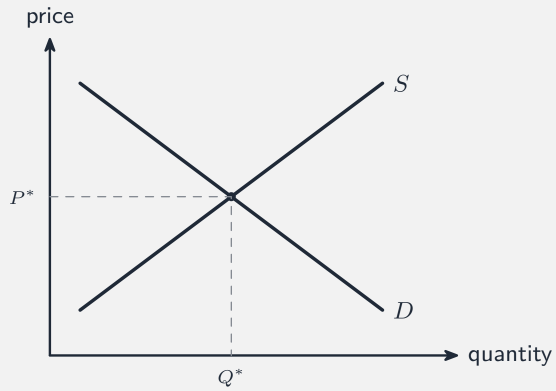
### ■ 3 Equilibrium

The market settles at **equilibrium** 均衡, where the demand curve crosses the supply curve. This gives the **equilibrium price** 均衡价格, where the amount demanded equals the amount supplied.

- if the price is **too low** → **excess demand** 超额需求 (a **shortage** 短缺), so the price is pushed up;
- if the price is **too high** → **excess supply** 超额供给, so the price is pushed down.




**Micro-check.** At equilibrium, what is true about quantity demanded and quantity supplied? [1]

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**Watch out:** a change in the good's *own* price *moves along* the curve; any *other* cause (income, related-good prices, tastes, costs) *shifts* the whole curve. Below equilibrium → shortage (price rises); above → surplus (price falls).

## Practice

**2.1** State the **law of demand**. [1]

**2.2** Give **one** cause that would shift the **demand** curve to the right. [1]

**2.3** State the **law of supply**, and say why it holds. [2]

**2.4** Explain what is meant by the **equilibrium price**. [2]

**2.5** A price is set **below** the equilibrium. State what this causes, and what then happens to the price. [2]

**2.6 Challenge.** The price of coffee beans (a key input) rises sharply. Using demand and supply, explain what happens to the supply of coffee and to its equilibrium price. [2]

**4** A student chooses to study for a degree in engineering at university rather than take a job working as an apprentice engineer. The apprenticeship lasts five years and involves training while working.

What will decrease the opportunity cost of this choice?

**A** a decrease in the wages paid to apprentice engineers

**B** a decrease in the number of students studying engineering degrees

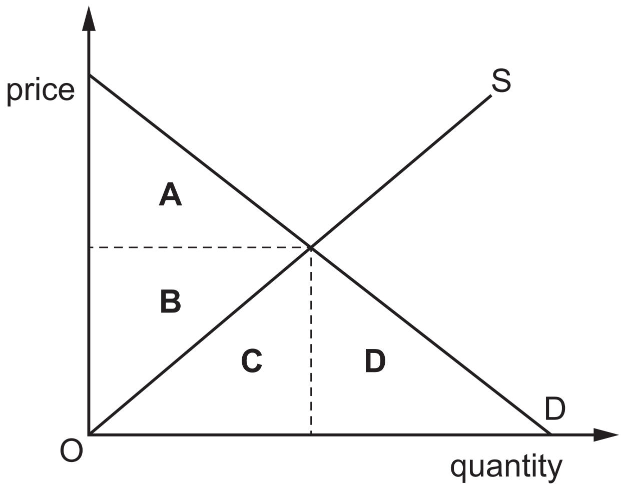
**C** a decrease in the number of top grade engineering degrees awarded

**D** a decrease in the length of an engineering apprenticeship to four years

A-Level Economics: **s25 11**

**10** The diagram shows the demand for and supply of a product.

Which area shows producer surplus?




A-Level Economics: **s25 12**

**9** An increase in which variable will **always** lead to an increase in the consumer surplus?

**A** cost of production

**B** maximum price

**C** minimum price

**D** subsidy

**8** Which statement is true if the income elasticity of demand for a good has a value of –0.2?

**A** When income rises less of the good is bought.

**B** When income rises more of the good is bought.

**C** When price falls more of the good is bought.

**D** When price rises less of the good is bought.

A-Level Economics: **s25 12**

**7** When can a product be said to have a negative income elasticity of demand?

**A** When it is a luxury good.

**B** When it is a necessity good.

**C** When it is a normal good.

**D** When it is an inferior good.

**11** An indirect tax is imposed on good X.

Which situation is most likely to result in producers bearing a higher burden of the tax?

**A** price elasticity of demand is elastic

**B** price elasticity of demand is inelastic

**C** price elasticity of supply is elastic

**D** price elasticity of supply is inelastic

# 2 Price determination – Part 2

Name: ____________ Class: ________ Date: __________

## Vocabulary 词汇

*Write each word three times.* 把每个单词抄写三遍。

| English | 中文 | Write it 3 times (English) | | |
|---|---|---|---|---|
| Price elasticity of demand | 需求价格弹性 | | | |
| elastic | 富有弹性 | | | |
| inelastic | 缺乏弹性 | | | |
| total revenue | 总收益 | | | |
| income elasticity of demand | 需求收入弹性 | | | |
| normal good | 正常品 | | | |
| inferior good | 低档品 | | | |
| cross elasticity of demand | 需求交叉弹性 | | | |
| substitutes | 替代品 | | | |
| complements | 互补品 | | | |
| consumer surplus | 消费者剩余 | | | |
| producer surplus | 生产者剩余 | | | |

## Recall

In **Part 1** you met demand, supply, and the **equilibrium price** where they meet. Part 2 looks at how strongly demand reacts to a change (**elasticity**), and the gains buyers and sellers get (**surplus**).

## New ideas

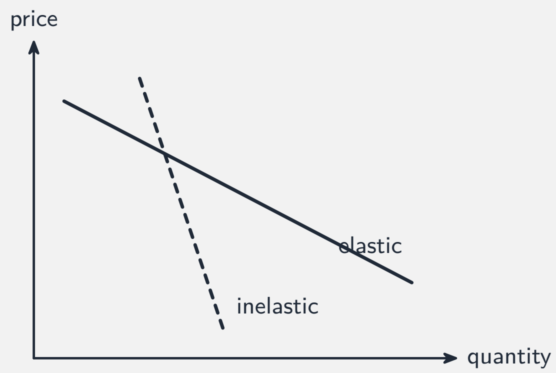
### 1 Price elasticity of demand

**Price elasticity of demand** 需求价格弹性 (PED) measures how much the quantity demanded reacts when the price changes:

$$\text{PED} = \frac{\%\text{ change in quantity demanded}}{\%\text{ change in price}}.$$

- demand is **elastic** 富有弹性 when PED is more than 1 —quantity reacts a **lot**;
- demand is **inelastic** 缺乏弹性 when PED is less than 1 —quantity reacts only a **little**.

PED and **total revenue** 总收益 (= price × quantity): if demand is **inelastic**, raising the price raises revenue; if **elastic**, cutting the price raises revenue.




**Micro-check.** Price rises 10% and quantity falls 30%. Is demand elastic or inelastic? [1]

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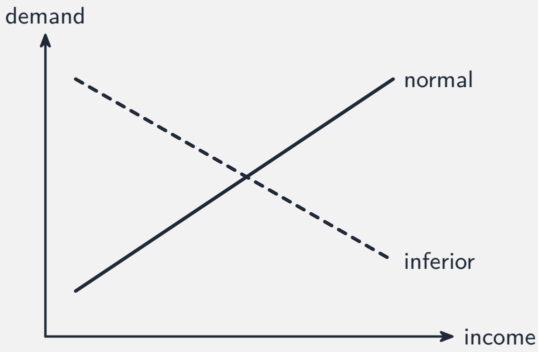
### 2 Income and cross elasticity

- **income elasticity of demand** 需求收入弹性 (YED) measures how demand reacts to a change in income. A **normal good** 正常品 has **positive** YED (demand rises as income rises); an **inferior good** 低档品 has **negative** YED (demand falls as income rises —people switch to better goods).
- **cross elasticity of demand** 需求交叉弹性 (XED) is **positive** for **substitutes** 替代品 and **negative** for **complements** 互补品.




**Micro-check.** Cheap instant noodles sell **less** as people get richer. Are they a normal or inferior good? [1]

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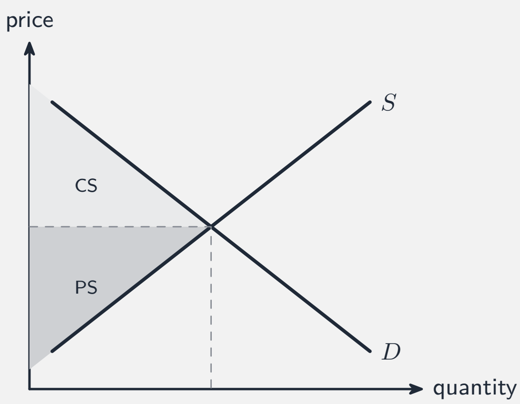
### ■ 3 Consumer and producer surplus

- **consumer surplus** 消费者剩余 is the gain to buyers —the difference between the most they would have paid and the price they actually pay;
- **producer surplus** 生产者剩余 is the gain to sellers —the difference between the price they get and the least they would have accepted.




**Micro-check.** You would pay \$10 for a book but buy it for \$7. State your consumer surplus. [1]

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**Watch out:** PED = %ΔQ ÷ %ΔP; if *elastic* (> 1) cut the price to raise revenue, if *inelastic* (< 1) raise it. Normal goods have *positive* YED, inferior goods *negative*; substitutes have *positive* XED, complements *negative*.

## Practice

**2.1** The price of a good rises by 20% and the quantity demanded falls by 10%. Find the **PED**, and state whether demand is elastic or inelastic. [2]

**2.2** A firm sells a good with **inelastic** demand. State what happens to its total revenue if it **raises** the price. [1]

**2.3** State whether each is a **normal** or an **inferior** good: (a) restaurant meals (demand rises with income); (b) bus travel (demand falls with income). [2]

**2.4** State the sign of the **XED** (positive or negative) for (a) substitutes, (b) complements. [2]

**2.5** Explain what **consumer surplus** is. [2]

**2.6 Challenge.** A 10% rise in the price of tea causes a 15% rise in the demand for coffee. Find the XED, and state what it shows about the two goods. [2]

**6** Which factor affects the price elasticity of supply of a product?

**A** availability of stocks

**B** percentage of income spent on the product

**C** price of substitutes

**D** wage rate



**8** What would best explain why the price elasticity of supply (PES) is likely to be lower for fresh vegetables grown within a country compared to the PES of goods manufactured in that country?

**A** Alternative supplies can be flown in from foreign producers.

**B** A positive price change encourages a positive output change along the supply curve.

**C** Fresh vegetables has a horizontal supply curve.

**D** There is a seasonal time lag involved in planting and harvesting more fresh vegetables.



**8** A firm establishes that the price elasticity of supply of its product has a value of 0.3.

What is likely to be true about the firm?

**A** It has unused productive capacity.

**B** It has a lot of stock of its product.

**C** It uses a high proportion of perishable raw materials.

**D** It uses factors of production that are easily substituted.

**12** A government gives a subsidy to a producer of a product.

What will be the likely effect of this?

**A** a shift to the left in the demand curve and a rise in equilibrium quantity

**B** a shift to the left in the supply curve and a rise in equilibrium quantity

**C** a shift to the right in the demand curve and a fall in equilibrium price

**D** a shift to the right in the supply curve and a fall in equilibrium price

A-Level Economics: **s25 11**

**6** What is **not** a function of the price mechanism?

**A** to act as a signal to firms when allocating resources

**B** to maximise consumer surplus

**C** to provide an incentive to firms to produce goods

**D** to ration scarce resources

A-Level Economics: **Specimen 1**

**10** The demand for a good falls at the same time as its costs of production decrease.

What will be the combined effect of these changes on the price and on the quantity supplied of the good?

| | price | quantity supplied |
|---|---|---|
| **A** | decrease | decrease |
| **B** | decrease | uncertain |
| **C** | uncertain | decrease |
| **D** | uncertain | uncertain |

**11** A government imposes a specific indirect tax on a product.

When will the tax cause the greatest reduction in consumer surplus for the buyers of the product?

**A** When the product has price elastic demand and price elastic supply.

**B** When the product has price elastic demand and price inelastic supply.

**C** When the product has price inelastic demand and price elastic supply.

**D** When the product has price inelastic demand and price inelastic supply.

**12** The table shows the maximum amount three students would each be willing to pay for a taxi to take them home from a nightclub.

| | $ |
|---|---|
| Jane | 10.00 |
| Sara | 8.00 |
| Yasmin | 6.00 |

The fare for the taxi is $12. Assume they share the taxi fare as shown in the table below.

Which row shows how much they each should pay so that they each obtain the same consumer surplus?

| | Jane $ | Sara $ | Yasmin $ |
|---|---|---|---|
| **A** | 2.00 | 4.00 | 6.00 |
| **B** | 4.00 | 4.00 | 4.00 |
| **C** | 5.00 | 4.00 | 3.00 |
| **D** | 6.00 | 4.00 | 2.00 |

# 3 Market failure – Part 1

Name: ______________ Class: __________ Date: ____________

## Vocabulary 词汇

*Write each word three times.* 把每个单词抄写三遍。

| English | 中文 | Write it 3 times (English) | | |
|---|---|---|---|---|
| Market failure | 市场失灵 | | | |
| allocate | 配置 | | | |
| externality | 外部性 | | | |
| third party | 第三方 | | | |
| negative externality | 负外部性 | | | |
| social cost | 社会成本 | | | |
| private cost | 私人成本 | | | |
| positive externality | 正外部性 | | | |
| public good | 公共物品 | | | |
| national defence | 国防 | | | |
| free-rider problem | 搭便车问题 | | | |
| merit good | 优值品 | | | |
| demerit good | 劣值品 | | | |
| information failure | 信息失灵 | | | |

## Recall

In topics 1–2 you saw markets set prices and usually work well. Bring this with you:

- A market lets buyers and sellers meet, and the price guides them.
- But the result is not always best for **society** as a whole.

At AS we study **market failure** —when a free market makes too much or too little of a good.

## New ideas

### ■ 1 What market failure is

**Market failure** 市场失灵 is when a free market does not **allocate** 配置 (share out) resources efficiently —**too much** or **too little** of a good is made. Then the government may step in to fix it.

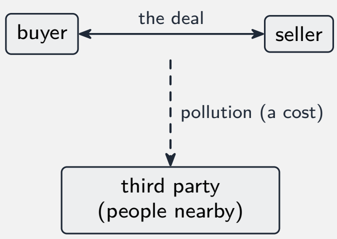
**Micro-check.** State what is meant by market failure. [1]

---

### ■ 2 Externalities

An **externality** 外部性 is a cost or a benefit that falls on a **third party** 第三方—someone who is not the buyer or the seller.

- a **negative externality** 负外部性 (like pollution from a factory): the **social cost** 社会成本 (to everyone) is bigger than the **private cost** 私人成本 (to the producer), so the market makes **too much**;
- a **positive externality** 正外部性 (like a vaccination that protects others too): the market makes **too little**, because buyers ignore the benefit to others.




**Micro-check.** A factory pollutes a river. Is this a negative or a positive externality? [1]

---

### ■ 3 Public, merit and demerit goods

- a **public good** 公共物品 (street lighting, **national defence** 国防) cannot shut out non-payers, so private firms make no profit and supply none —the **free-rider problem** 搭便车问题;

- a **merit good** 优值品 (like education) is **under-consumed** —people buy too little;
- a **demerit good** 劣值品 (like cigarettes) is **over-consumed** —people buy too much, because of **information failure** 信息失灵 (they misjudge the harm).


**Micro-check.** Is education a merit or a demerit good? [1]

---

**Watch out:** a *negative* externality (pollution) → social cost > private cost → market makes *too much*; a *positive* externality (vaccination) → market makes *too little.* Merit goods are under-consumed; demerit goods over-consumed.

## Practice

**3.1** Explain what is meant by **market failure**. [2]

**3.2** A factory's smoke harms people living nearby. State the type of externality, and whether the market makes too much or too little. [2]

**3.3** Explain why private firms will not supply a **public good**. [2]

**3.4** State whether each is **under-** or **over**-consumed: (a) a merit good; (b) a demerit good. [2]

**3.5** Give one example of (a) a merit good and (b) a demerit good. [2]

**3.6 Challenge.** A coal-burning power station causes pollution. Explain why the free market produces *too much* electricity, using the ideas of private and social cost. [2]

**16** A government intervenes in the market for good X. It fixes a minimum price above the market equilibrium.

Which situation explains why the government would do this?

| | good X | reason for intervention |
|---|---|---|
| **A** | demerit good | to decrease consumption |
| **B** | demerit good | to increase consumption |
| **C** | merit good | to decrease consumption |
| **D** | merit good | to increase consumption |



**29** In which economic context is the term 'protectionism' usually applied?

**A** the protection of consumers against excessive prices

**B** the protection of employees against exploitation by multinational companies

**C** the protection of local producers against international competitors

**D** the protection of the foreign exchange rate against currency speculators

# 3 Market failure – Part 2

Name: ______________ Class: __________ Date: ____________

## Vocabulary 词汇

*Write each word three times.* 把每个单词抄写三遍。

| English | 中文 | Write it 3 times (English) | | |
|---|---|---|---|---|
| indirect tax | 间接税 | | | |
| subsidy | 补贴 | | | |
| maximum price | 最高限价 | | | |
| shortage | 短缺 | | | |
| minimum price | 最低限价 | | | |
| regulation | 管制 | | | |
| state provision | 政府提供 | | | |
| Government failure | 政府失灵 | | | |

## Recall

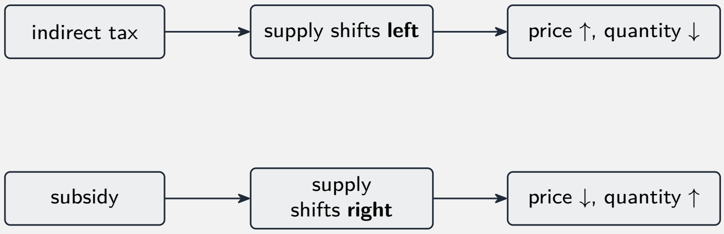
In **Part 1** you met market failure, externalities, and public, merit and demerit goods. Part 2 looks at how the **government** tries to fix market failure.

## New ideas

### ■ 1 Indirect taxes and subsidies

- an **indirect tax** 间接税 is a tax on spending. It raises a firm's costs, so the supply curve shifts **left** —the price rises and the quantity falls. Governments tax **demerit goods** (like tobacco) and goods with negative externalities;
- a **subsidy** 补贴 is a government payment to producers. It lowers their costs, so supply shifts **right** —the price falls and the quantity rises. Subsidies are used for

merit goods and positive externalities.

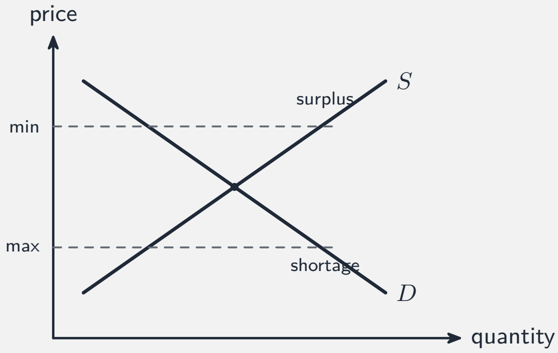



**Micro-check.** State what an indirect tax does to the **price** of a good. [1]

---

## 2 Maximum and minimum prices

- a **maximum price** 最高限价 is a legal top price set **below** equilibrium (for example rent control). The quantity demanded is greater than the quantity supplied, so there is a **shortage** 短缺;
- a **minimum price** 最低限价 is a legal bottom price set **above** equilibrium (for example a minimum wage). The quantity supplied is greater than the quantity demanded, so there is excess supply.




**Micro-check.** A maximum price is set below the equilibrium. State what this causes. [1]

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## 3 Other methods, and government failure

- **regulation** 管制—rules and laws, such as bans, age limits and pollution limits;
- **state provision** 政府提供—the government supplies the good directly (schools, hospitals).

But intervention does not always help. **Government failure** 政府失灵 is when the government's action makes the use of resources **worse** —for example, a maximum price can create an illegal black market.

**Micro-check.** State what is meant by government failure. [1]

**Watch out:** an indirect tax shifts supply *left* (price up, quantity down) —used on demerit goods; a subsidy shifts supply *right* (price down, quantity up) —used on merit goods. A maximum price (below equilibrium) → shortage; a minimum (above) → surplus. Government failure = the cure makes things worse.

## Practice

**3.1** State the effect of an **indirect tax** on (a) supply and (b) the price of a good. [2]

**3.2** State **one** type of good a government would **subsidise**, and why. [2]

**3.3** A government sets a **maximum** price below equilibrium. State what this causes. [1]

**3.4** A government sets a **minimum** price above equilibrium. State what this causes. [1]

**3.5** Give **one** example of government failure. [2]

**3.6 Challenge.** A government puts a high tax on cigarettes. Explain how the tax reduces the quantity bought, and one reason it might still fail to cut smoking much. [2]

**14** Why might a government introduce a minimum price for a product?

**A** to benefit poorer consumers

**B** to encourage consumption of a merit good

**C** to encourage production of a public good

**D** to support the incomes of producers

A-Level Economics: **w25 12**

**24** What is the most likely reason for a government to introduce a progressive tax?

**A** to discourage the consumption of a particular good

**B** to distribute disposable income more evenly

**C** to increase the disposable income of households

**D** to reduce demand for healthcare services

A-Level Economics: **w25 13**

**4** Which change in the way resources are allocated in an economy is consistent with moving from a planned economy to a market economy?

**A** A minimum price guarantee for apple producers is removed.

**B** A new government authority is established to monitor inefficiencies in apple production.

**C** The production of apples is subsidised to increase output.

**D** The sale of apples has a maximum price imposed.

A-Level Economics: **w25 14**

**15** What is **not** true about subsidies?

**A** They are paid to firms.

**B** They have to be paid back.

**C** They reduce the cost of production.

**D** They shift the supply curve to the right.

**2** A country with a market economy changes to a mixed economy.

When is this change likely to achieve the largest improvement in resource allocation?

| | number of demerit goods in the country | Gini coefficient value for the country |
|---|---|---|
| **A** | many | 0.4 |
| **B** | many | 0.7 |
| **C** | few | 0.4 |
| **D** | few | 0.7 |



**9** What is a major function of the price mechanism?

**A** providing incentives for government intervention to reduce income inequality

**B** removing shortages by creating incentives for market prices to fall

**C** removing surpluses by creating incentives for market prices to rise

**D** signalling changes in market conditions to producers and consumers

# 4 Measuring the economy – Part 1

Name: ____________ Class: ________ Date: __________

## Vocabulary 词汇

*Write each word three times.* 把每个单词抄写三遍。

| English | 中文 | Write it 3 times (English) | | |
|---|---|---|---|---|
| macroeconomics | 宏观经济学 | | | |
| Gross domestic product | 国内生产总值 | | | |
| real | 实际 | | | |
| nominal | 名义 | | | |
| per capita | 人均 | | | |
| standard of living | 生活水平 | | | |
| circular flow of income | 收入循环流 | | | |
| Households | 家庭 | | | |
| firms | 企业 | | | |
| leakages | 漏出 | | | |
| injections | 注入 | | | |
| Aggregate demand | 总需求 | | | |
| consumption | 消费 | | | |
| investment | 投资 | | | |
| Aggregate supply | 总供给 | | | |

| English | 中文 | Write it 3 times (English) |
|---|---|---|
| price level | 价格水平 | |

## Recall

So far you studied single markets. Bring this with you:

- One market has its own demand, supply and price.
- A whole country has **many** markets at once.

At AS, **macroeconomics** 宏观经济学 looks at the **whole** economy together —its total output, jobs and prices.

## New ideas

### ■ 1 Measuring the economy

**Gross domestic product** 国内生产总值 (GDP) is the value of all goods and services made **inside** a country in a year. Two cautions:

- **real** 实际 GDP removes the effect of rising prices, so it shows the true change in output; **nominal** 名义 GDP does not. Always compare **real** values;
- **per capita** 人均 GDP divides by the population, giving the average **per person** —better for the **standard of living** 生活水平.

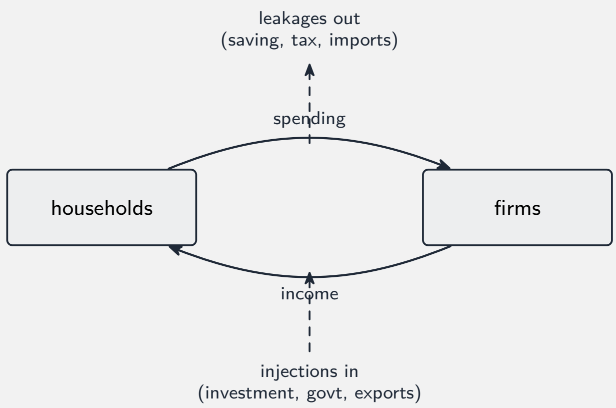
**Micro-check.** Why should you compare **real** GDP, not nominal? [1]

### ■ 2 The circular flow of income

The **circular flow of income** 收入循环流 shows money moving round the economy. **Households** 家庭 supply factors of production to **firms** 企业 and get income; they spend it, and the money flows back to firms.

Money also leaves and enters the flow:

- **leakages** 漏出 take money **out**: saving, taxation, and spending on imports;
- **injections** 注入 put money **in**: investment, government spending, and exports.



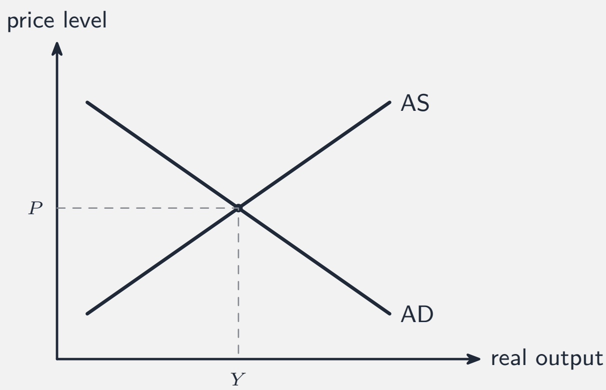

**Micro-check.** Is **saving** a leakage or an injection? [1]

---

## 3 Aggregate demand and supply

**Aggregate demand** 总需求 (AD) is total spending in the economy: $AD = C + I + G + (X - M)$ —**consumption** 消费, **investment** 投资, government spending, and net exports. The AD curve slopes down.

**Aggregate supply** 总供给 (AS) is total output firms will make. The economy settles where AD crosses AS, setting the **price level** 价格水平 and real output.




**Micro-check.** State the four parts of aggregate demand (AD). [1]

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**Watch out:** compare *real* GDP (it removes inflation), and *per-capita* GDP for living standards. Leakages (saving, tax, imports) take money *out*; injections (investment, government spending, exports) put it *in*. $AD = C + I + G + (X - M)$.

## Practice

**4.1** State what **GDP** measures. [1]

**4.2** Explain the difference between **real** and **nominal** GDP. [2]

**4.3** State whether each is a **leakage** or an **injection**: (a) taxation, (b) investment, (c) exports. [3]

**4.4** Write out the four parts of **aggregate demand**. [2]

**4.5** State what AD and AS together set when they cross. [1]

**4.6 Challenge.** A country's nominal GDP rose by 8% but inflation was 6%. Roughly what was the real growth, and why does the difference matter? [2]

**27** What is an example of primary income in the current account of the balance of payments of Pakistan?

**A** dividends received by a Pakistani resident from shares in a domestic firm

**B** profits of Pakistani businesses exporting goods

**C** rent received by a Pakistani resident from a property in another country

**D** salary received by a Pakistani engineer from a foreign-owned producer operating in Pakistan

A-Level Economics: **s25 11**

**16** Which statement correctly describes an increase in real GDP?

**A** Nominal GDP rising faster than nominal income.

**B** Nominal GDP rising faster than the rate of inflation.

**C** The rate of inflation rising faster than aggregate demand.

**D** The rate of inflation rising faster than nominal income.

**26** Why does the value of a country's terms of trade have no monetary units?

**A** It cannot be calculated accurately enough.

**B** It includes more than one currency.

**C** It is a ratio of two index numbers.

**D** It measures change over time.

A-Level Economics: **s25 12**

**12** What would **not** be included in the calculation of an individual's wealth?

**A** the house owned by the individual

**B** the savings in the individual's bank account

**C** the stocks and shares owned by the individual

**D** the wages earned by the individual

**1** What is an example of a normative statement?

**A** Government expenditure is an injection into the circular flow of income.

**B** Government expenditure in India in 2022 was 29% of gross domestic product.

**C** The best policy measure to reduce inflation is a reduction in government expenditure.

**D** The United States of America is the country with the highest military expenditure.

**15** What is an example of an injection into the circular flow of income in an open economy?

**A** consumer spending on goods

**B** expenditure on a government construction project

**C** spending by households on holidays abroad

**D** repayment of loans to commercial banks

A-Level Economics: **w25 13**

**13** Assuming demand is price elastic, what will rise the most if an indirect tax is removed?

**A** consumer expenditures

**B** price of the product

**C** producers' revenues

**D** tax receipts

A-Level Economics: **s25 11**

**15** What is an example of a transfer payment?

**A** a household moving savings from one bank account to another

**B** a monthly repayment on a loan used to buy a new cooker

**C** the amount paid to transport goods from one city to another

**D** grants paid to students by the government

**22** What is the effect of an increase in the money supply on the interest rate and the aggregate demand (AD) curve?

| | interest rate | AD curve |
|---|---|---|
| **A** | falls | shifts left |
| **B** | rises | shifts left |
| **C** | falls | shifts right |
| **D** | rises | shifts right |

A-Level Economics: **s25 11**

**19** Which statement is **not** correct?

**A** The long-run aggregate supply curve can be downward sloping.

**B** The long-run aggregate supply curve can be horizontal.

**C** The long-run aggregate supply curve can be upward sloping.

**D** The long-run aggregate supply curve can be vertical.

A-Level Economics: **s25 12**

**18** The aggregate demand curve is typically downward sloping.

What is one possible explanation for this?

**A** A fall in the price level will lead to a rise in demand for imports.

**B** As the price level falls, improved productivity will reduce unit costs.

**C** If the price level is high, any interest rate changes will encourage consumption.

**D** The real value of assets increases as the price level falls.

# 4 Measuring the economy – Part 2

Name: ______ Class: ______ Date: ______

## Vocabulary 词汇

*Write each word three times.* 把每个单词抄写三遍。

| English | 中文 | Write it 3 times (English) | | |
|---|---|---|---|---|
| Economic growth | 经济增长 | | | |
| business cycle | 经济周期 | | | |
| boom | 繁荣 | | | |
| recession | 衰退 | | | |
| Unemployment | 失业 | | | |
| frictional unemployment | 摩擦性失业 | | | |
| structural unemployment | 结构性失业 | | | |
| cyclical unemployment | 周期性失业 | | | |
| Inflation | 通货膨胀 | | | |
| purchasing power | 购买力 | | | |
| consumer price index | 消费者价格指数 | | | |
| demand-pull inflation | 需求拉动型通货膨胀 | | | |
| cost-push inflation | 成本推动型通货膨胀 | | | |

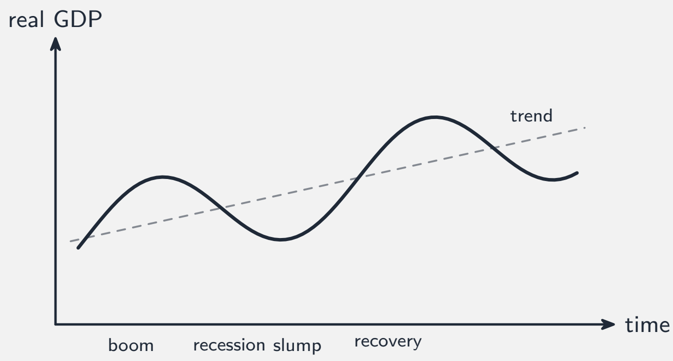
## Recall

In **Part 1** you met GDP, the circular flow of income, and aggregate demand and supply. Part 2 looks at how the economy **grows** and **swings** (the business cycle), and at two big problems —**unemployment** and **inflation**.

## New ideas

### ■ 1 Economic growth and the business cycle

**Economic growth** 经济增长 is a rise in a country's real GDP over time. But output does **not** grow smoothly. The **business cycle** 经济周期 is the up-and-down pattern of output, with four phases: **boom** 繁荣 (fast growth), **recession** 衰退 (falling output), slump (the low point), and recovery —all around a rising long-run trend.



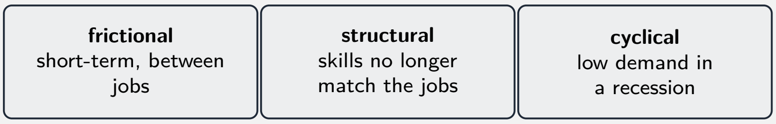

**Micro-check.** Name the phase of the business cycle where output is **falling**. [1]

---

### ■ 2 Unemployment

**Unemployment** 失业 means people who are able and willing to work, and looking for a job, but cannot find one. The main types:

- **frictional unemployment** 摩擦性失业—short-term, while people move between jobs;
- **structural unemployment** 结构性失业—an industry declines, so workers' skills no longer match the jobs;
- **cyclical unemployment** 周期性失业—caused by low demand in a recession (usually the largest type).




**Micro-check.** Which type of unemployment rises most in a recession? [1]

---

### ■ 3 Inflation

**Inflation** 通货膨胀 is a sustained rise in the general price level. Money then buys less —its **purchasing power** 购买力 falls. It is measured by the **consumer price index** 消费者价格指数 (CPI), the cost of a ”basket” of everyday goods.

Two causes:

- **demand-pull inflation** 需求拉动型通货膨胀—aggregate demand rises faster than supply (”too much money chasing too few goods”);
- **cost-push inflation** 成本推动型通货膨胀—firms’ costs rise (wages, raw materials), so they raise prices.


**Micro-check.** Inflation caused by rising wages and material costs is which type? [1]

**Watch out:** frictional unemployment = between jobs (short); structural = skills no longer match (an industry declines); cyclical = low demand in a recession (usually largest). Demand-pull inflation = demand rising too fast; cost-push = firms’ costs rising.

## Practice

**4.1** State what is meant by **economic growth**. [1]

**4.2** Name the four phases of the **business cycle**, in order. [2]

**4.3** State which type of unemployment each describes: (a) caused by a recession; (b) caused when an industry closes and skills no longer fit. [2]

**4.4** State what happens to the **purchasing power** of money during inflation. [1]

**4.5** State one difference between **demand-pull** and **cost-push** inflation. [2]

**4.6 Challenge.** A factory town's main industry closes, and the workers cannot find new jobs because their skills do not fit other work. Name this type of unemployment and explain it. [2]

**22** What is **not** a government macroeconomic policy objective?

**A** economic growth

**B** income equality

**C** low unemployment

**D** price stability

A-Level Economics: **w25 12**

**25** What is the **least** likely consequence of rapid economic growth?

**A** high levels of pollution

**B** large deficit on the current account of the balance of payments

**C** large deficit in the government’s budget balance

**D** more congestion on the roads

A-Level Economics: **w25 13**

**3** What would be an opportunity cost of growth in an economy?

**A** the faster growth of services than of manufacturing

**B** the need for an increased level of imported raw materials

**C** the need for greater government intervention

**D** the reduction of consumption if growth requires investment

A-Level Economics: **w25 14**

**17** What is required to prevent a rising price level due to an increase in aggregate demand?

**A** Additional productive capacity must be created.

**B** Government investment must remain at a constant level to stabilise supply.

**C** Greater reliance must be placed on imported goods to overcome any domestic shortfalls.

**D** Wage rates must change more frequently to maintain levels of employment and output.

A-Level Economics: **w25 11**

**26** A country's currency depreciates in terms of other currencies.

What would be a consequence of this depreciation?

**A** There would be a decrease in structural unemployment.

**B** There would be a decrease in the volume of exports.

**C** There would be an increase in cost-push inflationary pressure.

**D** There would be an increase in the budget deficit.

A-Level Economics: **s25 11**

**18** An economy's manufacturing share of real GDP fell from 30% in 1990 to 12% in 2023.

Which type of unemployment would have resulted from this?

**A** cyclical

**B** frictional

**C** structural

**D** voluntary

A-Level Economics: **s25 12**

**19** What is most likely to cause an unemployed worker to be classified as frictionally unemployed?

**A** lack of relevant skills for vacant jobs

**B** lack of up-to-date job vacancy information

**C** greater use of technology in the production process

**D** an increase in regional pay inequality

**27** The terms of trade of a developing country fell from 90 in 2010 to 80 in 2015.

Assuming the index of its import prices remained constant at 110 between these two years, what happened to its index of export prices?

**A** fell by 10

**B** fell by 11

**C** increased by 10

**D** increased by 30

A-Level Economics: **w25 22**

**5** **(a)** With the help of an aggregate demand and aggregate supply (AD/AS) diagram, explain why **two** components of AD may increase **and** consider the extent to which an increase in AD will always lead to inflation. [8]

**(b)** Assess the view that the effects of a high rate of inflation are always more damaging for consumers than for firms. [12]

A-Level Economics: **s25 12**

**16** Price stability can be said to occur if the measured value of the consumer prices index (CPI) is unchanged during the year.

Which statement is correct?

**A** For price stability to occur, there must be no changes in prices of any products.

**B** For price stability to occur, the number of products whose prices rise must exactly match the number whose prices fall.

**C** If some prices rise and others fall, there cannot be price stability.

**D** Different weightings of items used in the calculation of CPI mean that price stability can occur in many ways.

# 5 Government macroeconomic policy – Part 1

Name: ______________ Class: __________ Date: ____________

## Vocabulary 词汇

*Write each word three times.* 把每个单词抄写三遍。

| English | 中文 | Write it 3 times (English) | | |
|---|---|---|---|---|
| price stability | 物价稳定 | | | |
| inflation | 通货膨胀 | | | |
| full employment | 充分就业 | | | |
| economic growth | 经济增长 | | | |
| balance of payments | 国际收支 | | | |
| conflict | 冲突 | | | |
| Fiscal policy | 财政政策 | | | |
| expansionary | 扩张性 | | | |
| contractionary | 紧缩性 | | | |
| budget deficit | 预算赤字 | | | |
| budget surplus | 预算盈余 | | | |
| direct tax | 直接税 | | | |
| indirect tax | 间接税 | | | |
| progressive | 累进税 | | | |

| English | 中文 | Write it 3 times (English) |
|---|---|---|
| regressive | 累退税 | |

## Recall

In topic 4 you met GDP, aggregate demand and supply, unemployment and inflation. Bring this with you:

- Output, jobs and prices can all go wrong in an economy.
- Aggregate demand (AD) is total spending: $C + I + G + (X - M)$.

At AS we study how the **government** tries to steer the whole economy.

## New ideas

### 1 Macroeconomic policy objectives

A government usually has five main aims:

- **price stability** 物价稳定—low, steady **inflation** 通货膨胀;
- **full employment** 充分就业—jobs for almost everyone who wants one;
- **economic growth** 经济增长—rising real output;
- **balance of payments** 国际收支 stability;
- a fairer spread of income.

These can **conflict** 冲突—for example, raising demand to cut unemployment can pull prices up (more inflation).

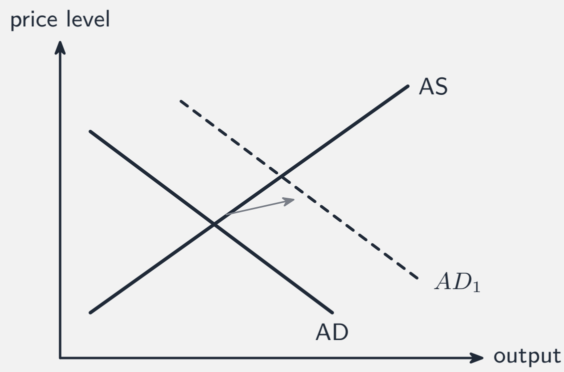
**Micro-check.** Name **two** macroeconomic policy objectives. [1]

### 2 Fiscal policy

**Fiscal policy** 财政政策 is the use of government **spending** and **taxation** to influence the economy.

- **expansionary** 扩张性 fiscal policy raises spending or cuts taxes → AD rises (to fight a recession);
- **contractionary** 紧缩性 fiscal policy cuts spending or raises taxes → AD falls (to fight inflation).

A **budget deficit** 预算赤字 is when spending is greater than tax revenue (the government must borrow). A **budget surplus** 预算盈余 is the opposite.



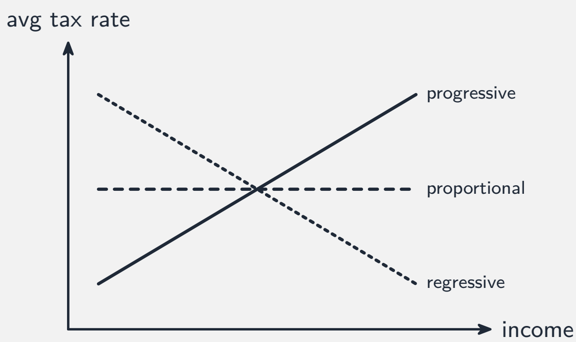

**Micro-check.** Which kind of fiscal policy would fight a **recession** —expansionary or contractionary? [1]

---

## ■ 3 Direct and indirect taxes

- a **direct tax** 直接税 is paid straight to the government on income or profit (income tax);
- an **indirect tax** 间接税 is a tax on spending (added to a good's price).

Taxes can also be **progressive** 累进税 (the rate **rises** with income —the rich pay a larger share), proportional, or **regressive** 累退税 (the rate **falls** as income rises).




**Micro-check.** Income tax on a person's earnings is a **direct** or an **indirect** tax? [1]

---

**Watch out:** expansionary fiscal policy (more spending / lower taxes) *raises* AD to fight a recession; contractionary (less spending / higher taxes) *lowers* AD to fight inflation. Direct tax = on income/profit; indirect tax = on spending. Objectives can *conflict*.

## Practice

**5.1** State **two** of the government's macroeconomic objectives. [2]

**5.2** Define **fiscal policy**. [2]

**5.3** A government wants to **raise** aggregate demand. State **one** fiscal action it could take. [1]

**5.4** State the difference between a **budget deficit** and a **budget surplus**. [2]

**5.5** State whether each is a **direct** or an **indirect** tax: (a) income tax; (b) a tax added to the price of petrol. [2]

**5.6 Challenge.** A government cuts taxes to reduce unemployment. Explain why this might also push up inflation. [2]

**24** A government reduces its expenditure on workplace training, increases the level of indirect taxes and reduces the rate of interest it pays on government debt.

How would these government macroeconomic policies be categorised?

| | supply-side | fiscal | monetary | |
|---|---|---|---|---|
| **A** | con | con | exp | key |
| **B** | exp | con | con | con = contractionary |
| **C** | con | exp | exp | exp = expansionary |
| **D** | exp | exp | con | |

**25** The government of a country reduces its budget deficit by cutting government spending. At the same time, the central bank raises the interest rates.

When might this combination of policies be used?

| | inflation rate | unemployment rate |
|---|---|---|
| **A** | high | high |
| **B** | high | low |
| **C** | low | high |
| **D** | low | low |

A-Level Economics: **w25 12**

**20** What is **not** a likely reason for a government having the objective of economic growth?

**A** to improve living standards

**B** to improve business confidence

**C** to increase inflationary pressures

**D** to increase consumer choice

**6** What is consumer surplus?

**A** the amount of a consumer's income less the amount paid in income tax

**B** the amount of a consumer's income less the amount paid for goods and services

**C** the amount of a consumer's income received in bonuses and overtime pay

**D** the amount a consumer is willing to pay for a product less the amount actually paid

A-Level Economics: **w25 13**

**26** Which policy is most likely to have a contractionary effect on national income?

**A** a reduction in income tax rates

**B** a reduction in interest rates

**C** an appreciation in the exchange rate

**D** an increase in government spending on transport infrastructure

A-Level Economics: **w25 14**

**21** What is an example of expansionary fiscal policy?

**A** an increase in income tax

**B** an increase in private sector investment

**C** an increase in spending on public goods

**D** an increase in the money supply

**25** An increase in interest rates is an example of which type of policy?

**A** contractionary fiscal policy

**B** contractionary monetary policy

**C** expansionary monetary policy

**D** restrictive supply-side policy

# 5 Government macroeconomic policy – Part 2

Name: ____________ Class: ________ Date: __________

## Vocabulary 词汇

*Write each word three times.* 把每个单词抄写三遍。

| English | 中文 | Write it 3 times (English) | | |
|---|---|---|---|---|
| Monetary policy | 货币政策 | | | |
| central bank | 中央银行 | | | |
| interest rate | 利率 | | | |
| Supply-side policy | 供给侧政策 | | | |
| productive capacity | 生产能力 | | | |
| incentive | 激励 | | | |
| privatisation | 私有化 | | | |
| deregulation | 放松管制 | | | |
| training | 培训 | | | |
| infrastructure | 基础设施 | | | |
| demand-side policies | 需求侧政策 | | | |

## Recall

In **Part 1** you met the government's objectives, fiscal policy, and the types of tax. Part 2 looks at the other two sets of tools: **monetary policy** and **supply-side policy**.

## New ideas

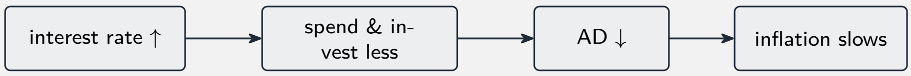
### 1 Monetary policy

**Monetary policy** 货币政策 is run by the **central bank** 中央银行. Its main tool is the **interest rate** 利率.

If the central bank **raises** the interest rate:

- borrowing becomes dearer, so households and firms spend and invest less;
- saving is rewarded, so people spend less.

So aggregate demand falls, which slows inflation. A **cut** in the rate does the opposite.



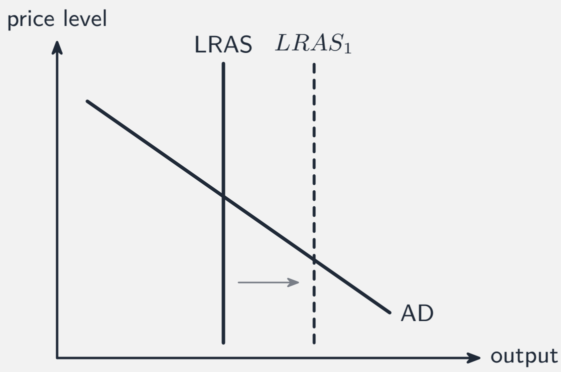

**Micro-check.** Who sets the interest rate? [1]

### 2 Supply-side policy

**Supply-side policy** 供给侧政策 tries to raise the economy's **productive capacity** 生产能力—shifting long-run aggregate supply to the right. Two kinds:

- **market-based** —cut taxes to boost the **incentive** 激励 to work, **privatisation** 私有化, **deregulation** 放松管制;
- **interventionist** —spend on **training** 培训 to raise skills, and on **infrastructure** 基础设施 (roads, broadband).

It can raise growth **and** lower inflation at the same time, but it is **slow** (education takes years to pay off).




**Micro-check.** State one supply-side policy that raises workers' skills. [1]

■ **3 Demand-side and supply-side**

- fiscal and monetary policy are **demand-side policies 需求侧政策**—they work on aggregate demand (AD);
- supply-side policy works on aggregate supply (AS).

A government usually uses a **mix** of all three.

**Micro-check.** Is cutting the interest rate a demand-side or a supply-side policy? [1]

---

**Watch out:** monetary (central bank, interest rate) and fiscal policy work on the *demand* side (AD); supply-side policy works on the *supply* side (raises capacity). Supply-side can raise growth *and* cut inflation, but it is *slow*.

## Practice

**5.1** State who runs **monetary policy**, and its main tool. [2]

**5.2** A central bank **raises** the interest rate. State what happens to (a) borrowing and (b) aggregate demand. [2]

**5.3** State the aim of **supply-side policy**. [1]

**5.4** Give **one** market-based and **one** interventionist supply-side policy. [2]

**5.5** State whether each is **demand-side** or **supply-side**: (a) cutting the interest rate; (b) spending on worker training. [2]

**5.6 Challenge.** Supply-side policy can raise growth *and* lower inflation at the same time, unlike demand-side policy. Explain why, and give one drawback. [2]

**19** A central bank is asked by the government to help achieve price stability.

If inflation rises steeply, which policy will **not** be directly within the control of the central bank?

**A** increasing the rate of interest to reduce consumer spending

**B** managing a reduction of the money supply

**C** using credit restrictions to regulate lending by commercial banks to households

**D** restricting wage increases in the private and public sectors

**21** What is an example of expansionary monetary policy?

**A** the central bank increasing the money supply

**B** the central bank causing an appreciation of the country's foreign exchange rate

**C** the central bank increasing controls on credit lending

**D** the central bank increasing the minimum lending rate of interest

A-Level Economics: **s25 12**

**21** What is likely to be an expansionary monetary policy?

**A** a decrease in the availability of credit

**B** a decrease in the exchange rate

**C** an increase in government spending

**D** an increase in subsidies for training

A-Level Economics: **w25 11**

**19** What is an example of fiscal policy aimed at increasing aggregate demand in an economy?

**A** increasing expenditure by firms on skills training programmes for unskilled workers

**B** increasing the commercial banks' lending ability

**C** reducing the rate of income tax for all income earners

**D** reducing the rate of interest on loans to manufacturing companies

A-Level Economics: **w25 13**

**14** Which area of government spending is a transfer payment?

**A** spending on new road building

**B** spending on pensions to the elderly

**C** spending on buying new police cars

**D** spending on wages of teachers

A-Level Economics: **s25 11**

**24** What is **not** an example of an expansionary supply-side policy?

**A** a reduction in government spending on training

**B** an increase in support for technological improvement

**C** a reduction in payments to the unemployed

**D** an increase in privatisation of industry

A-Level Economics: **s25 12**

**24** Which supply-side policy will encourage new entrepreneurs?

**A** an increase in government subsidy to small firms

**B** an increase in the national minimum wage

**C** an increase in the power of trade unions

**D** an increase in the tax on business profits

# 6 International trade – Part 1

Name: ____________ Class: ________ Date: __________

## Vocabulary 词汇

*Write each word three times.* 把每个单词抄写三遍。

| English | 中文 | Write it 3 times (English) | | |
|---|---|---|---|---|
| International trade | 国际贸易 | | | |
| specialise | 专业化 | | | |
| absolute advantage | 绝对优势 | | | |
| comparative advantage | 比较优势 | | | |
| lower opportunity cost | 机会成本 | | | |
| Protectionism | 贸易保护主义 | | | |
| tariff | 关税 | | | |
| quota | 配额 | | | |
| subsidy | 补贴 | | | |
| infant industry | 幼稚产业 | | | |
| dumping | 倾销 | | | |
| retaliation | 报复 | | | |

## Recall

Countries buy and sell with each other every day. Bring this with you:

- The goods around you are made in many different countries.
- A country cannot make everything itself.

At AS we study **why** countries trade, and how some try to **block** trade.

## New ideas

### ■ 1 Why countries trade

**International trade** 国际贸易 lets each country **specialise** 专业化 in what it makes best, then trade for the rest —so the world makes **more** in total.

- a country has an **absolute advantage** 绝对优势 in a good if it can make **more** of it with the same resources;
- a country has a **comparative advantage** 比较优势 in a good if it can make it at a **lower opportunity cost** 机会成本 than another country.

A country should make the goods it gives up **least** to produce, and trade for the rest.

| absolute advantage | comparative advantage |
|---|---|
| make **more** of a good with the same resources | make a good at a **lower** opportunity cost |

**Micro-check.** What does it mean for a country to **specialise**? [1]

---

### ■ 2 Protectionism

**Protectionism** 贸易保护主义 means a government protecting home producers from foreign competition. The main tools:

- a **tariff** 关税—a tax on imports, which raises their price;
- a **quota** 配额—a legal limit on the quantity of a good that may be imported;
- a **subsidy** 补贴 to home producers, so they can sell more cheaply.

| tariff | quota | subsidy |
|---|---|---|
| a tax on imports (raises their price) | a limit on the quantity imported | help home firms sell more cheaply |

**Micro-check.** What is a **tariff**? [1]

---

### ■ 3 For and against protection

- **for** protection: protect an **infant industry** 幼稚产业 (a young industry that needs time to grow), save jobs, and stop **dumping** 倾销 (foreign firms selling below cost);
- **against**: it raises prices for consumers, lets weak firms stay inefficient, and can lead to **retaliation** 报复 (other countries hitting back).

**Micro-check.** Give **one** argument **against** protection. [1]

**Watch out:** absolute advantage = make *more* with the same resources; comparative advantage = make at a *lower opportunity cost* —comparative advantage is what drives the gains from trade. A tariff is a *tax* on imports; a quota is a *limit* on imports.

## Practice

**6.1** Explain **one** reason countries trade with each other. [2]

**6.2** State the difference between **absolute** and **comparative** advantage. [2]

**6.3** Name **two** tools of protectionism. [2]

**6.4** Give **one** argument **for** and **one** argument **against** protection. [2]

**6.5** A government puts a tax on imported cars. Name this tool of protection. [1]

**6.6 Challenge.** A government puts a tariff on imported steel to protect home steelmakers. Explain one benefit and one cost of this for the country. [2]

**28** What is **not** a limitation of the theory of comparative advantage?

**A** the movement of factors of production between countries

**B** governments' imposition of trade restrictions

**C** one country being more efficient in the production of all goods

**D** transport costs outweighing any comparative advantage

A-Level Economics: **w25 13**

**28** What is meant by comparative advantage?

**A** One country can produce a product at a lower opportunity cost than another country.

**B** One country can produce more of a product than another country, using a given level of resources.

**C** One country has lower barriers to trade than another country.

**D** One country is making more efficient use of factors of production than another country.

A-Level Economics: **s25 12**

**28** Which formula is used to calculate the terms of trade?

**A** the average price of exports divided by the average price of imports

**B** the average price of imports divided by the average price of exports

**C** the value of exports divided by the value of imports

**D** the value of imports divided by the value of exports

A-Level Economics: **Specimen 1**

**26** Since 2000 a country's export prices have increased on average by 50% and its import prices by 25%.

What is the current figure for the country's terms of trade (2000 = 100)?

**A** 75 **B** 83 **C** 120 **D** 125

**23** What is an example of a supply-side policy?

**A** an import quota to restrict the supply of goods

**B** a rise in interest rates to encourage the supply of savings

**C** a specific tax on the supply of goods to raise revenue

**D** a subsidy to businesses to promote the supply of training courses

A-Level Economics: **s25 11**

**21** What is **not** an example of monetary policy?

**A** a rise in import tariffs on manufactured goods

**B** a rise in interest rates by the central bank

**C** a rise in credit regulations

**D** a rise in the money supply

**27** Which statement correctly describes a tariff?

**A** It is a complete ban on imports.

**B** It is a minimum price for domestic producers.

**C** It is a payment to exporters.

**D** It is a tax imposed on imports.

A-Level Economics: **s25 12**

**26** Which statement is **not** a valid reason why a country may impose protectionist measures?

**A** to allow a newly developed domestic industry to grow to a viable size

**B** to enable a country to retain control of an industry it regards as being of strategic importance

**C** to give consumers a wider choice of goods and services

**D** to give time for workers in a declining domestic industry to find alternative employment

# 6 International trade – Part 2

Name: __________ Class: ________ Date: __________

## Vocabulary 词汇

*Write each word three times.* 把每个单词抄写三遍。

| English | 中文 | Write it 3 times (English) | | |
|---|---|---|---|---|
| balance of payments | 国际收支 | | | |
| current account | 经常账户 | | | |
| current account deficit | 经常账户赤字 | | | |
| exchange rate | 汇率 | | | |
| floating exchange rate | 浮动汇率 | | | |
| fixed exchange rate | 固定汇率 | | | |
| appreciation | 升值 | | | |
| depreciation | 贬值 | | | |

## Recall

In **Part 1** you met why countries trade (absolute and comparative advantage) and protectionism. Part 2 looks at the **record** of a country's trade (the balance of payments) and the **price** of its currency (the exchange rate).

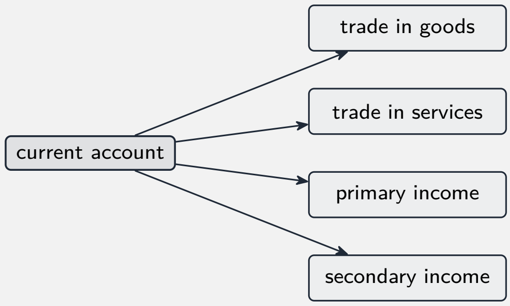
## New ideas

### ■ 1 The balance of payments

The **balance of payments** 国际收支 is a record of all money flows between a country and the rest of the world. Its most-studied part is the **current account** 经常账户, which has four parts:

- **trade in goods** —exports and imports of physical goods;
- **trade in services** —services like tourism and banking;
- **primary income** —income from work and investment abroad;
- **secondary income** —transfers like foreign aid.

A **current account deficit** 经常账户赤字 means a country buys more from abroad than it sells.




**Micro-check.** What does a current account **deficit** mean? [1]

---

## ■ 2 Exchange rates

An **exchange rate** 汇率 is the price of one currency in terms of another. Two main systems:

- a **floating exchange rate** 浮动汇率 is set freely by the **demand for** and **supply of** the currency;
- a **fixed exchange rate** 固定汇率 is held at a set value by the central bank.

**Micro-check.** Under a **floating** system, what sets the exchange rate? [1]

---

## ■ 3 Appreciation and depreciation

Under a floating rate:

- **appreciation** 升值 is a **rise** in the currency's value → exports become dearer for foreigners, imports become cheaper;
- **depreciation** 贬值 is a **fall** in the currency's value → exports become cheaper, imports become dearer.

A depreciation can therefore raise export sales and cut imports (helping the current account), but it can also raise inflation, because imports cost more.

**appreciation** (value $\uparrow$) → exports dearer, imports cheaper

**depreciation** (value $\downarrow$) → exports cheaper, imports dearer

**Micro-check.** After a **depreciation**, do exports become cheaper or dearer for foreigners? [1]

---

**Watch out:** a current account *deficit* = buy more from abroad than you sell. Appreciation (currency rises) → exports *dearer*, imports *cheaper*; depreciation (falls) → exports *cheaper*, imports *dearer*. A depreciation can help the current account but raise inflation.

## Practice

**6.1** Name the **four** parts of the **current account**. [4]

**6.2** State what a **current account deficit** means. [1]

**6.3** Define an **exchange rate**. [1]

**6.4** State one difference between a **floating** and a **fixed** exchange rate. [2]

**6.5** A country's currency **depreciates**. State the effect on (a) its exports and (b) its imports. [2]

**6.6 Challenge.** A country with a large current account deficit sees its currency depreciate. Explain how the depreciation could help reduce the deficit. [2]

A-Level Economics: **w25 11**

**29** What would **not** be included in the current account of the balance of payments?

**A** income earned outside the country that is transferred into the country

**B** value of food and raw materials produced and consumed within the country

**C** value of food and raw materials that are exported

**D** value of telecommunications services that are imported

A-Level Economics: **w25 14**

**20** When calculating national income by the income method, what would **not** be included?

**A** income from abroad

**B** profits of private sector businesses

**C** rent from the ownership of land

**D** transfer payments

A-Level Economics: **w25 23**

**5** **(a)** Explain **two** reasons why an economy may have a deficit on the current account of its balance of payments **and** consider whether its government is likely to be concerned about this deficit. [8]

**(b)** Assess whether it is better to use protectionist policies or contractionary policies to reduce a deficit on the current account of the balance of payments. [12]

A-Level Economics: **s25 11**

**11** What is an example of wealth?

**A** interest received

**B** profits

**C** property

**D** incomes

**20** The aggregate demand (AD) curve in an economy shifts to the left.

What is most likely to cause this shift?

**A** a decrease in the exchange rate

**B** a decrease in the interest rate

**C** an increase in the budget deficit

**D** an increase in the current account deficit

A-Level Economics: **w25 13**

**20** What might be a consequence of a fall in the domestic price level?

**A** imports become more competitive

**B** interest rates increase

**C** the purchasing power of savings falls

**D** the real value of incomes increases

A-Level Economics: **s25 11**

**20** The price of a pack of six eggs rises from $1.00 to $1.32 over a year. Consumer prices, as measured by the consumer price index, rise by 10% over the same period.

What is the real price of a pack of six eggs at the end of the year?

**A** $1.00 **B** $1.10 **C** $1.20 **D** $1.32

**4** **(a)** Explain **three** components of the current account of the balance of payments **and** consider the extent to which a depreciation in the exchange rate will always lead to a surplus on the current account. [8]

**(b)** Assess the extent to which the use of supply-side policy would be the best way to reduce a deficit on the current account of the balance of payments. [12]

**OR**