Course Companion

Pearson Edexcel · International GCSE · Economics

Every topic handout in one volume

exercises.lol

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The economic problem and economic assumptions

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Pearson Edexcel International GCSE in Economics (4EC1), specification Issue 3, February 2026. This topic covers spec sections 1.1.1–1.1.2 in full: the economic problem (five lettered rows) and economic assumptions (three rows). Worked numbers are original and re-derived below.

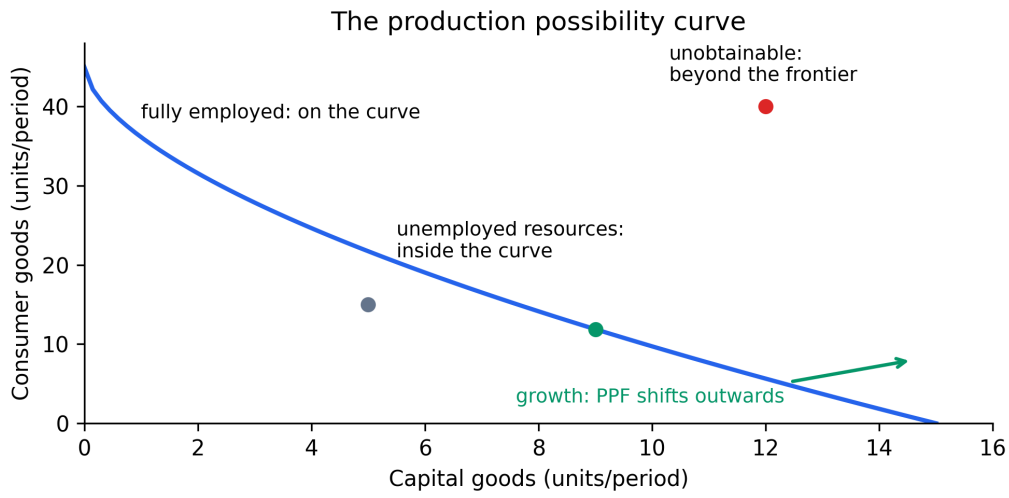
Must-know for this topic:

Family	Content
scarcity	unlimited wants, finite resources → choice
opportunity cost	the next-best alternative forgone, for consumers, producers and government
PPF	on the curve = fully employed; inside = unemployed resources; outside = unobtainable; shifts = growth
assumptions	consumers maximise benefit, firms maximise profit – with named exceptions

The economic problem

Scarcity is the problem of unlimited wants against finite resources: there is not enough of everything for everyone, so choices must be made (1.1.1a). Every choice has an **opportunity cost** – the benefit of the next-best alternative forgone – and this cost applies to every economic agent: the CONSUMER choosing between goods, the PRODUCER between products, and the GOVERNMENT between spending programmes (a hospital means fewer schools) (1.1.1b).

The **production possibility curve** (PPC/PPF) shows these choices as a diagram (1.1.1c): the maximum productive potential of an economy is the curve itself; a point ON the curve means fully employed resources; a point INSIDE the curve means unemployed or underused resources; a point BEYOND the curve is unobtainable with current resources; moving along the curve reallocates resources at an opportunity cost; and the whole frontier SHIFTS OUTWARDS with positive **economic growth** and INWARDS with negative growth (1.1.1d). Causes of positive growth: more resources (labour, capital), better technology, improved education. Causes of negative growth: resource destruction, disaster, war (1.1.1e). On the bowed curve below, one more capital good costs more and more consumer goods – resources are not equally suited to both uses.



Original model: the labelled points show full employment, unemployment and unobtainable production.

Economic assumptions

The base assumptions (1.1.2a): consumers aim to MAXIMISE THEIR BENEFIT (utility) and businesses aim to MAXIMISE THEIR PROFIT. Consumers may not maximise their benefit because (1.1.2b): they are not always good at calculating their benefits; habits are hard to give up; and they sometimes copy others' behaviour. Producers may not maximise profit because (1.1.2c): managers may REVENUE-maximise or SALES-maximise instead; producers may prioritise caring for customers; and producers may carry out charitable work. These exceptions matter: they explain real behaviour that the pure assumption misses, and they feed the IAL syllabus's behavioural ideas (herding, habit, satisficing).

> **Worked example.** An original workshop can make 20 desks or 40 chairs per day on a straight frontier: the opportunity cost of one more desk is $\frac{40}{20} = 2$ chairs, so five more desks cost $5 \times 2 = 10$ chairs per day. Reallocating existing resources MOVES ALONG the frontier; more resources or better technology SHIFT it. A workshop with idle machines receiving a new order moves from INSIDE the frontier towards it – its frontier has not shifted; capacity was always there, unused.

Checklist

- Scarcity and the need for choice (1.1.1a).
- Opportunity cost for consumers, producers and government (1.1.1b).
- The PPF diagram: maximum potential, fully employed/unemployed resources, opportunity cost, outwards/inwards shifts, possible and unobtainable production (1.1.1c–d).
- Causes of positive and negative economic growth (1.1.1e).
- The two base assumptions (1.1.2a); the three consumer exceptions (1.1.2b); the three producer exceptions (1.1.2c).

Boundary notes: 4EC1 Paper 1 is 1 hour 45 minutes (90 marks) and Paper 2 is 1 hour 30 minutes (80 marks); calculators are allowed. Definitions carry one mark each – learn them word-perfect. Diagrams must label axes, the frontier and the points. All worked numbers are original.

Demand, supply, equilibrium and elasticity

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Pearson Edexcel International GCSE in Economics (4EC1), specification Issue 3, February 2026. This topic covers spec sections 1.1.3–1.1.4 in full: demand, supply and market equilibrium (10 lettered rows) and elasticity (19 rows). The shared market model runs through the worked examples: demand $Q_d = 140 - 2P$, supply $Q_s = 20 + 4P$, equilibrium $P = 20$ and $Q = 100$.

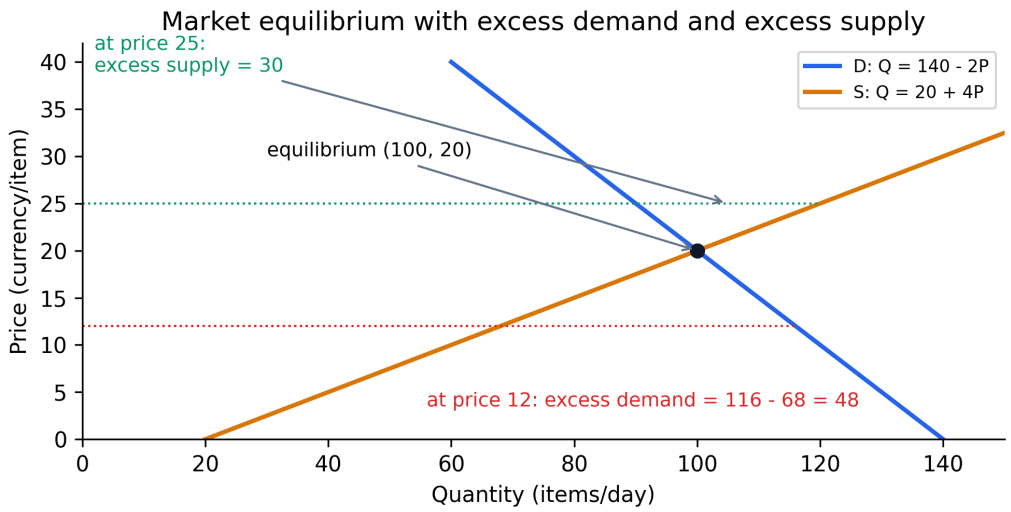
Must-know for this topic:

Family	Relationship
equilibrium	$Q_d = Q_s$ (here P = 20, Q = 100)
excess	at P = 12: excess demand = 116 − 68 = 48; at P = 25: excess supply = 120 − 90 = 30
PED	$= \frac{\%\Delta Q_d}{\%\Delta P}$; TR test: price up and TR up → inelastic
PES / YED	$= \frac{\%\Delta Q_s}{\%\Delta P}$ / $= \frac{\%\Delta Q_d}{\%\Delta \text{income}}$ (luxury > 1, normal > 0, inferior < 0)

Demand, supply and market equilibrium

Demand is the quantity consumers are willing AND able to buy at each price over a period (1.1.3a). A change in the good's own price causes a MOVEMENT ALONG the demand curve; a change in any other determinant SHIFTS it – advertising, income, fashion and tastes, the price of SUBSTITUTES (a rise shifts demand for this good right) and of COMPLEMENTS (a rise shifts it left), and demographic changes (1.1.3b–c). **Supply** is the quantity producers are willing AND able to sell at each price (1.1.3d); own-price changes move ALONG the supply curve, while costs of production, technology, indirect taxes, subsidies and natural factors (disasters, weather) SHIFT it (1.1.3e–f).

Equilibrium is where demand meets supply: $140 - 2P = 20 + 4P$ gives $P^* = 20$ currency units and $Q^* = 100$ items/day (1.1.3g). Shift analysis (1.1.3h): demand rising raises both equilibrium price and quantity; supply rising raises quantity but lowers price; both shifting leaves one variable indeterminate. EXCESS DEMAND at P = 12: $Q_d = 116$ against $Q_s = 68$, a shortage of 48; EXCESS SUPPLY at P = 25: $Q_s = 120$ against $Q_d = 90$, a surplus of 30 (1.1.3i). Market forces remove both: shortage bids the price UP, surplus pushes it DOWN, until the market returns to equilibrium (1.1.3j).



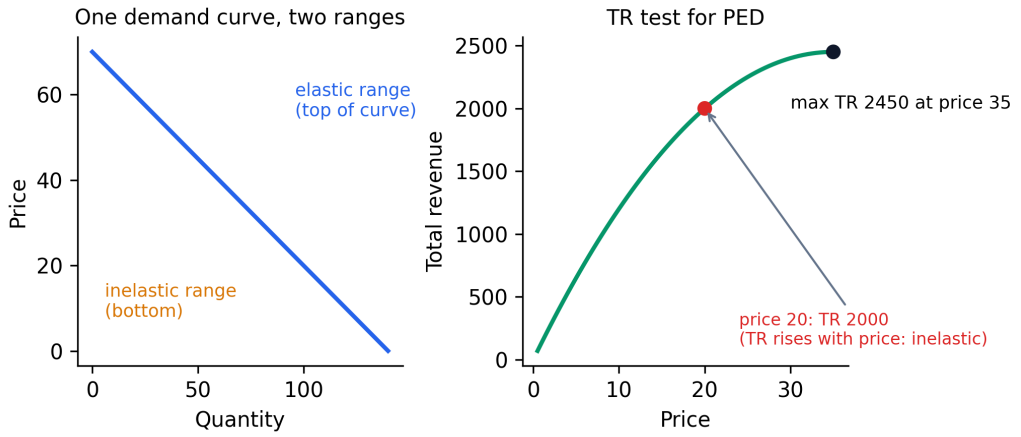
Original model: the shortage at 12 and the surplus at 25 are computed in the text.

Elasticity

Price elasticity of demand (PED, 1.1.4a–b): $PED = \frac{\%\Delta Q_d}{\%\Delta P}$. Calculation: price rising from 20 to 22 moves Q_d from 100 to 96, so $PED = \frac{-4\%}{+10\%} = -0.4$ (1.1.4c). The five interpretations (1.1.4e): 0 perfectly inelastic (vertical), between 0 and −1 inelastic, −1 unitary, beyond −1 elastic, infinite perfectly elastic (horizontal). PED depends on substitutes, the degree of necessity, the percentage of income spent on the good, and time (1.1.4f). The TOTAL REVENUE test (1.1.4g): TR = $P \times Q$; at P = 20, TR = 2000; at P = 22, TR = 2112 – a price rise RAISING revenue proves inelastic demand; on the shared curve TR peaks at 2450 where P = 35 (unitary PED).

Price elasticity of supply (PES, 1.1.4h–l): $PES = \frac{\%\Delta Q_s}{\%\Delta P}$; on the shared model price 20 → 24 moves Q_s 100 → 116, so PES = $\frac{16\%}{20\%} = +0.8$ (inelastic supply). PES depends on the factors of production (their mobility), availability of stocks, spare capacity and time (1.1.4m). Examples (1.1.4n): manufactured products tend to be MORE elastic (stocks, spare capacity, quick retooling); primary products LESS elastic (growing periods, perishability, fixed land).

Income elasticity of demand (YED, 1.1.4o–q): $YED = \frac{\%\Delta Q_d}{\%\Delta \text{income}}$; income +10% raising quantity +8% gives YED = +0.8. Interpretation (1.1.4r): YED > 1 LUXURY, 0–1 NORMAL (necessity), YED < 0 INFERIOR. Significance (1.1.4s): PED guides indirect taxes (inelastic goods raise reliable revenue) and subsidies; YED guides firms' forecasts over the cycle – luxury sellers boom with incomes, inferior sellers recess-proof.



Original model: elastic at the top of the demand curve, inelastic at the bottom; TR peaks where PED is unitary.

Checklist

- Demand and supply definitions; movements versus shifts with the five demand and five supply determinants (1.1.3a–f).
- Equilibrium from $Q_d = Q_s$; shift analysis; excess demand 48 at P = 12 and excess supply 30 at P = 25; market-force adjustment (1.1.3g–j).
- PED definition, formula, calculation (−0.4), the five value ranges, four influence factors, the TR test (2000 → 2112 → 2450) (1.1.4a–g).
- PES definition, formula, calculation (+0.8), five ranges, four factors, manufactured vs primary (1.1.4h–n).
- YED definition, formula, calculation (+0.8), luxury/normal/inferior thresholds; significance for business and government (1.1.4o–s).

Boundary notes: Paper 1 (microeconomics, 80 marks) mixes MCQ, short answer, data response and open questions; calculators allowed. Definition marks are word-perfect; diagram marks need labelled axes, curves, equilibria and the shift arrow. All worked numbers are original on the shared model.

The mixed economy and externalities

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Pearson Edexcel International GCSE in Economics (4EC1), specification Issue 3, February 2026. This topic covers spec sections 1.1.5–1.1.6 in full: the mixed economy (11 lettered rows) and externalities (5 rows). The externality diagram reuses the shared model (demand $Q_d = 140 - 2P$, supply $Q_s = 20 + 4P$) with an external cost of 6 per unit.

Must-know for this topic:

Family	Content
sectors	public (state-owned) vs private; ownership, control, aims
three questions	what, how, for whom – answered by market AND state in a mixed economy
public goods	non-excludable + non-rival → free-rider problem → private non-provision
social cost	social cost = private cost + external cost; social benefit = private benefit + external benefit

The mixed economy

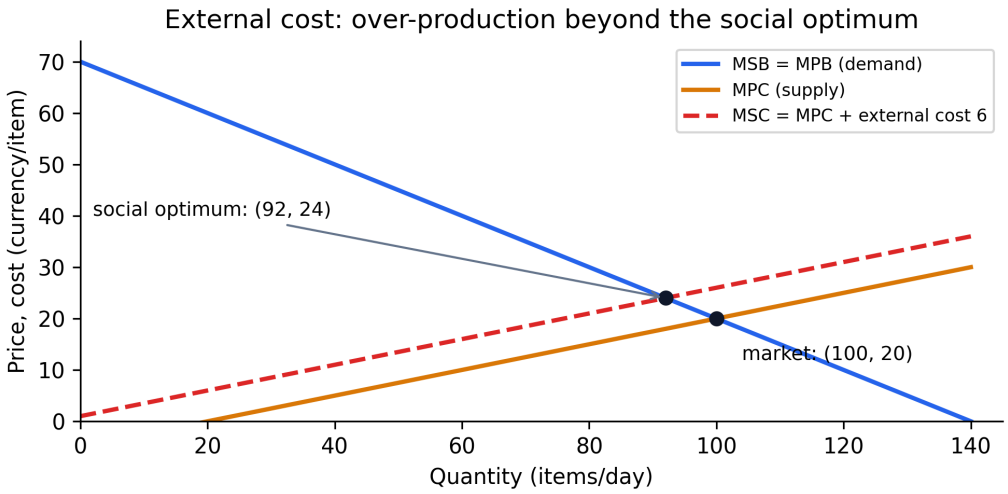
A **mixed economy** contains both a private sector and a public sector (1.1.5a–b). The **private sector** is owned and controlled by individuals and firms aiming (mostly) for profit; the **public sector** is owned and controlled by the state, aiming at welfare and service provision – the difference is ownership, control and aims (1.1.5c). The three questions (WHAT to produce, HOW to produce and FOR WHOM) are answered by BOTH mechanisms in a mixed economy: prices and profit signal the market part; government directs resources to health, education and public goods (1.1.5d).

Market failure is the inefficient allocation of resources – the market produces too much or too little of a good compared with the social optimum (1.1.5e); because of it governments intervene – to correct externalities, provide public goods, and protect consumers (1.1.5f). **Public goods** are non-excludable (no one can be stopped from using them) and non-rival (one person's use does not reduce another's) – street lighting, flood defence. Non-excludability creates the FREE-RIDER problem: no one pays, so no private firm supplies them, so the public sector must (1.1.5g). Both sectors produce goods and services (1.1.5h); their relative importance differs across economies – Cuba against the USA against Sweden (1.1.5i). **Privatisation** is the transfer of ownership from the public to the private sector (1.1.5j); its effects on consumers (lower prices if efficiency is passed on, but higher if a monopoly results), workers (job losses from efficiency drives), businesses (new profit opportuni-

ties) and government (a one-off sale receipt, then lost dividends and possible subsidy savings) (1.1.5k).

Externalities

External costs of production are costs falling on THIRD PARTIES, not on the producer or consumer – pollution, congestion, environmental damage (1.1.6a–b). **External benefits** of consumption are benefits falling on third parties – education, healthcare, vaccinations (1.1.6c–d). The formulae (1.1.6e): SOCIAL COST = PRIVATE COST + EXTERNAL COST; SOCIAL BENEFIT = PRIVATE BENEFIT + EXTERNAL BENEFIT. Worked model: with demand $Q_d = 140 - 2P$ (marginal private benefit) and supply $Q_s = 20 + 4P$ (marginal private cost), the market trades at $(100, 20)$; if production carries an external cost of 6 per unit, the social optimum sits at $(92, 24)$ – the market OVER-PRODUCES by 8 units because buyers and sellers never see the externality.



Original model: MSC = MPC + 6 crosses MSB at (92, 24); the market equilibrium (100, 20) over-produces.

Checklist

- Mixed economy definition; public and private sectors; ownership, control and aims (1.1.5a–c).
- The three questions answered by both mechanisms (1.1.5d).
- Market failure as inefficient allocation; why it forces intervention (1.1.5e–f).
- Public goods: non-excludability, non-rivalry, the free-rider problem and non-provision (1.1.5g).
- Both sectors produce; relative importance differs by economy (1.1.5h–i).
- Privatisation definition and its effects on consumers, workers, businesses, government (1.1.5j–k).
- External costs with three examples; external benefits with three examples (1.1.6a–d).
- The two social-cost/benefit formulae with the (100, 20) → (92, 24) worked model (1.1.6e).

Boundary notes: definitions carry one mark each – non-excludable, non-rival, free-rider and privatisation are the most examined. Diagram marks want MSC/MSB curves labelled and the over-production gap identified. All worked numbers are original on the shared model.

Production, productivity and business costs

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Pearson Edexcel International GCSE in Economics (4EC1), specification Issue 3, February 2026. This topic covers spec sections 1.2.1–1.2.3 in full: production (three rows), productivity and division of labour (four rows) and business costs, revenues and profit (three rows). Worked numbers are original and re-derived below.

Must-know for this topic:

Family	Relationship
productivity	output ÷ input; 8 → 10 items per worker-hour is +25%
revenue	TR = $P \times Q$; AR = TR/Q; MR = $\Delta TR/\Delta Q$ (here $70 - Q$)
costs	TC = TFC + TVC; ATC = TC/Q; AVC = TVC/Q; profit = TR − TC
scale	LRAC falls (economies), flattens (efficient point), rises (diseconomies)

Production

The **factors of production** are LAND (natural resources), LABOUR (human effort), CAPITAL (man-made aids to production) and ENTERPRISE (the risk-taking organiser) (1.2.1a). The economy's sectors (1.2.1b): PRIMARY (extracting: farming, fishing, mining), SECONDARY (manufacturing and construction) and TERTIARY (services). Their importance CHANGES over time (1.2.1c): as economies develop, employment and output shift from primary to secondary to tertiary – developed economies are service-dominated; the deindustrialisation of old manufacturing regions is the same shift seen from the other side.

Productivity and division of labour

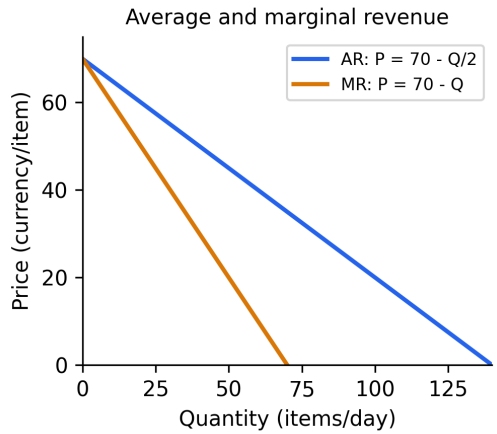
Productivity is output per unit of input (1.2.2a) – for labour, items per worker-hour. Productivity rises 25% when output per worker-hour goes from 8 to 10: $\frac{10-8}{8} \times 100 = 25\%$. Factors affecting productivity (1.2.2b): LAND – fertiliser, drainage, irrigation, land reclamation; LABOUR – quality of labour through education and training (human capital) and the impact of migration; CAPITAL – more capital and technological advances. The **division of labour** is specialisation, with each worker repeating one task in the production process (1.2.2c). Advantages (1.2.2d): workers become quick at their task (higher productivity), less time is lost switching tasks, and training is cheaper per task. Disadvantages: the work becomes boring (low morale, high staff turnover), workers' skills narrow, and interdependence means one hold-up stops the whole line – and over-standardised output risks unemployment if that one product's demand falls.

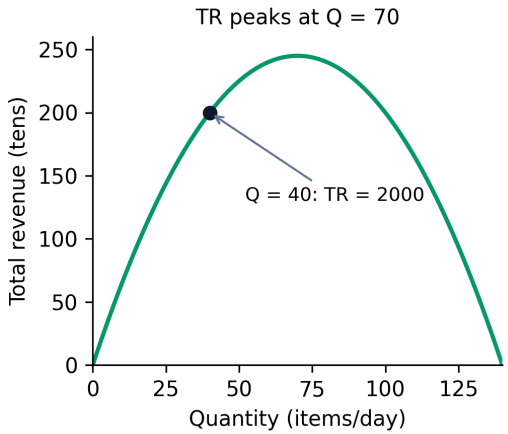
Business costs, revenues and profit

Revenue (1.2.3a): TR = $P \times Q$; AR = TR/Q (the demand curve – AR $P = 70 - Q/2$); MR = $\Delta TR/\Delta Q$ (here $70 - Q$); at $Q = 40$ with price 50, TR = 2000; TR peaks at 2450 where $Q = 70$.

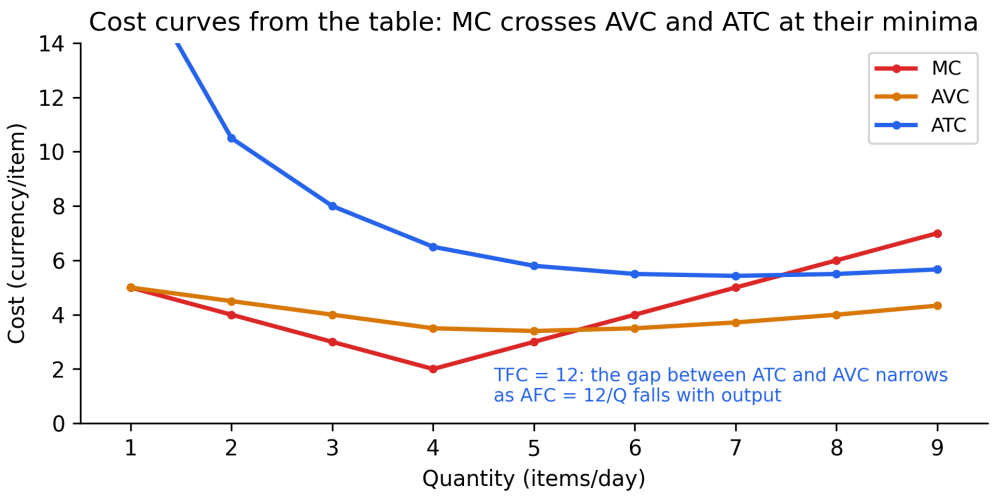
Costs (1.2.3a): the original table with TFC = 12 and TVC = $5, 9, 12, 14, 17, 21, 26, 32, 39$ for $Q = 1 \ldots 9$ gives MC = $5, 4, 3, 2, 3, 4, 5, 6, 7$ (falling then rising – specialisation first, diminishing returns later); AVC = TVC/Q with minimum 3.4 at $Q = 5$; ATC = TC/Q with minimum 5.43 at $Q = 7$. ATC and AVC converge as output grows because AFC = $12/Q$ shrinks. PROFIT = $TR - TC$.

Economies of scale are falling long-run average costs as output grows (1.2.3b). INTERNAL economies (inside the firm): purchasing (bulk buying), marketing (advertising spread over more units), technical (larger machines), financial (cheaper borrowing), managerial (specialist managers), risk bearing (a wider product range). EXTERNAL economies (industry-wide): skilled labour in the area, infrastructure, access to suppliers, similar businesses clustering. **Diseconomies of scale** are rising LRAC (1.2.3c): bureaucracy, communication problems, lack of control, and the distance between top management and workers at the bottom. The LRAC diagram (1.2.3c) shows internal economies as the falling section, the MOST EFFICIENT POINT at minimum LRAC, and diseconomies on the rising section.

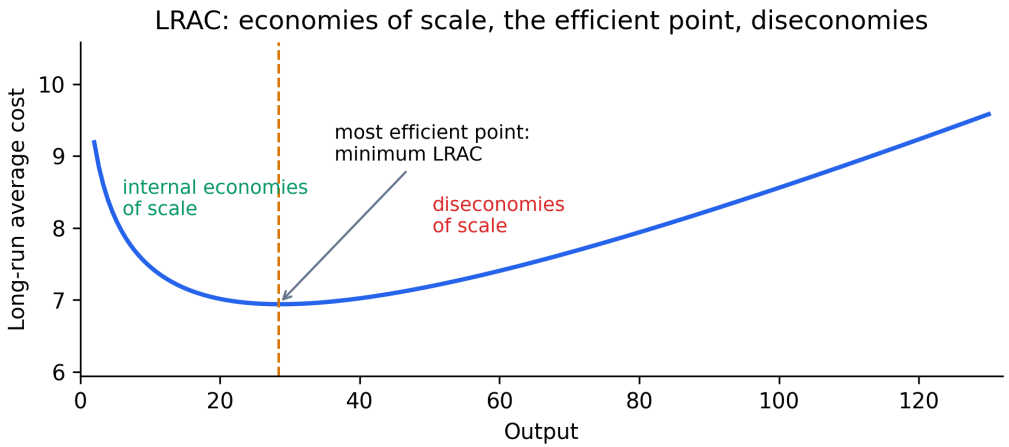




Original model: AR P = 70 − Q/2 with MR P = 70 − Q; TR(40) = 2000 and the TR maximum at Q = 70.



Original data: TFC 12; MC crosses AVC at its minimum (3.4) and ATC at its minimum (5.43).



Original curve: internal economies, the most efficient point, diseconomies.

Checklist

- The four factors of production (1.2.1a).
- The three sectors and how their importance shifts with development (1.2.1b–c).
- Productivity definition with the 25% calculation; its factors by land, labour and capital (1.2.2a–b).
- Division of labour with advantages and disadvantages for workers and businesses (1.2.2c–d).
- TR, AR, MR with the shared model's numbers (1.2.3a).
- TFC, TVC, TC, AVC, ATC and the table's minima; profit = TR − TC (1.2.3a).
- Economies of scale: the six internal and four external types; the four diseconomies; the LRAC diagram with the most efficient point (1.2.3b–c).

Boundary notes: Paper 1 data questions reward the table arithmetic above – ATC to 2 decimal places where needed. The six internal economies are a learned list (purchasing, marketing, technical, financial, managerial, risk bearing). All worked numbers are original.

Business competition, the labour market and government intervention

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Pearson Edexcel International GCSE in Economics (4EC1), specification Issue 3, February 2026. This topic covers spec sections 1.2.4–1.2.6 in full: business competition – competition, monopoly and oligopoly (10 rows); the labour market (6 rows); and government intervention (4 rows). The labour model is supply $W = 4 + 0.02L$ against demand $W = 16 - 0.04L$; the monopoly model is AR $P = 70 - Q/2$ with MC $P = 10 + Q/2$.

Must-know for this topic:

Family	Relationship
labour market	equilibrium (200 workers, wage 8); shifts move both
minimum wage	at 9: L_d 175 vs L_s 250 $\rightarrow$ 75 unemployed
monopoly	MR = MC at Q 40, price 50, profit $(50 - 30) \times 40 = 800$
intervention	taxation, subsidies, fines, regulation, pollution permits

Competition

Competition advantages (1.2.4a): EFFICIENCY (firms must cut costs to survive), CHOICE, QUALITY, INNOVATION and LOWER PRICES for consumers; the economy gains allocated resources. Disadvantages: duplicated capacity, and firms may cut corners to undercut. Large firms exploit economies of scale, branding and finance, but can suffer diseconomies and lose touch with customers; small firms are flexible and personal but lack scale and bargaining power (1.2.4b). Growth of firms (1.2.4c): government regulation (constrains or enables), access to finance, economies of scale, the desire to spread risk, and the desire to take over competitors. Firms stay small (1.2.4d): the size of the market, a NICHE market's nature, lack of finance, and the entrepreneur's aims (control, lifestyle).

A **monopoly** is a market dominated by one firm (1.2.4e) – features: one business dominates, unique product, a PRICE-MAKER, and barriers to entry: legal barriers, patents, marketing budgets, technology, high start-up costs (1.2.4f). Advantages (1.2.4g): economies of scale may lower unit costs, dynamic innovation from large profits, and a stable supplier. Disadvantages: higher prices and lower output than competition, restricted choice, possible X-inefficiency, and little pressure to innovate. Model: with AR $P = 70 - Q/2$ and MC $P = 10 + Q/2$, the monopolist sets MR $= 70 - Q$ equal to MC: $Q_m = 40$, price $= 50$ on the AR curve; with ATC $= 30$ at that output, supernormal profit $= (50 - 30) \times 40 = 800$ per day – against the competitive benchmark $(60, 40)$, a deadweight loss of 200.

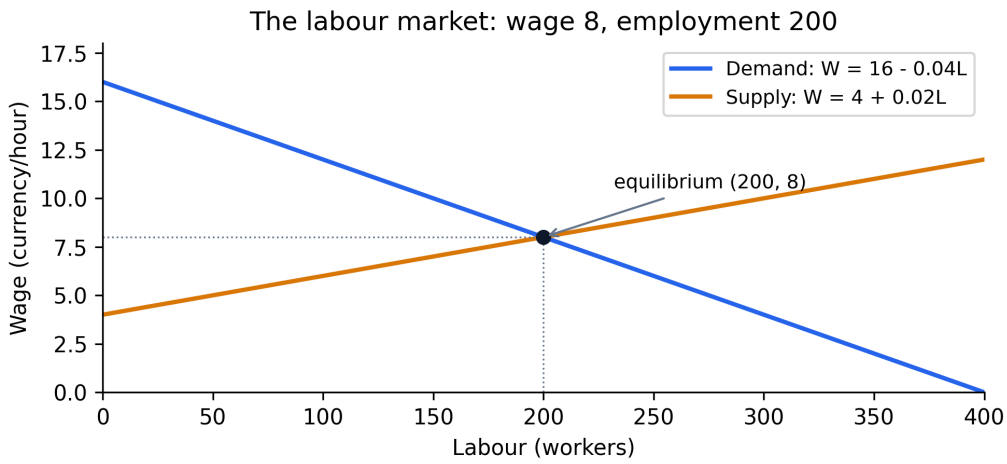
An **oligopoly** is a market dominated by a few large firms (1.2.4h) – features: few large firms, DIFFERENT products, barriers to entry, COLLUSION (against the consumer's interest), non-price competition and price competition (1.2.4i). Advantages (1.2.4j): choice through differentiation, innovation funded by large profits, and economies of scale. Disadvantages: collusion and CARTELS fixing high prices; PRICE WARS that destroy profit and can drive firms out.

The labour market

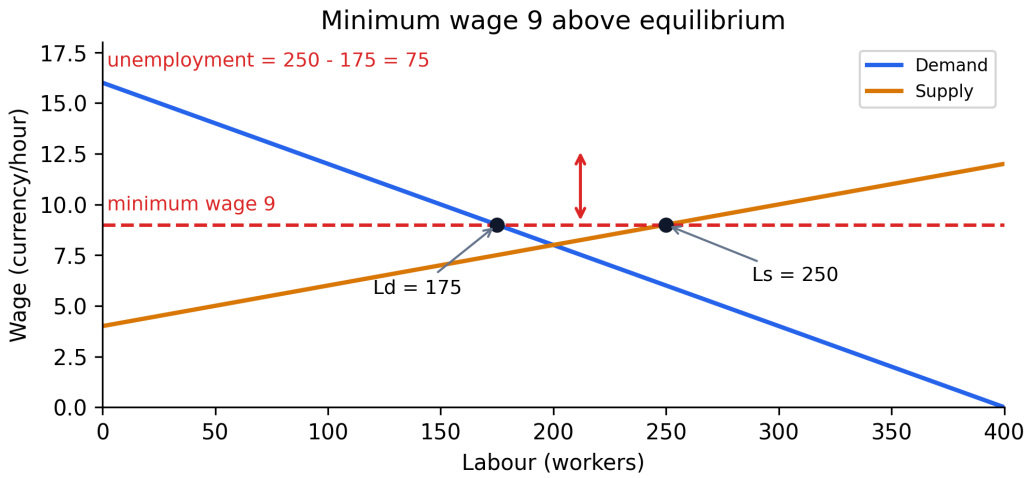
The demand for labour (1.2.5a) is DERIVED from demand for the final product; it is affected by the availability of substitutes (machines) and the productivity of the workforce. The supply of labour (1.2.5b) responds to population size, migration, the age distribution, retirement and school-leaving ages, female participation, skills and qualifications, and geographical/occupational mobility. The QUANTITY and QUALITY of labour matter to business (1.2.5c); education and training raise **human capital** and labour quality (1.2.5d). The labour diagram (1.2.5e): supply $W = 4 + 0.02L$ meets demand $W = 16 - 0.04L$ at $(200, 8)$ – wage 8, employment 200; a shift in demand (product demand rising) raises both; a shift in supply (migration) raises employment and lowers the wage. **Trade unions** bargain for better working conditions and higher wages (1.2.5f) – pushing above equilibrium creates unemployment the same way a minimum wage does.

Government intervention

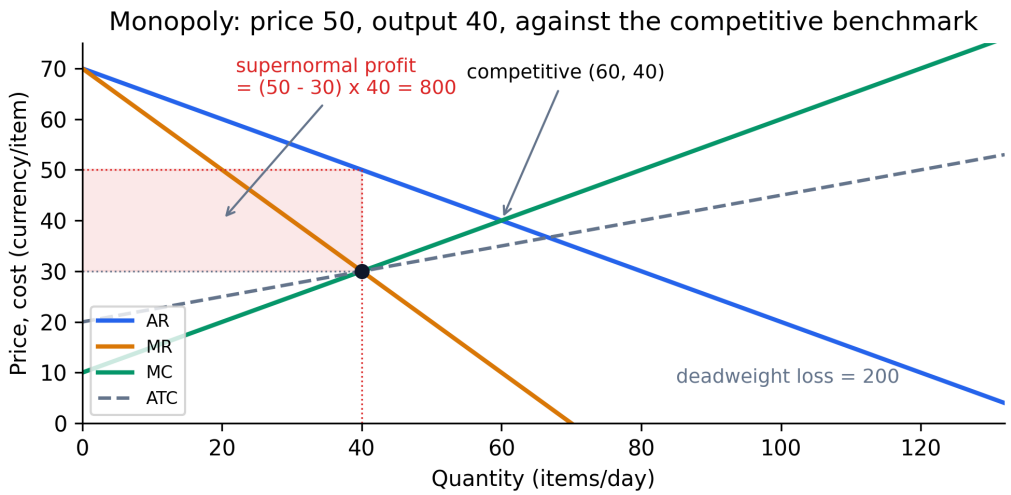
Policies for externalities (1.2.6a): **Taxation** (raises the private cost towards the social cost), **subsidies** (internalise external benefits), **fines** , **regulation** and **pollution permits** (capping total emissions and letting firms trade). Each has advantages (targeted, revenue-raising, market-based) and disadvantages (hard to set correctly, enforcement costs, regressive effects) (1.2.6b). Competition regulation (1.2.6c): to PROMOTE competition, LIMIT monopoly power, PROTECT consumer interests and CONTROL mergers and takeovers. Labour-market intervention (1.2.6d): the **minimum wage** exists to prevent exploitation and reduce in-work poverty; at wage 9 the model gives $L_d = 175$ against $L_s = 250$ – 75 workers unemployed – so its advantage (higher pay for the employed, poverty reduction) trades against disadvantages (unemployment, higher business costs, price rises).



Original model: wage 8 and employment 200 where the curves cross.



Original model: at the 9 floor, Ls 250 against Ld 175 – 75 unemployed workers.



Original model: price 50 and output 40 with supernormal profit 800, against the competitive (60, 40).

Checklist

- Competition's five advantages and the economy-level effects; large vs small firms; five growth factors; four reasons firms stay small (1.2.4a–d).
- Monopoly: definition, six features and five barriers; advantages and disadvantages; the model (40, 50, 800, DWL 200) (1.2.4e–g).
- Oligopoly: definition, seven features; advantages and the cartel/price-war disadvantages (1.2.4h–j).
- Labour demand (derived, substitutes, productivity) and supply (eight factors); quantity and quality; human capital (1.2.5a–d).
- The labour diagram with equilibrium (200, 8) and shift analysis; trade unions (1.2.5e–f).
- Externality policies (five) with pros and cons; competition regulation's four aims; the minimum wage with the 75-unemployed arithmetic (1.2.6a–d).

Boundary notes: Paper 1's 20-mark questions often ask for one diagram with both equilibria and the unemployment gap labelled. Lists (barriers, features) are definition-mark material. All worked numbers are original on the shared models.

Government and the economy

Pearson Edexcel · International GCSE · Economics

Pearson Edexcel International GCSE in Economics (4EC1), specification Issue 3, February 2026. This topic covers spec sections 2.1.1–2.1.3 in full: the six macroeconomic objectives (rows a–f of 2.1.1), government policies (2.1.2a–d) and the trade-offs between objectives (2.1.3a). Worked numbers are original and re-derived below.

Must-know for this topic:

Family	Content
CPI	weights 50/30/20 with relatives 110/100/120 → CPI 109 → 9% inflation
objectives	growth, low stable inflation, low unemployment, current-account balance, environment, redistribution
AD/AS	AD $P = 90 - Y/2$ vs SRAS $P = 20 + Y/2$ at $(70, 55)$; reflation → $(85, 62.5)$
trade-offs	unemployment ↔ inflation; growth ↔ inflation; growth ↔ environment; inflation ↔ current account

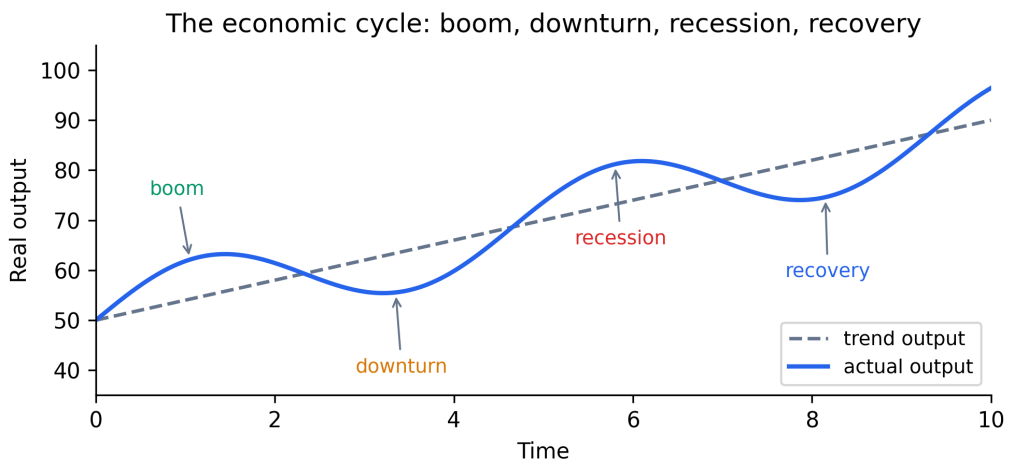
The macroeconomic objectives

Economic growth (2.1.1a) is the increase in real GDP; it is measured by GDP increases, but GDP has LIMITATIONS (non-market activity, distribution, environmental damage, price differences). The **economic cycle** diagram shows BOOM (above trend), DOWNTURN, RECESSION (below trend, falling output) and RECOVERY. Each stage moves growth, inflation and unemployment together: a boom raises growth and inflation and cuts unemployment; a recession does the reverse. Growth's impacts: employment, living standards, poverty, productive potential, inflation (if demand outruns capacity) and the environment. **Inflation** (2.1.1b) is a sustained rise in the price level (deflation: a sustained fall), measured by the **consumer price index** (CPI) – a weighted basket: weights 50/30/20 over goods with price relatives 110/100/120 give CPI = 55+30+24 = 109, so inflation is 9%. DEMAND-PULL inflation comes from AD shifting right (output AND prices rise); COST-PUSH from SRAS shifting left (prices rise, output falls). Interest rates and inflation move opposite: higher rates cut demand and inflation. Inflation hits prices, wages (real pay), exports (dearer), unemployment (if policy deflates), MENU COSTS, SHOE-LEATHER COSTS, uncertainty, confidence and investment. LOW UNEMPLOYMENT (2.1.1c) is measured by the **ILO unemployment measure**; its types are CYCLICAL, STRUCTURAL, SEASONAL, VOLUNTARY and FRICTIONAL; its impacts run through output, wasted resources, poverty, benefit spending, lost tax revenue, confidence and society. A CURRENT-ACCOUNT SURPLUS OR BALANCE (2.1.1d) means exports near imports in goods (visibles) and services (invisibles); deficits follow poor quality or dear domestic goods and an overvalued exchange rate; a deficit leaks demand abroad and can be inflationary. ENVIRONMENTAL PROTECTION (2.1.1e) targets visual, noise, air and water pollution – through taxation, subsidy, regulation, fines, pollution permits and public parks. REDISTRIBUTION (2.1.1f) attacks income inequality and absolute/relative poverty through progressive taxation, benefit payments, and education and healthcare investment.

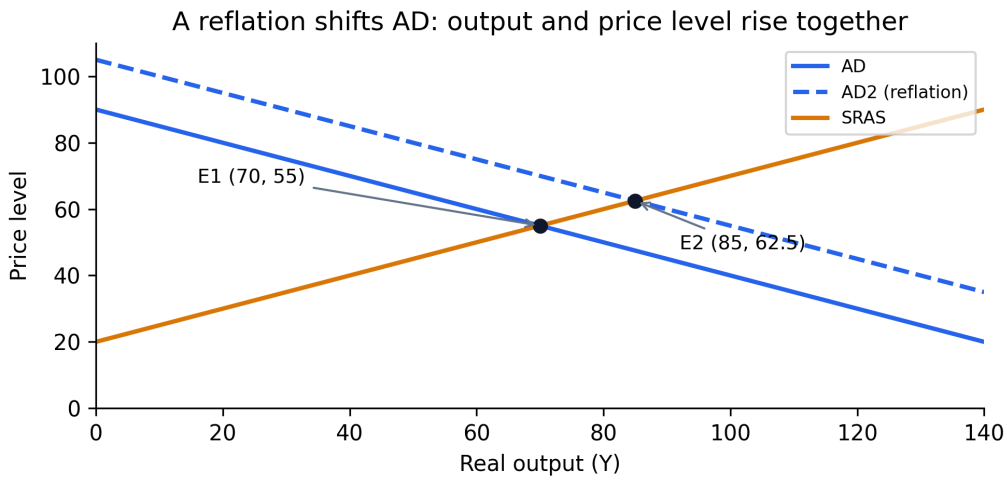
Government policies

Fiscal policy (2.1.2a) uses government revenue (DIRECT taxes on income, INDIRECT on spending) and expenditure; a FISCAL DEFICIT (spending above revenue) reflates but risks debt and crowding out; a SURPLUS deflates. **Monetary policy** (2.1.2b) is focused on INTEREST-RATE changes set by the central bank: higher rates raise borrowing costs, cutting consumption and investment (the transmission mechanism) and cooling inflation; the central bank may also use ASSET PURCHASES (quantitative easing) to add money when rates are near zero. **Supply-side policy** (2.1.2c) raises productivity and total output: privatisation, deregulation, education and training, regional policies, infrastructure spending, lower business taxes (to stimulate investment) and lower income taxes (to encourage work). GOVERNMENT CONTROLS (2.1.2d): regulation, legislation, fines and pollution permits – each with advantages (direct effect, flexibility) and disadvantages (enforcement cost, unintended consequences).

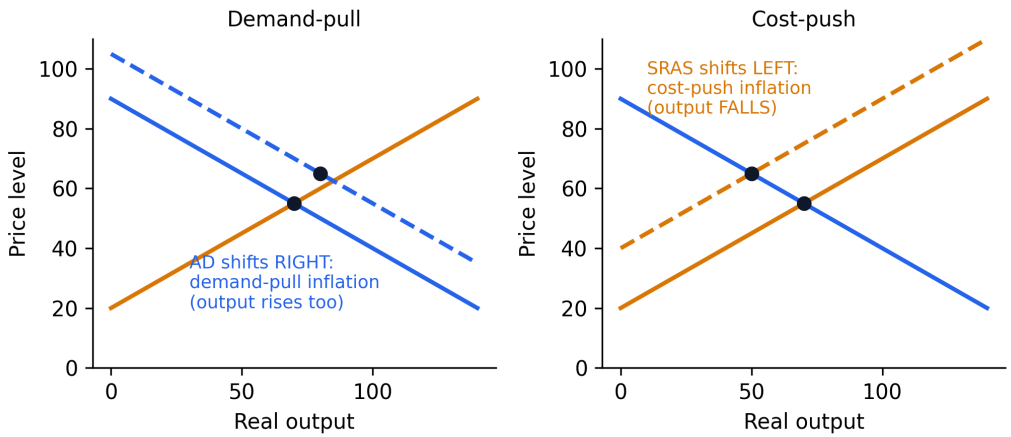
On the AD/AS model, a reflationary fiscal or monetary policy shifts AD from $P = 90 - Y/2$ up by 15: equilibrium moves from $(70, 55)$ to $(85, 62.5)$ – more output, higher prices; supply-side policy shifts SRAS right instead, raising output with LOWER prices.



Original cycle with boom, downturn, recession and recovery annotated.



Original model: the reflation moves equilibrium from (70, 55) to (85, 62.5).



Original panels: AD right raises output with prices; SRAS left (cost-push at (50, 65)) raises prices and cuts output.

Relationships between objectives and policies

The trade-offs (2.1.3a): UNEMPLOYMENT and INFLATION – deflating demand cuts inflation but costs jobs; GROWTH and INFLATION – fast growth overheats into demand-pull inflation; GROWTH and ENVIRONMENTAL PROTECTION – output raises pollution; INFLATION and the CURRENT ACCOUNT – dearer exports worsen the trade balance. Every policy answer should name the trade-off it accepts.

Checklist

- Growth: definition, GDP measurement and its limitations; the cycle's four stages and each stage's effects; growth's six impacts (2.1.1a).
- Inflation and deflation definitions; CPI from the weighted basket (109 → 9%); demand-pull vs cost-push; the interest-rate link; the nine impact groups incl. menu and shoe-leather costs (2.1.1b).
- Unemployment: ILO measure, five types, seven impact groups (2.1.1c).
- Current account: visibles and invisibles; deficit/surplus causes; the exchange-rate link; deficit impacts (2.1.1d).
- Environment: four pollution types; six intervention measures (2.1.1e).
- Redistribution: inequality and poverty definitions; three reasons and three instruments (2.1.1f).
- Fiscal (direct/indirect, deficit/surplus), monetary (interest-rate mechanism, QE), supply-side (seven measures), controls (four, with pros and cons) (2.1.2a–d).
- The four trade-offs between objectives (2.1.3a).

Boundary notes: Paper 2 (macroeconomics, 80 marks, four 20-mark questions) rewards data-response calculation (the CPI arithmetic) and trade-off evaluation. All worked numbers are original.

The global economy

Pearson Edexcel · International GCSE · Economics

Pearson Edexcel International GCSE in Economics (4EC1), specification Issue 3, February 2026. This topic covers spec sections 2.2.1–2.2.3 in full: globalisation (4 rows), international trade (6 rows) and exchange rates (4 rows). The tariff model reuses the shared curves ($Q_d = 140 - 2P$, $Q_s = 20 + 4P$); the exchange model sits at 5 domestic per foreign currency.

Must-know for this topic:

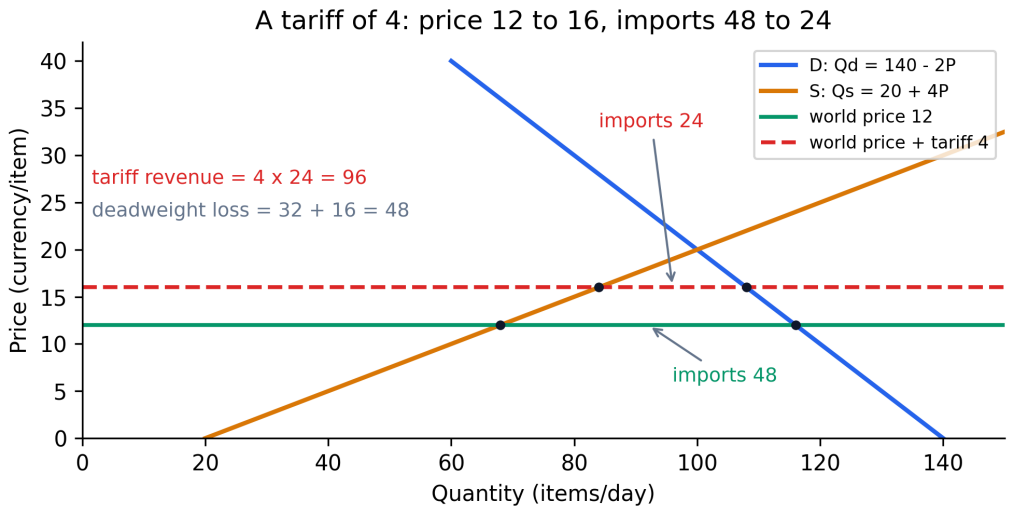
Family	Content
tariff (shared model)	world price 12 → imports 48; tariff 4 → price 16, imports 24, revenue 96, DWL 48
exchange model	demand meets supply at 5 domestic per foreign; import-demand rise → 6.5 (depreciation)
appreciation vs revaluation	market rise vs deliberate fixed-rate rise
MNC/FDI	jobs, infrastructure, skills, capital, tax against tax avoidance, damage, profit outflows

Globalisation

Globalisation is the increased integration and interdependence of economies (2.2.1a). Reasons (2.2.1b): fewer tariffs and quotas, reduced transport costs, reduced communication costs, and the increased significance of MULTINATIONAL CORPORATIONS (MNCs). Impacts (2.2.1c): rising living standards, greater choice, lower prices and cheaper communication – against the closing of traditional industries, harm to workers in exposed industries, and environmental damage, affecting countries, governments, producers, consumers, workers and the environment. A **multinational corporation** operates in more than one country; **foreign direct investment** (FDI) is building or buying productive assets abroad (2.2.1d). MNCs emerge to exploit economies of scale, access natural resources and cheap materials, cut transport and communication costs, and reach customers in different regions. Advantages of MNCs/FDI: creating jobs, investing in infrastructure, developing skills, developing capital, contributing taxes. Disadvantages: avoiding taxes, environmental damage, and moving profits abroad.

International trade

Free trade's advantages (2.2.2a): lower prices and increased choice for consumers, lower input costs, and wider markets for businesses; its disadvantages: foreign competition harming domestic businesses and increasing unemployment in exposed industries. Reasons for protection (2.2.2b): prevent **dumping** (exporting below normal value, usually the comparable home-market price), protect employment, protect infant industries, gain tariff revenue, protect consumers from unsafe products, reduce current-account deficits, and retaliation. Methods (2.2.2c): **tariffs** (import taxes), **quotas** (quantity limits), **subsidies** to domestic producers – each with advantages (revenue, jobs saved, precise quantity control) and disadvantages (higher prices, retaliation, inefficiency). The tariff diagram on the shared model: at the world price 12 imports are $116 - 68 = 48$; a tariff of 4 raises the domestic price to 16 and imports fall to $108 - 84 = 24$, the government collects $4 \times 24 = 96$, and the deadweight loss is $32 + 16 = 48$. **Trading blocs** (2.2.2d) such as the EU favour members (free internal trade, economies of scale) at non-members' expense (trade diversion). The WTO (2.2.2e) negotiates liberalisation, sets trade rules and settles disputes. Trade PATTERNS (2.2.2f): developing countries export primary products and low-cost manufactures; developed countries export services and high-technology goods.

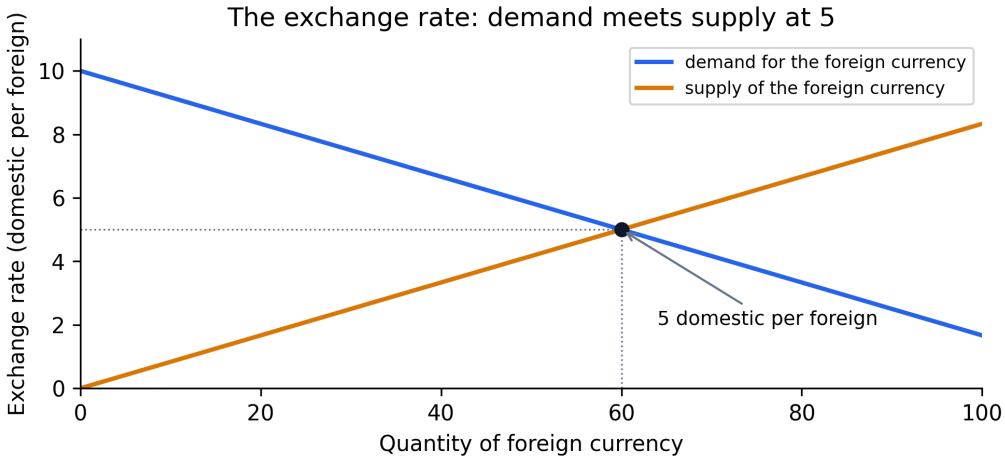


Original model: price 12 to 16, imports 48 to 24, revenue 96, deadweight loss 48.

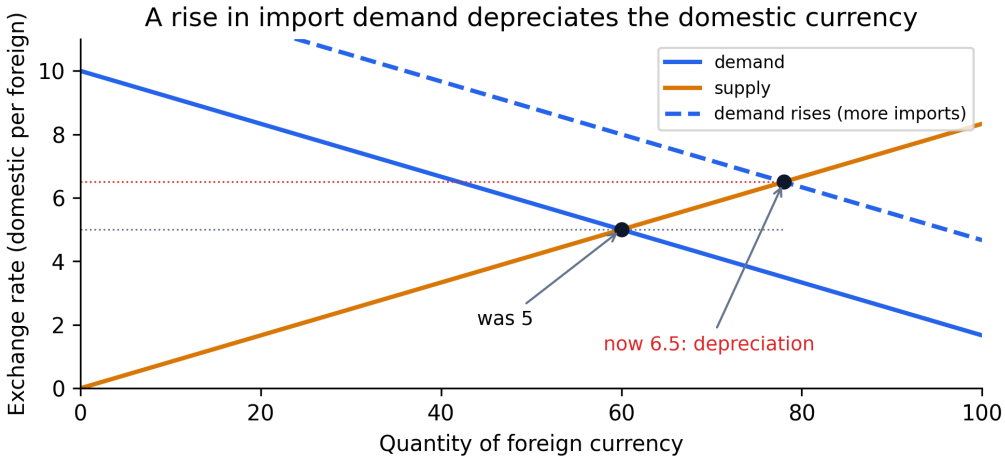
Exchange rates

The **exchange rate** is the price of one currency in another (2.2.3a). It is set by demand and supply of the currency (2.2.3b): interest rates (higher rates attract funds and raise the currency), currency speculators, and the imports and exports of goods and services – buying imports supplies the domestic currency; foreign buyers of exports demand it. The diagram: demand meets supply at 5 domestic per foreign currency. **Appreciation** is a market-driven RISE in a floating exchange rate; a REVALUATION is a deliberate rise under a FIXED rate (2.2.3c). A **depreciation**

is a market-driven FALL; a **devaluation** is a deliberate cut under a fixed rate (2.2.3d). Model: a rise in import demand shifts currency demand right – the rate moves from 5 to 6.5, a DEPRECIATION of the domestic currency: import prices rise (dearer foreign goods), export prices abroad fall, so import demand falls and export demand rises – improving the current account if the elasticities allow, at the cost of imported inflation. An appreciation does the reverse: cheaper imports, dearer exports, current-account pressure.



Original model: the rate is 5 where demand meets supply.



Original model: import-demand growth moves the rate from 5 to 6.5 – the domestic currency depreciates.

Checklist

- Globalisation definition, four reasons, impacts on all groups; MNC/FDI definitions, four emergence reasons, five advantages and three disadvantages (2.2.1).
- Free trade both ways; seven protection motives; tariffs, quotas and subsidies with pros and cons and the diagram arithmetic (48 → 24, 96, 48); blocs and the WTO; trade patterns (2.2.2).
- Exchange-rate definition; the three demand/supply factors with the diagram at 5; appreciation vs revaluation, depreciation vs devaluation; both directions' impacts on import/export prices, demand and the current account (2.2.3).

Boundary notes: Paper 2's data questions use exchange-rate conversions and the tariff arithmetic above. Definitions of the four direction words (appreciation, revaluation, depreciation, devaluation) are one-mark material. All worked numbers are original on the shared models.