

# ECONOMICS



Year 12 Introduction

# Welcome

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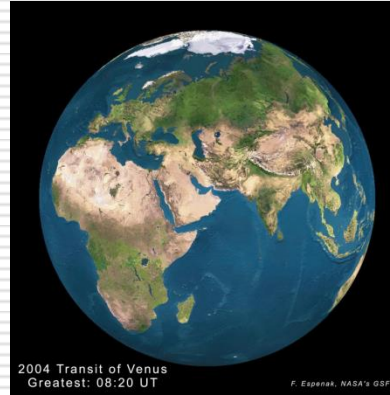
So that you start Year 12 well prepared I have made this introduction with an explanation and a few activities so you can see what the course is about.

The economy is being massively affected by what is going on at the moment so following the news is a good way to get a taste for the subject.

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# ECONOMICS is the study of: What should we do with the Earth's resources to meet peoples needs

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# Economics

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It considers how society uses its resources to produce goods and services that are needed and allocate them to the population.

The key ideas in achieving this are:

- What to produce: to best meet the needs of the people: lives, health, welfare and well-being
  - How to produce it: consider efficiency, sustainability; state provision or private business; size of businesses and level of competition.
  - How it is distributed: What is the best way to share it out for equity, equality,
-

# Most economies also want to:

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1. Achieve a reasonable, steady rate of growth
  2. Provide jobs for people who want them
  3. Maintain stable prices
  4. Balance payments for trade i.e.  
imports = exports
  5. Balance the government's revenue and spending in the long term.
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# Economics has two branches

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## Micro- Economics

Economics at an individual, group or company level

## Macro- Economics

National economy as a whole

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We are going to start with

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**MICRO ECONOMICS**

# Micro Issues

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How best to organise specific areas / markets e.g.

- Health
- Education
- Food shortages
- Pollution
- Flood defences
- Smoking, Alcohol

Some of these  
are very topical!



# How are A levels assessed?

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Exams are a mixture of:

- Multiple Choice Questions
  - Simple Calculations
  - Short answers about data provided
  - Longer explaining answers
  - Essays where you have to weigh up options and reach a judgement about effects or remedies
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# Sample Multiple Choice

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Have a think about these 5 questions  
Then click on to the next side for the  
answer.

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# Question 1

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Which one of the following is most likely to lead to greater labour productivity in an industry?

- A** An increase in market demand
  - B** A fall in wages
  - C** An increase in the number of firms in the industry
  - D** An increased investment in machinery
-

# Answer

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Which one of the following is most likely to lead to greater labour productivity in an industry?

**A** An increase in market demand

**B** A fall in wages

**C** An increase in the number of firms in the industry

**D An increased investment in machinery**

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## Question 2

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Choice is an important element in the basic economic problem because

- A** wants increase with income.
  - B** incomes are distributed unequally.
  - C** high demand leads to high prices.
  - D** limited resources have alternative uses.
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# Answer

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Choice is an important element in the basic economic problem because

**A** wants increase with income.

**B** incomes are distributed unequally.

**C** high demand leads to high prices.

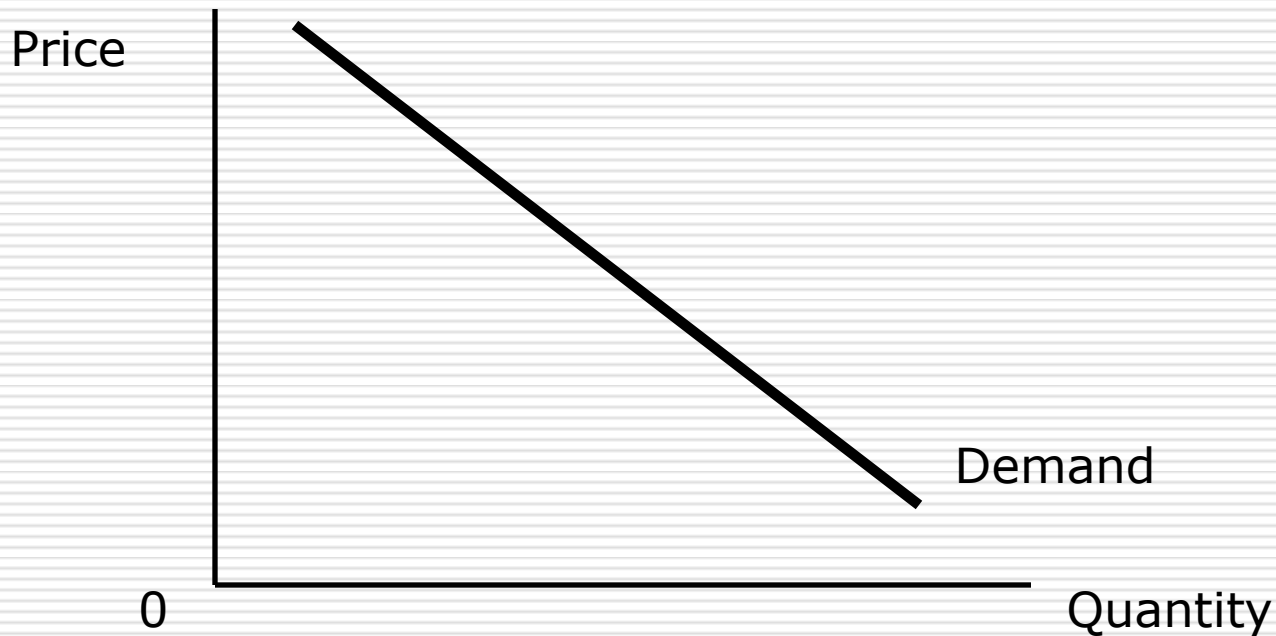
**D limited resources have alternative uses.**

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# Question 3

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The diagram below shows a demand curve for chicken.



# Options:

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The demand curve is drawn on the assumption that each of the following remains constant **except**

- A** the incomes of consumers.
  - B** the price of chicken.
  - C** advertising expenditure on chicken.
  - D** the price of beef.
-



# Answer

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The demand curve is drawn on the assumption that each of the following remains constant **except**

**A** the incomes of consumers.

**B the price of chicken.**

**C** advertising expenditure on chicken.

**D** the price of beef.

**Price does not remain constant – it varies along the y axis**

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# Question 4

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The table indicates the average price of organic turkeys in price index number form

Index numbers are percentages of the base year i.e. 2004 = 100

2004	100
2005	105
2006	120
2007	110
2008	125

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# Options

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2004	100
2005	105
2006	120
2007	110
2008	125

Which one of the following can be deduced from the above data?

- A** The price of organic turkeys rose throughout the whole period 2004 to 2008.
  - B** Compared with 2008, the price of organic turkeys was 20% cheaper in 2004.
  - C** Revenue from the sale of organic turkeys fell in 2007.
  - D** Between 2006 and 2007, the price of organic turkeys fell 10%.
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# Answer

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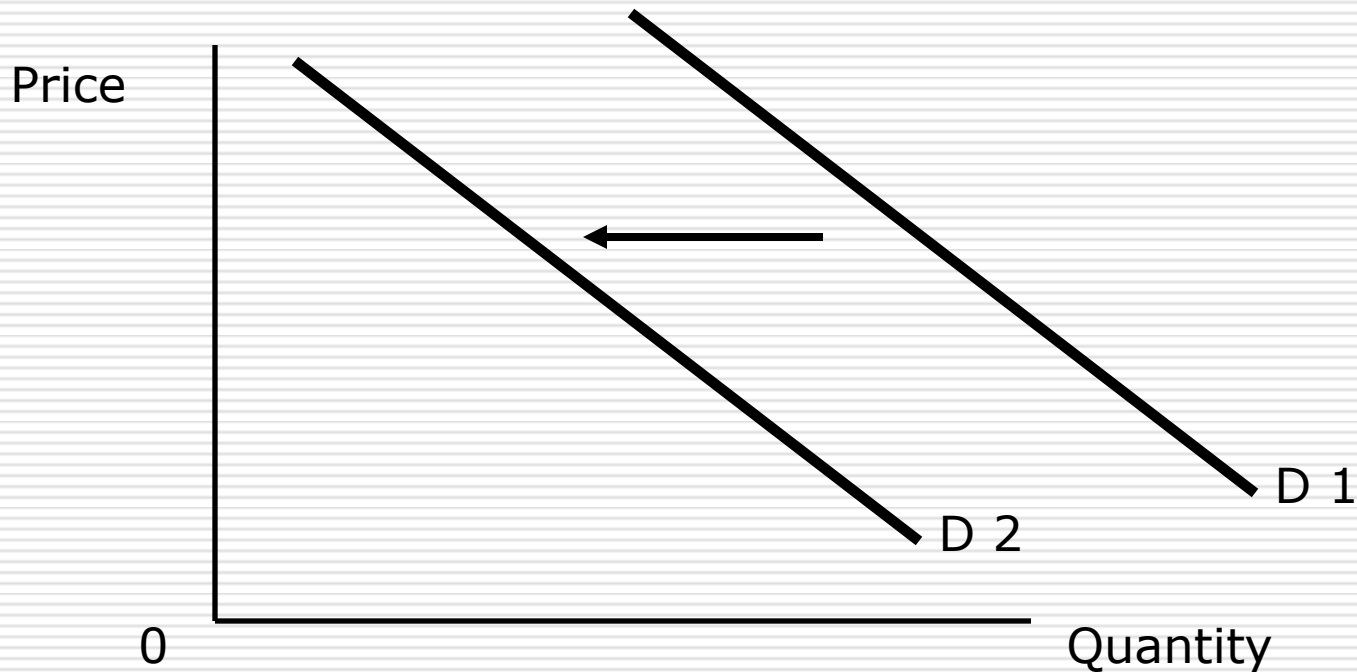
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-

# Question 5

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The diagram shows a demand curve



# Options

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The demand curve for a good will shift to the left if

- A** there is a successful advertising campaign for the good.
  - B** the price of the good increases.
  - C** the price of a substitute good falls.
  - D** the cost of making the good increases.
-

# Answer

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The demand curve for a good will shift to the left if

- A** there is a successful advertising campaign for the good.
- B** the price of the good increases.
- C the price of a substitute good falls.**
- D** the cost of making the good increases.

If the alternative gets cheaper people will tend to buy that more of than and switch away from the good in the diagram

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# Past paper ( AQA 2018)

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Have a look at the extracts and have a go at the questions

It will give you an idea about what we will be studying

Good Luck

Mrs Sherratt

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**D): UK agriculture, forestry and fishing – employment, index of output and milk price, 2009 to 2016**

<b>Year</b>	<b>Employment in agriculture, forestry and fishing (000s)</b>	<b>Output in agriculture, forestry and fishing (2013=100)</b>	<b>Milk price (pence per litre)</b>
2009	389	97.1	23.7
2010	419	96.5	24.7
2011	404	107.1	27.4
2012	426	99.3	28.1
2013	369	100.0	31.6
2014	419	113.9	31.5
2015	368	115.3	24.5
2016	370	111.4	22.7

# Extract 1: UK agriculture in crisis?

Currently 68% of food consumed in UK is produced in this country but the National Farmers Union (NFU) believe this could drop to 53% unless action is taken. The decision to leave the European Union (EU) has added to the uncertainty faced by farmers. A NFU representative described it as “one of the biggest challenges facing the industry but...a unique opportunity”. Although, over time, EU has reduced its intervention, many farmers have relied on subsidies, **minimum price** controls or other interventions to help them to survive or to finance improvements.

Recently, UK milk prices have fallen due to excess supply. One prediction was that 20% of dairy farms would close in 2016. Others may switch to other types of farming or offer holiday accommodation. But, if farms close, prices could then start to rise again. Extreme weather conditions in some parts of the world may also increase many agricultural prices. Inequality will always exist but which is worse – lower incomes for farmers or higher prices for consumers? Improved technology could increase productivity but many farmers are struggling to finance this due to falling or volatile prices.

And what about the environment? Many people accuse modern farming methods of damaging wildlife habitats and polluting rivers but farmers also play a part in managing and protecting the countryside. Should there be more restrictions on what farmers can do or should they receive more government support?

# Extract 2: Crisis? What crisis?

The fall in the value of the pound since the Brexit vote has increased some import prices by 16% whilst UK grain exports have been at their highest for 20 years. Dairy prices are expected to rise in 2017 due to lower supply and strong demand – a growing world population needs feeding. Incomes are likely to rise for many farmers but higher costs of imported fuel and fertiliser may prevent this.

Poultry farmers have been doing better recently, with strong demand for eggs, particularly free-range, and significant productivity gains. However, the cost of feed and the avoidance of diseases such as avian flu are crucial.

Sales of organic food have also been rising steadily in the last few years, partly due to their alleged health benefits. More than half the baby food now sold in the UK is organic. However, organic food is usually more expensive since strict standards lead to lower yields.

Genetically modified (GM) foods do not occur naturally but have been developed by scientists to resist disease and increase yield. Some people fear that the food produced is unsafe but others claim that the increased output could raise revenue for farmers and lower prices for consumers. Currently, no GM crops are grown commercially in the UK but the first GM products were sold in British supermarkets in 1996. Leaving the EU will enable us to explore this area further.

It is clearly a time of uncertainty for the UK farming sector as over 40 years of EU involvement is replaced but by what? **Should the UK government take an active role in agriculture, and if so, what policies should it implement?** Or should it leave the sector to market forces with little, if any, intervention?

# Questions

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1. Define 'minimum price' Extract E (paragraph 1). [3 marks]

*(This is quite straightforward. Find the phrase and work out what it means)*

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2. Extract 2 states: 'One prediction was that 20% of dairy farms would close in 2016'.

If there were 9633 dairy farms in England and Wales in January 2016, calculate, to the nearest whole number, how many dairy farms there would be in January 2017 if the prediction for the percentage of dairy farms closing in 2016 is correct. [4 marks]

*(Fairly simple maths)*

Extract F (lines 2–3) states: 'Dairy prices are expected to rise in 2017'. Explain two factors that could increase the price of milk. [10 marks]

(There are clues in the extracts)

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4. Extract 2 states: 'Should the UK government take an active role in agriculture, and if so, what policies should it implement?'

The Q was:

Use the extracts and your knowledge of economics to assess to what extent, if at all, the UK government should intervene in the agricultural sector. 25 marks

**Do NOT do this. Just make a list of :**

***2 reasons they should leave it alone***

***2 reasons why they should take action***

***2 things that would be best to do***

***2 reasons WHY these are priorities***

# ECONOMICS

## Year 12 Taster Work

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**WELCOME**

from

Mrs Sherratt

Mrs Shaw

Mr Bryden



- 
- We are all looking forward to meeting you in September
  - Hope you are keeping safe
  - Here is some more information about the topics we will cover in the course
  - Have a think about how well the economy is doing and how things are changing
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# What is Economics?

Remember:

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MACRO = large scale

i.e. improve the whole economy

MICRO = small scale

i.e. improve single markets:

smoking, health, education, environment

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# Macro Economics

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How should we run the economy?

What do we want to achieve?

# Macro - Objectives:

## Main aims

1. Grow the economy - Increase output
2. Lower unemployment- create jobs
3. Steady prices – low inflation
4. Exports >Imports : balance payments

## Other aims

1. Reduce government debt
2. Improve equality
3. Improve equity
4. Be sustainable

# Content of year 12

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- What is happening – in theory
  - What is happening – in practice
  - How Governments can help: policies
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# Objective 1

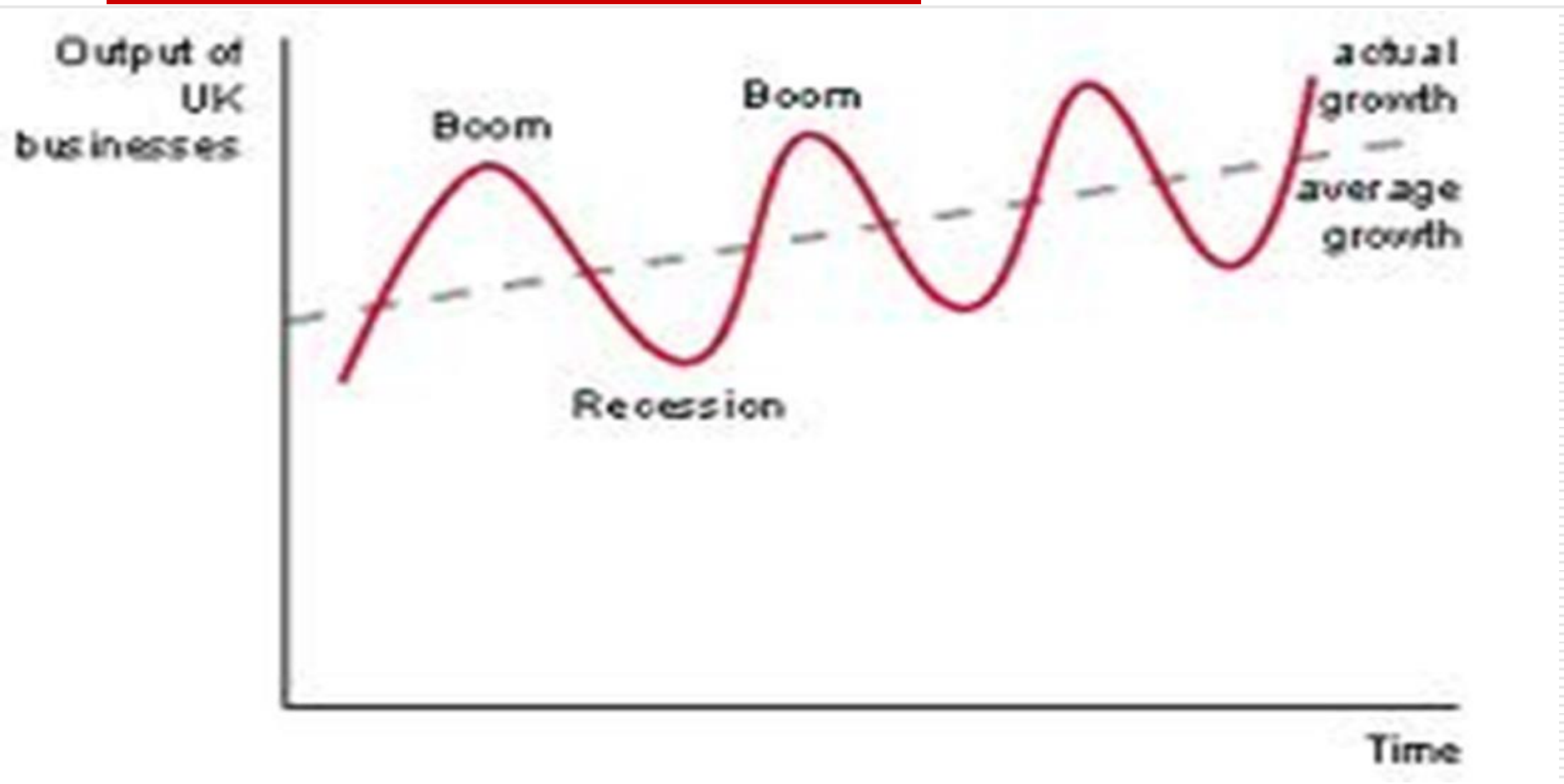
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# Economic Growth

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# Growth

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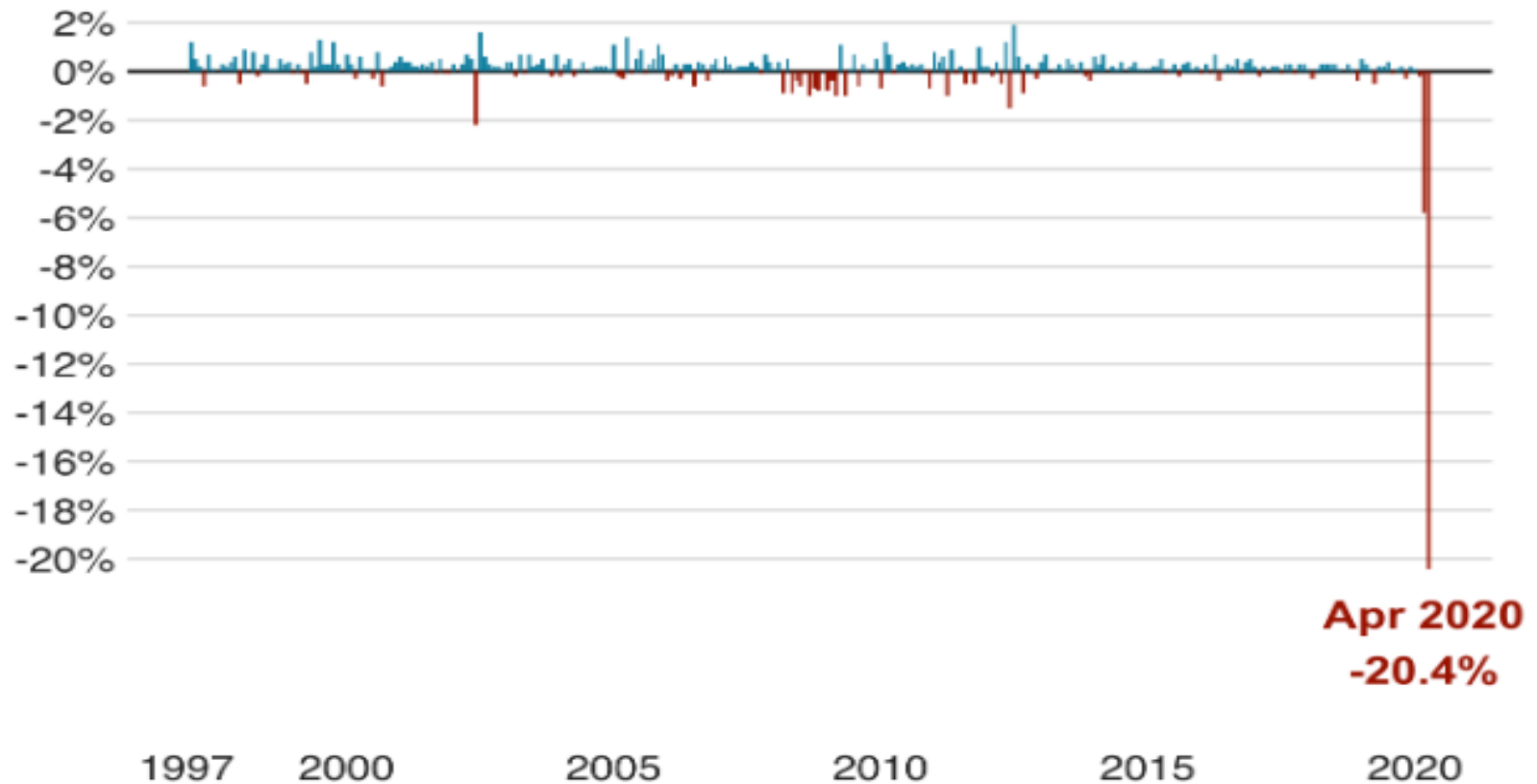


Over time economies grow, but not smoothly

# What has happened to UK growth?

## UK economy shrinks 20.4% in April 2020

Monthly GDP growth, %



Source: Office for National Statistics

BBC



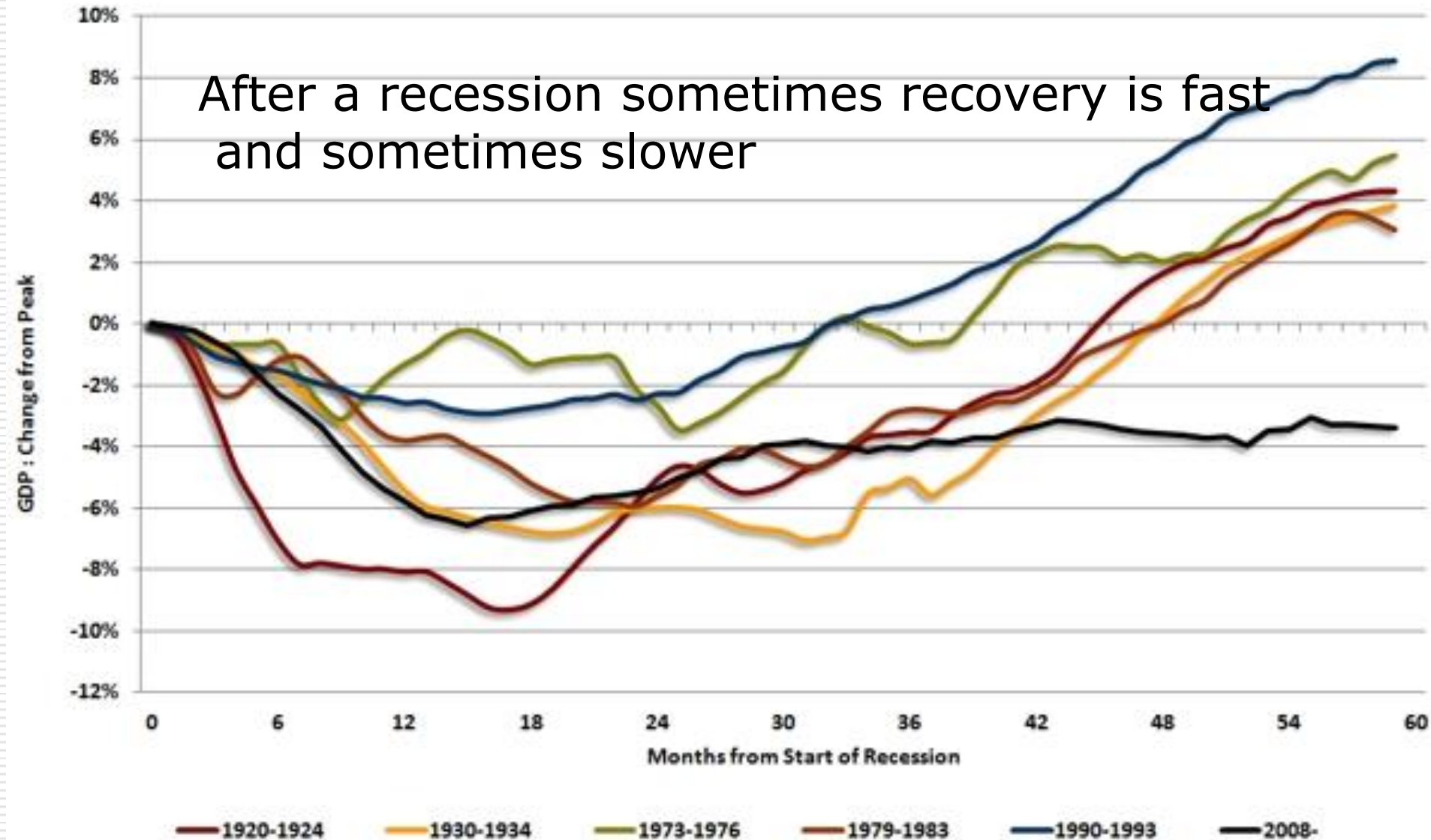
# Why has GDP fallen?

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- ❑ Virtually all areas of the economy were hit, with pubs, education, health and car sales all giving the biggest contributions to this historic fall. Carmakers and housebuilders were particularly badly hit.
  - ❑ It's highly likely April will be the low point. It's really too early to know how quickly economic activity will recover in the coming months."
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# Recessions and Recovery

After a recession sometimes recovery is fast and sometimes slower



# Recovery?

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How quickly will UK bounce back? Will the graph be shaped like:

- V – quick
- U – quite quick
- L – slow

How well the economy recovers will depend on a lot of factors. Government policies will make a difference

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## Objective 2

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# Labour Market

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# Unemployment

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A person is classed as unemployed if:

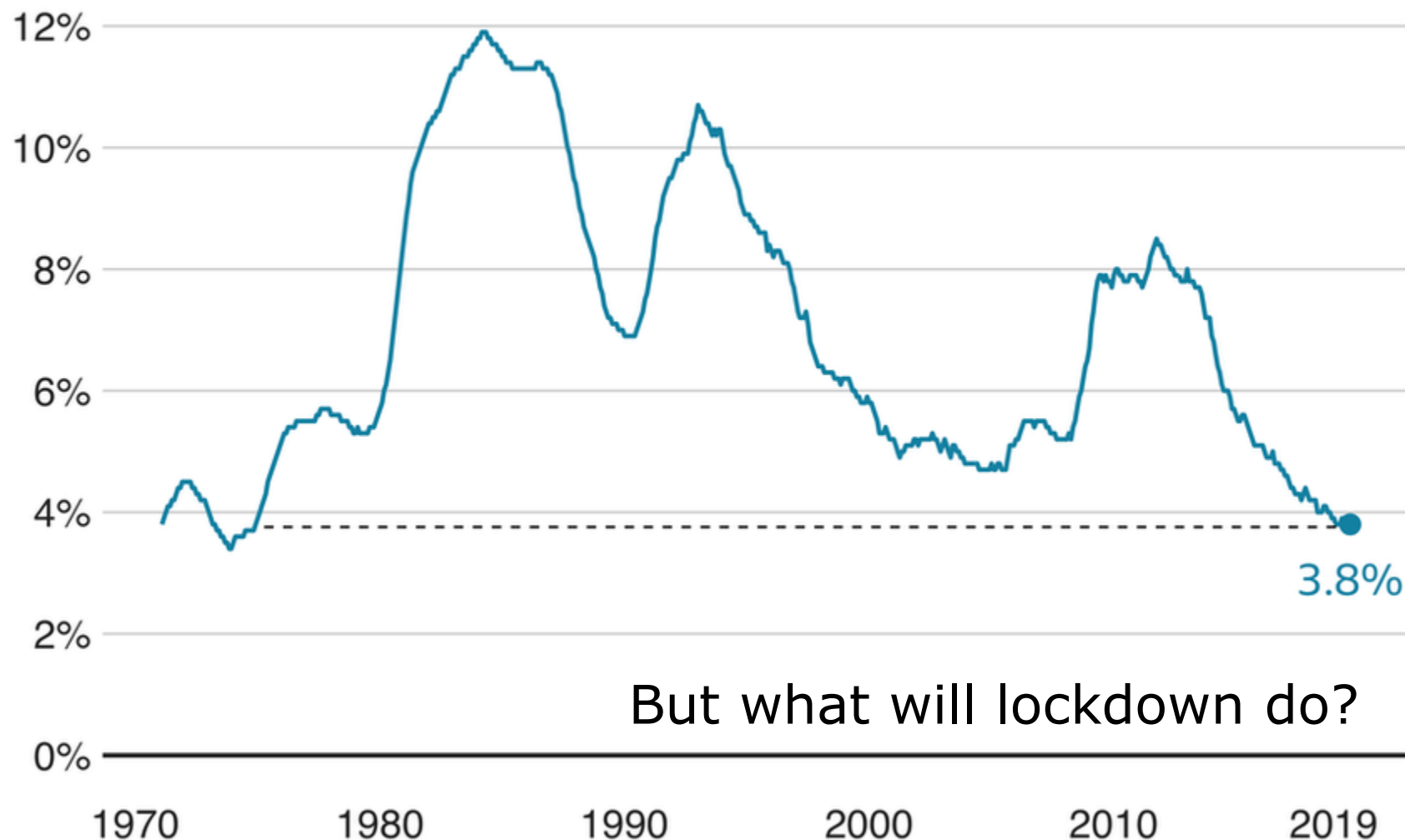
- out of work
- actively looking for work
- available to start work within a fortnight

Unemployment figures are based on a survey carried out by the Office for National Statistics.

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# UK unemployment holds at record low

Percentage of economically active people aged over 16 who are unemployed



Source: Office for National Statistics. Margin of error:  $\pm 0.4\%$

# Employment

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Refers to 16-64 year olds

□ Unemployment rate: 4%

□ Employment rate: 77%

□ Inactivity rate: 19%

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# Employment after lockdown

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- ❑ What will happen now?
  - ❑ What can the government do to try to reduce the number of people who lose their jobs?
-



# Remedy: Build a chain

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## Cut income tax

- People keep more of their earnings
- They have more money to spend
- Consumption rises
- Factories increase output
- They need more workers
- Unemployment falls

# Objective 3

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**PRICES**

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# UK Inflation (CPI)



# Measuring Inflation

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- ❑ Researchers check the prices of the things that most people buy
  - ❑ They divide household spending into several categories...
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# Categories of Expenditure

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Transport

Food + non-alcoholic drinks

Health

Alcoholic, tobacco + narcotics

Housing, fuel  
and power

Miscellaneous goods and  
services

Clothing and footwear

Household goods and  
services

Recreation and culture

Education

Restaurants and hotels

Communication

## Classification of Individual Consumption Expenditure by Economic Activity

Transport

Housing (net)<sup>1</sup>, fuel and power

Recreation and culture

Food and non-alcoholic drinks

Restaurants and hotels

Miscellaneous goods and services

Household goods and services

Clothing and footwear

Communication

Alcoholic drinks, tobacco and narcotics

Education

Health

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Which do you think will be the biggest % of total expenditure?

Move this box and see if you were right

# Objective 4

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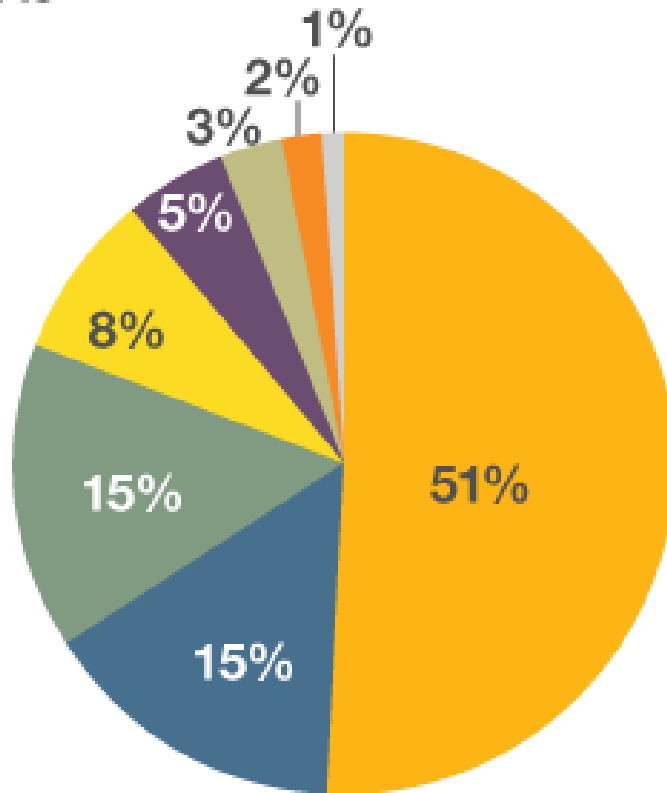
# Imports and Exports

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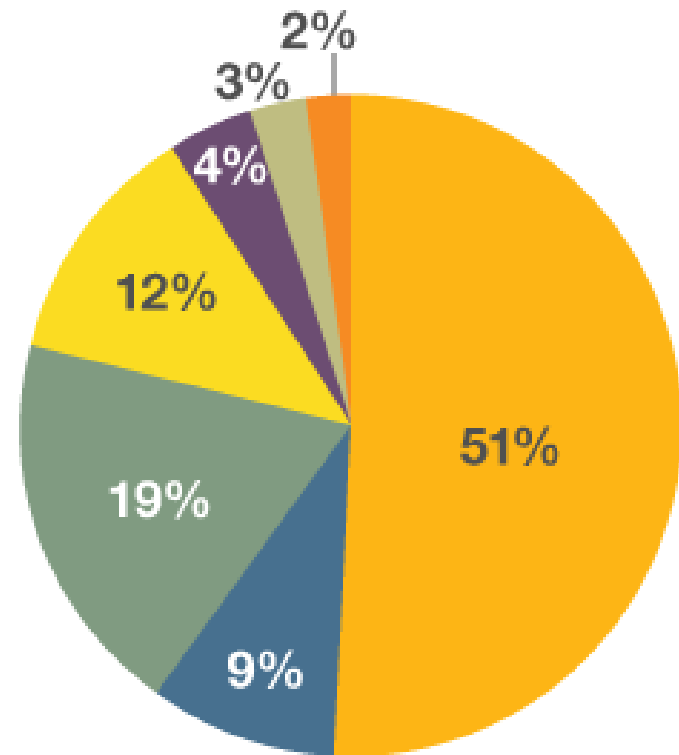
## Where the UK trades



### Exports



### Imports



Source: HMRC, 2012 figures

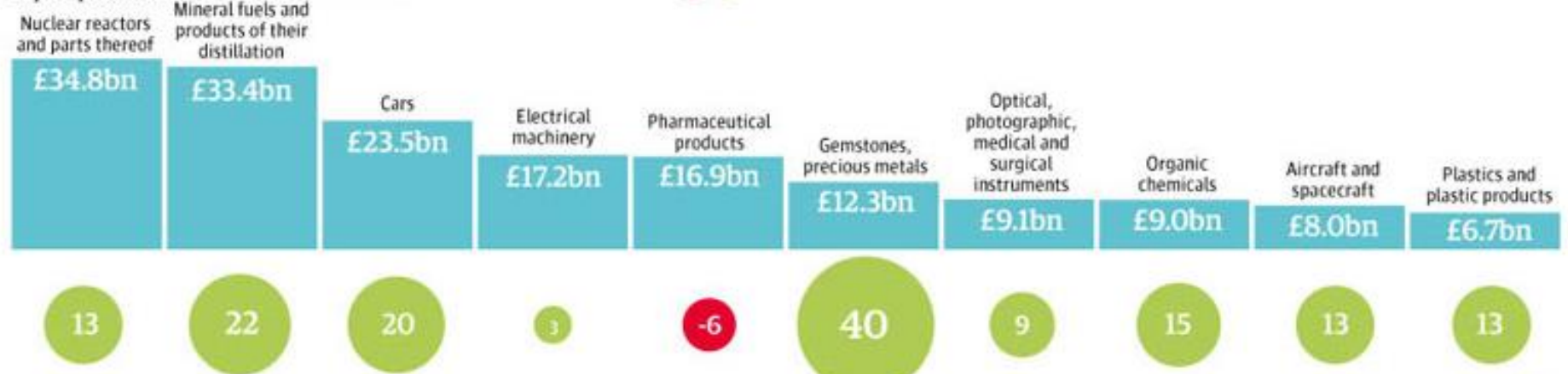
# How will this change after BREXIT???



# What we sell

## What we sell

Top 10 products



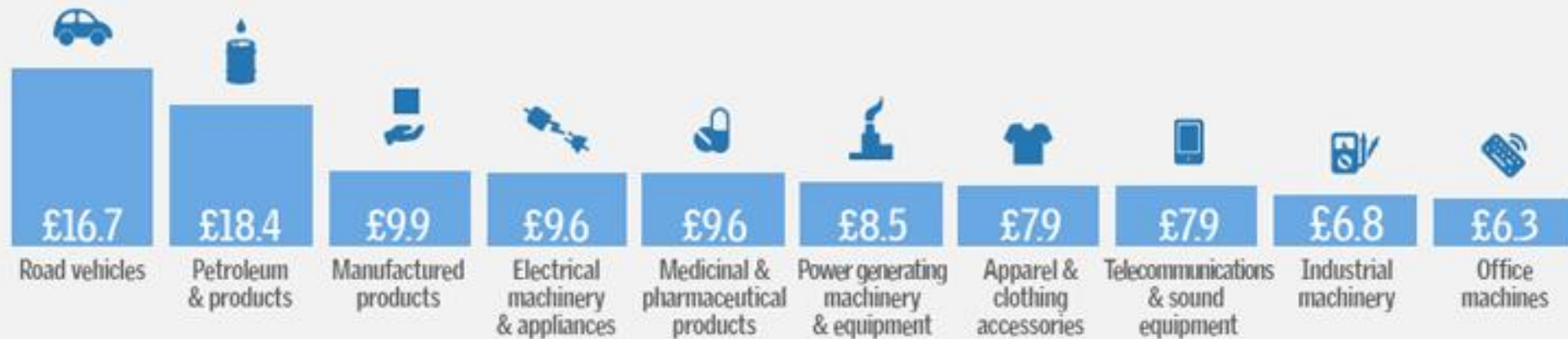
SOURCE: HM REVENUE AND CUSTOMS

# What we buy

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## What we buy

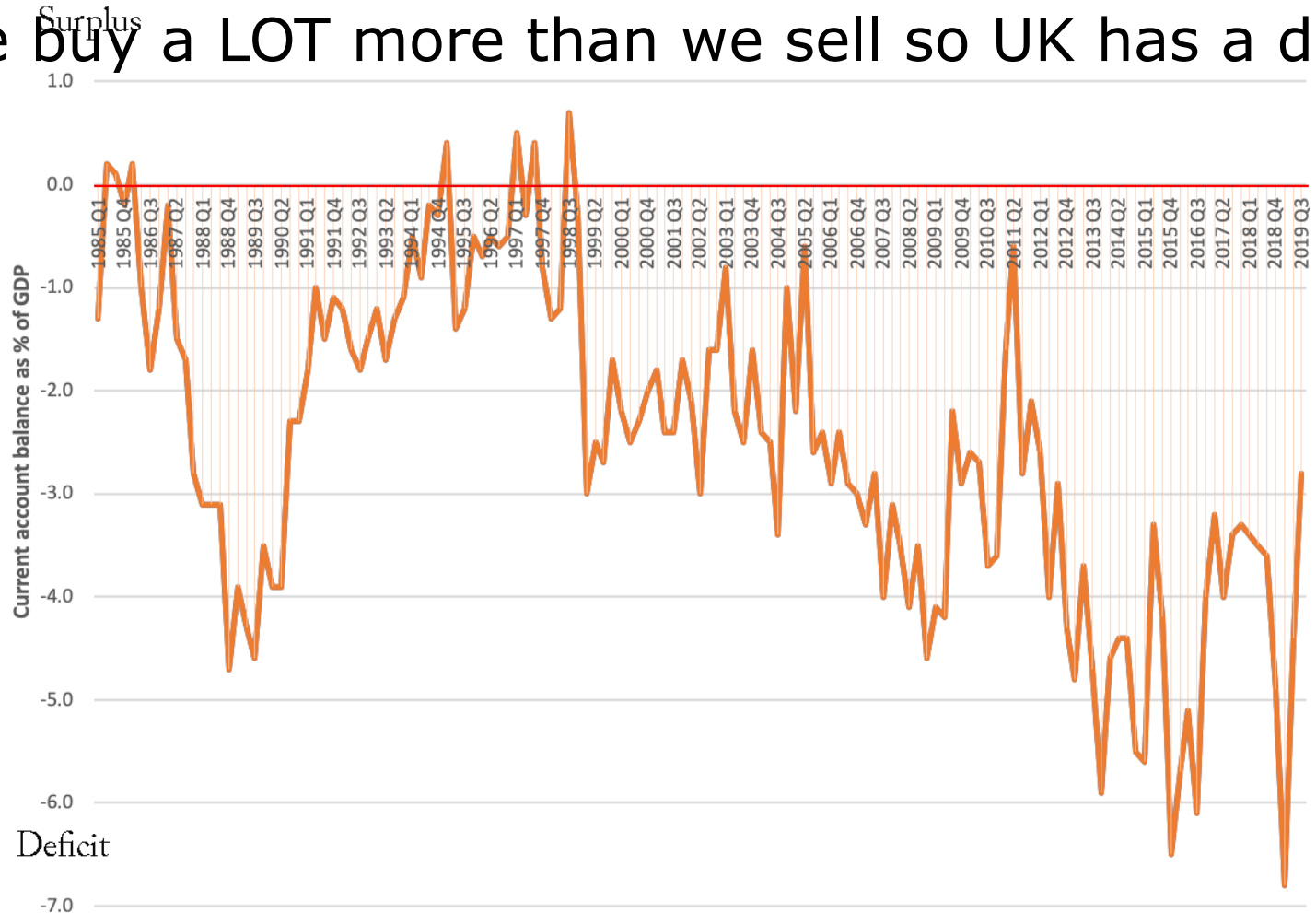
The UK's top 20 import products for 2014 so far (in billions)



Source: <https://www.uktradeinfo.com/Statistics/Pages/Annual-Tables.aspx>

# Imports and Exports combined

We buy a LOT more than we sell so UK has a deficit



# Examples of assessments

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- How much money people spend and save will affect how busy the economy is
  - What might affect the level of savings?
-

# Answers

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- Recession
  - Expectations
  - Interest Rates
  - Tax free schemes
  - Income level
  - Income distribution
  - Pensions
  - Welfare spending
-

[25 marks]

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Some people think cuts in income tax are likely to help the economy.

Do you think that cutting income tax is the best way to improve the performance of the UK economy in both the short run and the long run.

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# To answer this...

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- Do you know how income tax is calculated?

Tax Rate (Band)	Tax Rate	Taxable Income 2018/19	Taxable Income 2019/20
Tax -free Personal Allowance	0%	Up to £11,850	Up to £12,500
Basic rate	20%	£11,851 to £46,350	£12,501 to £50,000
Higher rate	40%	£46,351 to £150,000	£50,001 to £150,000
Additional rate	45%	Over £150,000	Over £150,000

If your income is low you pay no income tax  
The more you earn the higher the rate

# Now answer the Q

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What will happen if income tax rates are cut?  
Will it help to achieve any of the goals on side 5?  
Which ones?