Paper overview

Paper 1: Microeconomics and Business Economics
Paper code 4EC1/01
- Externally assessed
- Availability: January and June
- First assessment: June 2019

50% of the total International GCSE

Content summary
The market system:
- The economic problem
- Economic assumptions
- Demand, supply and market equilibrium
- Elasticity
- The mixed economy
- Externalities

Business economics:
- Production
- Productivity and division of labour
- Business costs, revenues and profit
- Business competition
- The labour market
- Government intervention

Assessment
Examination of 1 hour 30 minutes, consisting of four compulsory questions, each worth
20 marks. The sub questions are a mixture of multiple-choice, short-answer, data response
and open-ended questions.

Paper 2: Macroeconomics and the Global Economy
Paper code 4EC1/02
- Externally assessed
- Availability: January and June
- First assessment: June 2019

50% of the total International GCSE

Content summary
Government and the economy:
- Macroeconomic objectives
- Government policies
- Relationships between objectives and policies

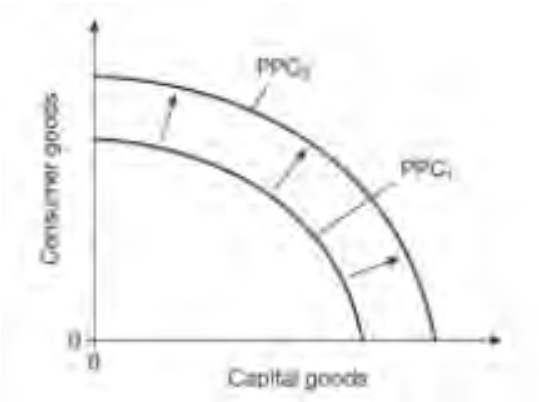
The global economy:
- Globalisation
- International trade
- Exchange rates

Assessment
Examination of 1 hour 30 minutes, consisting of four compulsory questions, each worth
20 marks. The sub questions are a mixture of multiple-choice, short-answer, data response
and open-ended questions.

The Market System

Improvements Leading to Economic Growth

- **New Technology**: Using newer and more advanced technology can present us with more opportunities to grasp the world at large with access to the Internet. Additionally, we can identify that the newer technology also helps us carry out tasks much faster like machinery and telecommunication devices.
- **Mass Formal Education**: When the public is properly educated they are able to do more skilled work. This will greatly improve the Economic Growth of the country as Skilled work usually involves using methods applied from school in tasks.
- **New Resources**: When Resources are discovered they are usually a sign of economic prosperity as there will be a creation of jobs and demand. Oil is a great example, when oil was discovered fracking was a procedure done to remove all of the oil from minerals.
- **Improved Efficiency**: Production methods like kaizen usually encourage Efficiency for all workers which will increase the amount of output a firm can dish. This may also encourage workers as well.



Economic Growth can be seen when a PPC curve shifts outwards, this means maximum resources can be maximized even more than before. It is possible for the Curve to also shift inwards, this would represent a Negative Economic Growth. This could be due to a plethora of resources like depletion of resources or unpredictable events like natural disasters.

activity. Society may also enjoy this by shopping at the new shop and being satisfied with their services.

Government Policies:
The Government will usually like to see less negative externalities and more of the positive kind so they create policies and legislation to push their agenda.

Taxation - Taxation is imposed on things with external costs. If a form of production has a massive level of pollution generated from production, then taxation is used to limit activity and production. There is also taxation on consumables that can be harmful to individuals and third parties, aka private costs. Taxation is imposed on Alcohol to curb possible intake of it and to possibly lower alcohol related accidents from happening.

Subsidies - Governments will offer money to businesses that have external costs in hopes of reducing such activity. They also give subsidies to companies which are employing external benefits, like subsidizing companies which produce solar panels as this evokes more clean energy in the market. However, there is an opportunity cost to this - as the same government money could be used for different projects.

Fines - These are punishments that are imposed by the government to help stop external costs. Some governments like to heavily fine companies which emit emissions or damage the natural landscape through pollution from the companies production. Fines will also be imposed on individuals who litter or produce noise pollution.

Government Regulations - An Increased amount of pressure is put on governments to help protect the environment, most governing bodies in the world have regulations which help protect heritage sites and ecosystems. However, sometimes governments may lack the resources for enforcement as it is not easy to get companies and citizens to comply with new regulations. It is also especially difficult when large and powerful companies disagree as they are able to manipulate a lot of aspects (like over legal disputes and claims) and continue with harming the environment.

What causes firms to grow?

Government Regulations - There are set rules and legislations governments follow that promote competition as competition is to the consumer's interest and will raise quality of life. They are to investigate and block any merger or takeover that might threaten competition in the market.

Access to Finance - When firms gain access to finance they have more chances of opening new factories, shops or developing new products to increase their business size.

Economies of Scale - When a business is able to exploit economies of scale, they are able to produce for cheaper and faster. This is to their advantage and will help financially.

The Desire to Minimize Risk - When a firm is able to expand to other sectors and markets they are to minimize their risk. This is because when one sector/market fails they still have others to rely on. Example a boba shop started selling regular coffee, because they wanna spread image and lessen risk.

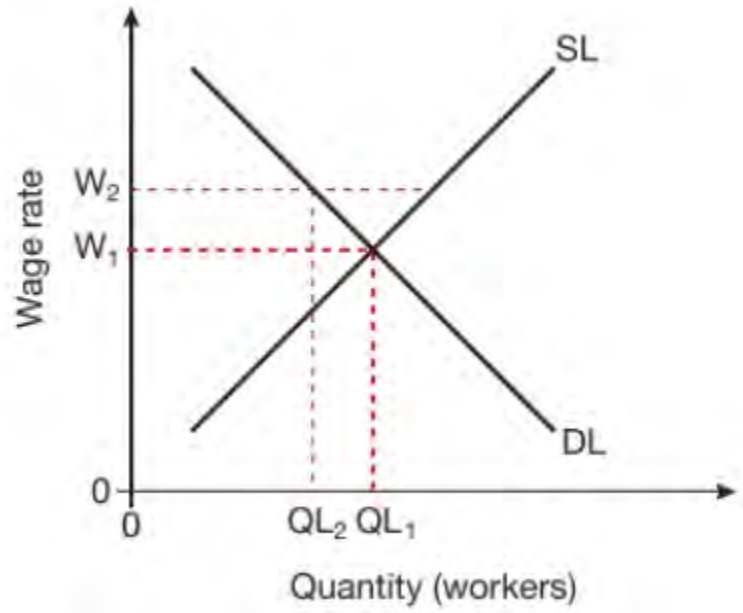
The Desire to Eliminate Competition - This can be achieved by performing takeovers on competition, this is great for businesses to keep on going. Merger and acquisition behavior tends to vary though, so when takeovers are less popular, firms can grow more.

What causes firms to stay small?

Size of the Market - For more niche products, there are usually smaller markets for them. This means that firms can't really grow very large in those respective markets, because there aren't that many buyers.

Nature of the Market - Markets which have low set-up prices usually encourage entrepreneurs to start businesses in those markets, making the market have fierce competition. There are businesses which are market niche. They serve what larger firms do not serve, but are related.

Effect of this Raise:



It is argued by economists that a rise in minimum wages will mean a decrease in the level of employment. W1 showcases the equilibrium wage while W2 will show the minimum wage increase. It is seen that the supply of labour will increase; however, demanded labour decreases.

This has been disproven by studies that showcase that a rise in minimum wage, also increased the amount of labor demanded because productivity was better than ever. However these rises in minimum wage came at a time of equal economic prosperity, which would mean that employment could've been up no matter what.

The Global Economy

Multinational Companies and Foreign Direct Investments

MNC's are companies which have laid roots in multiple countries, either by having set up factories or shops in countries other than their origin.

- They have lots of assets (land and capital).
- They have a lot of political and economical influence.
- Usually are very hi-tech as they always need to stay ahead of the curve.
- Very efficient in production.

FDI's:

This occurs when a company invests in a country's economy by either opening a factory there or a store. This will help keep the host country's citizens employed while the company enjoys profits.

Most MNCs and FDIs have come to be so popular because they can have advantages over smaller companies. Large companies will usually be able to abuse economies of scale - this is the same case for MNC's and such.

- Economies of Scale.
- Easy access to resources.
- Lower transportation and communication costs.
- Access to a wide range of customers, because there are customers in different regions.

Advantages:

- This will create jobs for the citizens in the host country. This is attractive as it will reduce unemployment and warrant economic growth.
- Countries will be more inclined to invest in infrastructure. This is as it is unattractive to perform trade in a country with inefficient road systems which could be a detriment to the business.
- Since MNC's would usually involve their staff being trained, mass training of staff will occur and this can improve the skills of a nation.
- Contribute to Taxes, this is often what MNC's do. A government can earn a lot of money from taxes collected from them.

Disadvantages:

- Some FDIs and MNCs will evade doing their taxes through loopholes in the law, or by brute power and political influence.

Substitutes & Complements:

Substitutes - These are items that can easily be replaced with another good. For example Coca Cola and Pepsi or beef and chicken. A price increase in one will prompt a rise in quantity demanded for the other as well. The relationship between these two are proportional.
This proportional relationship means that the XED of substitutes will always be positive.

A strong substitute would be that with a higher elasticity. This could mean that there are less substitutes in this particular market, therefore the relationship between the two products is closer. Weaker substitutes would be those products that are not exactly closely related or those with too many substitutes. These would be inelastic.

Complements - These are items that are usually paired with each other, possibly because they are enjoyed together like cereal and milk or are needed like cars and petrol. An increase in price of one good would lead to a decrease in quantity demanded of the other, this makes it inverse.
The inverse relationship means that the XED of complements will always be negative.

A strong complement would have high elasticity, this could be products that have to be used together, or are super commonly used together. However, a majority of complements are weak because they aren't inherently needed together and, the products stand alone may have different uses that being a complement to the other. Weaker complements are usually inelastic.

No Relationship - If goods have no relationship with each other, they have an XED of 0 precisely. This is because the goods are unrelated, they are not complements or substitutes of each other.

Measuring Inflation and Unemployment

These are important tools in which economists and governments use to assess and expand their economies.

Types of Price Relations:
Inflation - The continual rise of prices in an economy.
Deflation - The opposite of inflation. Meaning, the continual fall of prices in an economy.
Disinflation - Drops in the rates of inflation.
Hyperinflation - Inflation levels start becoming too high.
Reflation - Rise in GDP after a recession.
Stagflation - The inflation rates are rising during a recession.

Consumer Price index (CPI) - This is a measure of inflation in the economy. It is internationally accepted so it can be used for comparisons.

CPI may not prove as effective when it comes to the differing baskets households may have. The assumed basket is not accurate to how everybody spends, some may buy different items because they don't have children or they may be older or they find that they have an affinity for something at the time.

Producer Price Index (PPI) - Commonly used as a measure for inflation. These take into account the spending of producers on necessities to keep their production running (raw materials, energy, rent, labour).

Measuring unemployment is done by the ILO (International Labour Organisation), who have their statistics used by organisations like the EU and other countries.