

# Year 12 Economics

## Year 12 Exam Paper 1 Revision

### 1.1 Scarcity, choice and potential conflicts

Students are introduced to the basic economic problem and to the way in which different economic agents have different and conflicting objectives.

Subject content	What students need to learn:
1.1.1 The economic problem	a) The problem of scarcity (where there are unlimited wants and finite resources) b) Choices and potential trade-offs c) The importance of opportunity costs to consumers, producers and government
1.1.2 Business objectives	a) Different business objectives and reasons for them: <ul style="list-style-type: none"><li>o profit maximisation</li><li>o sales maximisation</li><li>o satisficing</li></ul> b) Other objectives: <ul style="list-style-type: none"><li>o survival</li><li>o market share</li><li>o cost efficiency</li><li>o return on investment</li><li>o employee welfare</li><li>o customer satisfaction</li><li>o social objectives</li></ul>
1.1.3 Stakeholders (economic agents) and their objectives	a) Stakeholders (economic agents) b) Stakeholder objectives c) Stakeholder conflicts d) Corporate social responsibility

## 1.2 Enterprise, business and the economy

Entrepreneurs are key to a dynamic economy and they take decisions in the context of current economic conditions.

Subject content	What students need to learn:
1.2.1 Role of an entrepreneur in the economy	a) Creative destruction (organising factors of production to create and set up an enterprise) b) Making decisions to operate, expand and develop a business c) Selling the output for more than the cost of the inputs (adding value)
1.2.2 Entrepreneurial motives	a) Profit as an incentive b) Non-financial motives: ethical stance, social entrepreneurship, independence, home working
1.2.3 Factors of production	a) Enterprise b) Capital, land and labour: <ul style="list-style-type: none"><li>o premises</li><li>o equipment</li><li>o raw materials</li><li>o managers and employees</li></ul>
1.2.4 Specialisation	a) Division of labour: advantages and disadvantages to employers and employees b) Specialisation: advantages and disadvantages to the firm
1.2.5 The wider economic environment	a) Implications for firms of changes in: <ul style="list-style-type: none"><li>o interest rates</li><li>o exchange rates</li><li>o taxation</li><li>o unemployment</li><li>o inflation</li></ul>

### 1.3 Introducing the market

The understanding of markets is fundamental to economics and helps students to understand what is produced and how it is sold.

Subject content	What students need to learn:
1.3.1 Demand	a) Consumer objectives and decisions b) The demand curve c) The distinction between movements along a demand curve and shifts of a demand curve d) The factors that may cause a shift in the demand curve: <ul style="list-style-type: none"><li>o changes in the prices of substitutes and complementary goods</li><li>o changes in real incomes</li><li>o changes in tastes and fashions</li><li>o advertising and branding</li><li>o changes in size and age distribution of the population</li></ul>
1.3.2 Supply	a) Producer objectives and decisions b) The supply curve c) The distinction between movements along a supply curve and shifts of a supply curve d) The factors that may cause a shift in the supply curve: <ul style="list-style-type: none"><li>o changes in the costs of production</li><li>o the introduction of new technology</li><li>o indirect taxes</li><li>o subsidies</li><li>o changes in the number of firms in an industry</li><li>o external shocks</li></ul>
1.3.3 Price determination	a) Equilibrium price and quantity and how they are determined b) The use of supply and demand diagrams to depict excess supply and excess demand c) The operation of market forces to eliminate excess demand and excess supply d) The use of the supply and demand model to show how shifts in demand and supply curves cause the equilibrium price and quantity to change in real-world situations e) The limitations of the supply and demand model and its predictions

Subject content	What students need to learn:
1.3.4 Price mechanism	a) Functions of the price mechanism to allocate resources: rationing, incentives, signalling b) How firms respond to a change in demand c) The price mechanism in the context of different types of markets: <ul style="list-style-type: none"> <li>o mass markets</li> <li>o niche markets</li> </ul> d) Potential market growth
1.3.5 Understanding the consumer	a) Primary and secondary market research data (quantitative and qualitative) used to quantify likely demand and gain insight into consumer behaviour b) Limitations of market research, sample size and bias c) Categorising consumers: market segmentation
1.3.6 The competition	a) Market positioning: market mapping and market maps b) Competitive advantage of a product or service c) Product differentiation d) Adding value to products/services e) How firms decide on price and level of output f) Nature and range of markets: stable and dynamic markets

#### 1.4 The role of credit in the economy

Firms may need to borrow for capital investment and working capital but borrowing can be both costly and risky.

Subject content	What students need to learn:
1.4.1 Role of banks in the economy	a) Channelling savings towards investment b) Role of banks in providing credit c) Interest rates and collateral
1.4.2 Risk and liability	a) The meaning of risk b) Implications of limited and unlimited liability
1.4.3 Types and sources of credit and the impact of credit within the economy	a) Types of credit: <ul style="list-style-type: none"><li>o loans</li><li>o overdrafts</li><li>o trade credit</li></ul> b) Sources of credit: <ul style="list-style-type: none"><li>o banks</li><li>o other firms</li></ul> c) Other types of finance: <ul style="list-style-type: none"><li>o venture capital</li><li>o share capital</li><li>o leasing</li></ul> d) Other sources of finance: <ul style="list-style-type: none"><li>o owner's capital: personal savings</li><li>o retained profit</li><li>o sale of assets</li><li>o individual investors</li><li>o online collaborative funding</li></ul> e) Challenges in obtaining credit: <ul style="list-style-type: none"><li>o role and impact of credit on the economy</li></ul>

### 1.5 Market failure and government intervention

Some markets work better than others and governments may try to make markets work more efficiently for the benefit of society.

Subject content	What students need to learn:
1.5.1 Market failure and externalities	a) Private costs, external costs and social costs b) Private benefits, external benefits and social benefits c) Costs and benefits from the production and consumption of goods and services d) Strength of the market economy: markets work well when the private and social benefits exceed (or are equal to) the private and social costs e) Weaknesses of the market economy: some markets fail because of the existence of external costs, leading to under/over production or consumption
1.5.2 Government intervention and failure	a) Purpose of intervention with reference to market failure in various contexts b) Methods of government intervention: <ul style="list-style-type: none"><li>o regulation</li><li>o legislation</li><li>o indirect taxation</li><li>o grants and subsidies</li><li>o voluntary agreements</li></ul> c) Causes of government failure: <ul style="list-style-type: none"><li>o distortion of price signals</li><li>o unintended consequences</li><li>o excessive administrative costs</li><li>o information gaps</li></ul> d) Government failure in various markets

### 1.6 Revenue, costs, profits and cash

An efficient allocation of resources requires a way of measuring the costs of using those resources and the revenues generated by their use.

Subject content	What students need to learn:
1.6.1 Revenue and costs	a) Calculation of sales volume and sales revenue b) Calculation of average, fixed, variable and total costs c) Calculation of percentage change
1.6.2 The relationship between revenue and costs	a) Contribution: selling price – variable cost per unit b) Break-even point: total fixed costs + total variable costs = total sales revenue c) Using contribution to calculate the break-even point d) Margin of safety e) Limitations of break-even analysis
1.6.3 Profit and loss	a) Profit as an incentive in a competitive market: market entry and exit b) How firms calculate: <ul style="list-style-type: none"><li>o gross profit</li><li>o operating profit</li><li>o profit for the year (net profit)</li></ul> c) Statement of comprehensive income (profit and loss account) d) How firms measure profitability: <ul style="list-style-type: none"><li>o gross profit margin</li><li>o operating profit margin</li><li>o profit for the year (net profit) margin</li></ul> e) How firms increase profit
1.6.4 Business survival and cash flow	a) Distinction between profit and cash flow b) Importance of cash flow for business survival c) Forecasting and interpreting cash flow d) Use of a cash-flow forecast to identify credit requirements and minimise risk