

# 12 Economics

## 12 Exam Paper 2 Revision

### 2.1 Business growth and competitive advantage

Success in business requires dynamism and flexibility which must include technical excellence, sensitivity to market trends and imaginative thinking.

Subject content	What students need to learn:
2.1.1 Growth	<p>a) Objectives of growth:</p> <ul style="list-style-type: none"><li>o to achieve economies of scale (internal and external)</li><li>o increased market power over consumers and suppliers</li><li>o increased market share and brand recognition</li><li>o increased profitability</li></ul> <p>b) Problems arising from growth:</p> <ul style="list-style-type: none"><li>o diseconomies of scale</li><li>o internal communication</li><li>o potential skills shortages</li></ul> <p>c) The role of corporate culture</p>
2.1.2 Methods of growth	<p>a) Organic and inorganic growth</p> <p>b) Horizontal, vertical and conglomerate integration</p>
2.1.3 Research and development (R&D) and innovation	<p>a) Competitive advantage through innovation</p> <p>b) Incentive to increase market power</p> <p>c) Product and process innovation</p> <p>d) Role of state funding</p> <p>e) Product life cycle and extension strategies</p>
2.1.4 How the digital economy affects markets and firms	<p>a) Market information in the digital economy:</p> <ul style="list-style-type: none"><li>o price comparison sites</li><li>o viral marketing</li><li>o social media</li></ul> <p>b) The supply-side:</p> <ul style="list-style-type: none"><li>o micromarketing</li><li>o online retailing and online distribution</li><li>o recruiting and training staff with digital skills</li></ul> <p>c) The demand-side:</p> <ul style="list-style-type: none"><li>o satisfying consumers with the long tail</li><li>o wider geographical markets</li></ul> <p>d) Impact on markets and firms:</p> <ul style="list-style-type: none"><li>o impact on costs, prices, profit and loss</li><li>o firm creation and destruction in a new business environment</li></ul>

Subject content	What students need to learn:
2.1.5 How small firms compete	a) Small-firm survival in competitive markets: <ul data-bbox="580 344 1203 591" style="list-style-type: none"><li>o product differentiation and unique selling points (USPs)</li><li>o flexibility in responding to customer needs</li><li>o customer service</li><li>o targeting niche markets</li><li>o achieving competitive advantage through relationships with stakeholders</li></ul>

## 2.2 Firms, consumers and elasticities of demand

Measuring consumer response to changes in prices and incomes helps firms make price, product and output decisions.

Subject content	What students need to learn:
2.2.1 Price elasticity of demand (PED)	<ul style="list-style-type: none"><li>a) The significance of price elasticity of demand to firms (in both niche and mass markets) in terms of implications for pricing</li><li>b) Calculation of price elasticity of demand</li><li>c) Interpretation of numerical values of price elasticity of demand</li><li>d) The factors influencing price elasticity of demand</li><li>e) The relationship between price elasticity of demand and total revenue</li></ul>
2.2.2 Competing on price	<ul style="list-style-type: none"><li>a) Pricing strategies:<ul style="list-style-type: none"><li>o cost plus (calculating mark up on unit cost)</li><li>o price skimming</li><li>o penetration</li><li>o predatory</li><li>o competitive</li><li>o psychological</li></ul></li><li>b) Factors that determine the most appropriate pricing strategy for a particular situation:<ul style="list-style-type: none"><li>o number of USPs/amount of differentiation</li><li>o price elasticity of demand</li><li>o amount of competition</li><li>o strength of brand</li><li>o stage in the product life cycle</li><li>o costs and the need to make a profit</li></ul></li><li>c) Changes in pricing to reflect social trends (online sales and price comparison sites)</li></ul>
2.2.3 Types of non-price competition	<ul style="list-style-type: none"><li>a) The impact of marketing on the demand curve:<ul style="list-style-type: none"><li>▪ product differentiation</li><li>▪ advertising and other promotional methods</li><li>▪ distribution methods</li></ul></li><li>b) Devising appropriate marketing approaches</li></ul>
2.2.4 Income elasticity of demand (YED)	<ul style="list-style-type: none"><li>a) The significance of income elasticity of demand to firms</li><li>b) Calculation of income elasticity of demand</li><li>c) Interpretation of numerical values of income elasticity of demand</li><li>d) The factors influencing income elasticity of demand</li></ul>

### 2.3 Productive efficiency

Firms' success and living standards in the economy depend on increasing productive efficiency.

Subject content	What students need to learn:
2.3.1 Productivity	a) Productivity (output per unit of input in a given time period): <ul style="list-style-type: none"><li>o factors influencing productivity</li><li>o link between productivity and competitiveness</li><li>o productivity and wages</li><li>o productivity and economic growth</li></ul> b) Distinction between labour and capital intensive production
2.3.2 Capacity utilisation	a) Full capacity and spare capacity b) Capacity utilisation: <ul style="list-style-type: none"><li>o current output (divided by) maximum possible output (as a percentage)</li></ul> c) Implications of under- and over-utilisation of capacity d) Ways of improving capacity utilisation

## 2.4 Life in a global economy

Globalisation has given firms many new opportunities to trade and to contribute to economic development.

Subject content	What students need to learn:
2.4.1 Globalisation	<ul style="list-style-type: none"><li>a) Characteristics of globalisation:<ul style="list-style-type: none"><li>o increased investment flows</li><li>o world trade rising as a proportion of world Gross Domestic Product (GDP)</li><li>o increased migration</li></ul></li><li>b) Factors contributing to globalisation in the last 50 years:<ul style="list-style-type: none"><li>o trade liberalisation</li><li>o capital market liberalisation</li><li>o political change resulting in the opening up of China and the former Soviet Union</li><li>o reduced cost of transport and communications</li><li>o increased significance of global (transnational) companies</li></ul></li></ul>
2.4.2 Developed, emerging and developing economies	<ul style="list-style-type: none"><li>a) Growth rate of the UK and BRIC (Brazil, Russia, India and China) economies since 2000</li><li>b) Indicators of growth:<ul style="list-style-type: none"><li>o GDP per capita</li><li>o literacy</li><li>o health</li><li>o Human Development Index (HDI)</li></ul></li><li>c) Characteristics of developed (mature), emerging and developing economies</li><li>d) Mean and median incomes</li></ul>
2.4.3 International trade	<ul style="list-style-type: none"><li>a) Specialisation and international trade</li><li>b) Trading blocs</li><li>c) Trade and growth</li><li>d) Imports and exports: visibles and invisibles</li><li>e) Impact of cheap imports on standards of living</li></ul>
2.4.4 Exchange rates	<ul style="list-style-type: none"><li>a) Changes in exchange rates</li><li>b) Impact of changing exchange rates on firms</li><li>c) Interpretation of exchange rate data</li><li>d) Interpretation of effective exchange rates</li></ul>

## 2.5 The economic cycle

Economic growth rates are constantly changing, creating instability and uncertainty for firms and economic agents.

Subject content	What students need to learn:
2.5.1 The economic cycle	<ul style="list-style-type: none"><li>a) Understanding of the economic cycle</li><li>b) Characteristics of a boom</li><li>c) Characteristics of a recession</li><li>d) Implications for firms of fluctuations in economic activity</li></ul>
2.5.2 Circular flow of income, expenditure and output	<ul style="list-style-type: none"><li>a) The circular flow of income</li><li>b) The impact of injections into and withdrawals from the circular flow of income</li><li>c) Factors influencing AD: components <math>C + I + G + (X-M)</math></li><li>d) Factors influencing AS:<ul style="list-style-type: none"><li>o changes in the cost of inputs and resources</li><li>o changes in productivity</li></ul></li></ul>
2.5.3 Inflation	<ul style="list-style-type: none"><li>a) Inflation, deflation and disinflation</li><li>b) Interpret price indices (RPI and CPI) and the rate of inflation</li><li>c) Real and nominal values, constant and current prices</li><li>d) Causes of inflation:<ul style="list-style-type: none"><li>o demand pull</li><li>o cost push</li></ul></li><li>e) The impact of inflation on firms:<ul style="list-style-type: none"><li>o uncertainty</li><li>o loss of international competitiveness</li></ul></li><li>f) The impact of inflation on individuals:<ul style="list-style-type: none"><li>o loss of real income</li><li>o savers and borrowers</li></ul></li></ul>
2.5.4 Employment and unemployment	<ul style="list-style-type: none"><li>a) Employment, underemployment and unemployment</li><li>b) Measures of unemployment:<ul style="list-style-type: none"><li>o the claimant count</li><li>o the International Labour Organisation (ILO) measure</li></ul></li><li>c) The causes of unemployment:<ul style="list-style-type: none"><li>o structural unemployment</li><li>o occupational immobility</li><li>o geographical immobility</li><li>o technological unemployment</li><li>o demand deficiency and cyclical unemployment</li></ul></li><li>d) The impact of unemployment on firms and individuals</li></ul>