

AQA A LEVEL ECONOMICS YEAR 1 MICROECONOMICS

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3.1.1 ECONOMIC METHODOLOGY AND THE ECONOMIC PROBLEM

3.1.1.1 ECONOMIC METHODOLOGY

01 | Define this

Social Science	
Positive Statement	
Normative Statement	
Value Judgement	

02 | 3 2 1!

Give me 3 ways in which a social science is different to a natural science
1
2
3
Give me 2 ways in which a social science is similar to natural science
1
2
Give me 1 reason why value judgements are important for economists
1

03 | Positive or normative?

Statement	Positive or normative?
An increase in interest rates will reduce inflation.	
Income inequality should be reduced.	
Healthcare should be provided free at the point of use.	
An increase in incomes should lead to a rise in demand for normal goods.	
Bio fuels and oil are substitutes.	
Value judgements should be taken into account in deciding policy.	
Economics is the most useful of the social sciences.	
An increase in VAT will impact the less well off more than the rich.	

04 | Give me 5!

Give me 5 reasons why Economics is important
1
2
3
4
5

3.1.1.2 THE NATURE AND PURPOSE OF ECONOMIC ACTIVITY

01 | Define this

Need	
Want	
The economic problem	

02 | 3 2 1!

Give me 3 reasons why it is important to solve the economic problem as efficiently as possible
1
2
3
Give me 2 conflicts that might arise when trying to solve the economic problem efficiently
1
2
Give me 1 value judgement that might need to be made when trying to solve the economic problem
1

03 | True or False?

Statement	True or False?
The central purpose of economic activity is the production of goods and services to satisfy needs and wants.	
One key economic decision is what to produce.	
Another key economic decision is how to produce goods and services.	
No value judgements are involved in economic activity.	
Decisions on who is to benefit from the goods and services produced are always seen as fair.	
People may have different views on which economic decisions should be taken.	
Economic decisions are complex.	
Sometimes wrong economic decisions are taken.	

09 | Pros and Cons

Give two advantages and two disadvantages for a business if their product has a high coefficient of income elasticity of demand.

Advantage 1	Disadvantage 1
Advantage 2	Disadvantage 2

10 | What am I? Write the appropriate elasticity-related term in the box...

Statement	What am I?
I have a positive cross price elasticity of demand with another good.	
I have a positive income elasticity of demand	
I have a price elasticity of demand of less than 1 in absolute terms.	
I have a negative income elasticity of demand.	
Revenue increases when price is cut.	
My cross-price elasticity of demand with another good is very close to zero.	
My income elasticity is positive and greater than 1.	
My cross-price elasticity with another good is negative.	
When price changes, revenue remains the same.	

11 | Interpret me

Write in words what each of the following numbers mean. The first one has been completed for you.

PED = -1.2	PED is elastic, so quantity demanded is more than proportionately responsive to a change in price. If price rises by 10%, quantity demanded will fall by 12%.
XED = 2.0	

YED = 0.3

PED = -0.2

PED = -1

XED = 0.0

YED = -1.5

YED = 2.4

XED = -0.6

PED = 0

12 | One last thing...

A product has an income elasticity of demand of 1.5. If income has increased by 10% by how much will demand for the product increase?

3.1.2.3 THE DETERMINANTS OF THE SUPPLY OF GOODS AND SERVICES

01 | Define this

Supply

Profit

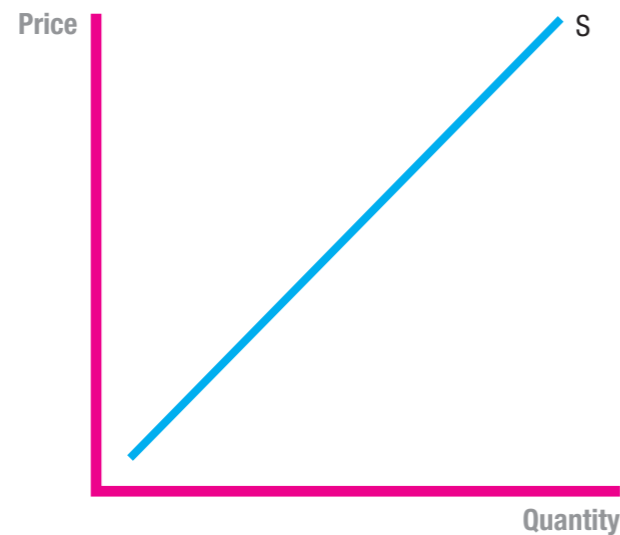
Production	
Incentive	
Allocate	

02 | Give me 5!

Give me 5 factors that will shift a supply curve
1
2
3
4
5

03 | Draw me!

Draw a diagram to show the effect on a supply curve for a haulage firm of higher oil prices...



04 | True or False?

Statement	True or False?
A supply curve shows the relationship between price and quantity supplied.	
The supply curve slopes upwards because higher prices imply higher profits and this provides an incentive to expand production.	
A change in price shifts the supply curve.	
Changes in productivity shift the supply curve.	
An increase in wages will shift the supply curve for some businesses more than others.	
Supply curves for agricultural products are unlikely to shift.	

3.1.2.4 PRICE ELASTICITY OF SUPPLY

01 | Define this

Price elasticity of supply	
Price elastic supply	
Price inelastic supply	

02 | 3 2 1!

Give me 3 determinants of price elasticity of supply
1
2
3

3.1.3 PRODUCTION, COSTS AND REVENUE

3.1.3.1 PRODUCTION AND PRODUCTIVITY

01 | Define this

Production	
Productivity	
Labour productivity	

02 | 3 2 1!

Give me 3 causes of improved productivity.
1
2
3
Give me 2 impacts of improved productivity.
1
2
Give me 1 policy to improve productivity.
1

03 | True or False?

Statement	True or False?
Production converts factors of production into final output.	
Production and productivity are the same thing.	
Land is an example of a factor of production.	
It is important that productivity continues to improve.	
The UK has a good productivity record.	
Improvements in productivity shift the supply curve.	
Technological change offers possibilities to improve production methods and improve productivity.	
Productivity is measured by calculating GDP	

04 | Give me 5!

Give me 5 examples of inventions or innovations that have improved productivity
1
2
3
4
5

3.1.3.2 SPECIALISATION, DIVISION OF LABOUR AND EXCHANGE

01 | Define this

Division of labour	
Specialisation	

Money	
Barter	
Capital	

02 | 3 2 1!

Give me 3 ways in which specialisation could improve productivity

- 1
- 2
- 3

Give me 2 ways in which specialisation may not improve productivity

- 1
- 2

Give me the name of an economist famous for discussing the benefits of specialisation

- 1

03 | True or False?

Statement	True or False?
The benefits of specialisation are limited unless there is an efficient medium of exchange.	
The benefits from specialisation are greater in some industries than others.	
Barter relies on the existence of a double coincidence of wants.	

Specialisation can occur at both micro (business) and macro (economy) levels.	
Eventually the gains from specialisation will run out in all industries.	
The UK specialises in the production of financial services.	
The UK also specialises in basic manufacturing.	

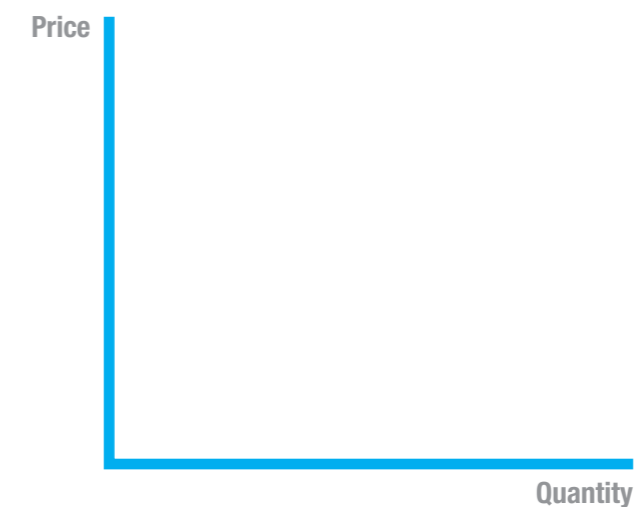
04 | Give me 5!

Give me 5 examples of specialisation (you can use micro or macro examples)

- 1
- 2
- 3
- 4
- 5

05 | Draw me!

Draw a demand and supply diagram to show the impact on a market where the firms benefit from an increase in the division of labour and specialisation



Give me 2 reasons why firms in perfect competition are likely to earn lower profit than markets dominated by a few large firms.

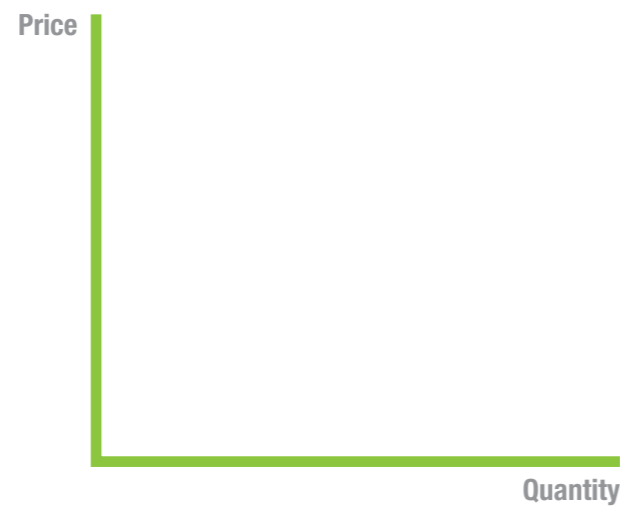
- 1
- 2

Give me 1 example of a real-world market that is close to being perfectly competitive.

- 1

04 | Draw me!

Draw a diagram to show how price is determined in a perfectly competitive industry

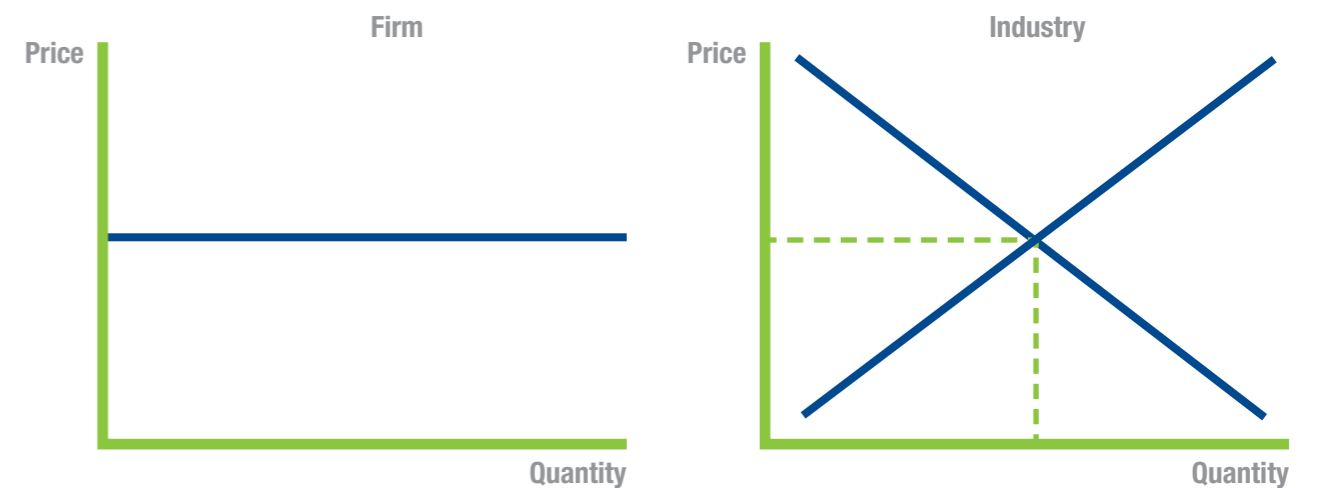


05 | True or False?

Statement	True or False?
Perfect competition cannot exist in the real world but is important as a benchmark against which to judge other market structures.	
Products can be slightly differentiated in perfect competition.	
Firms in perfect competition will be productively efficient.	
In the long run, firms will leave the industry if they earn below normal profit.	
Firms in perfect competition can have objectives other than profit maximisation.	

06 | Label me!

The diagram below shows a perfectly competitive market and individual firm in that market.
 a Label the curves.
 b Label the area on the firm diagram where it makes “no sense” for them to set their price
 c Label the area on the firm diagram where they would have “no sales”



07 | Pros and Cons

Give two advantages and two disadvantages of a perfectly competitive market...

Advantage 1	Disadvantage 1
Advantage 2	Disadvantage 2

Central planning is generally recognised to be as good at allocating resources as a market economy.

A market economy always allocates resources fairly.

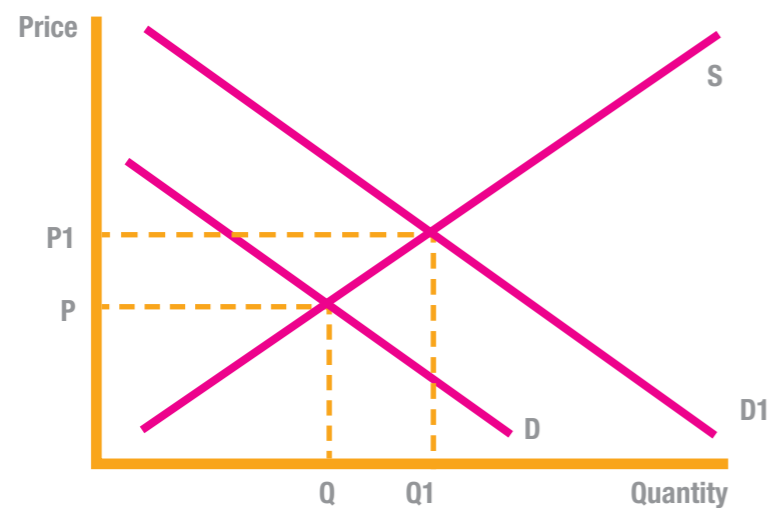
03 | What am I?

For each of the descriptors below, decide whether it is a description of the rationing function, the incentive function or the signalling function of the price mechanism.

Descriptor	Function
When resources are scarce and demand increases faster than supply, the market price will increase, which will reduce quantity demanded as some consumers are deterred from purchasing the product. This therefore acts to conserve resources.	
Prices rise and fall to reflect scarcity and surpluses. For example, if prices rise to reflect higher demand then this sends a message to potential suppliers to join the market.	
If demand rises in a market, then this should encourage suppliers to expand the amount that they are willing to supply because of the higher price – there is a chance to earn more profit.	

04 | Give me 5!

The market diagram below shows a change in the market, leading to a new market equilibrium. Give 5 steps in the chain to explain how a new equilibrium is reached.



05 | Pros and Cons

Give two advantages and two disadvantages of allocating resources in a command economy

Advantage 1	Disadvantage 1
Advantage 2	Disadvantage 2

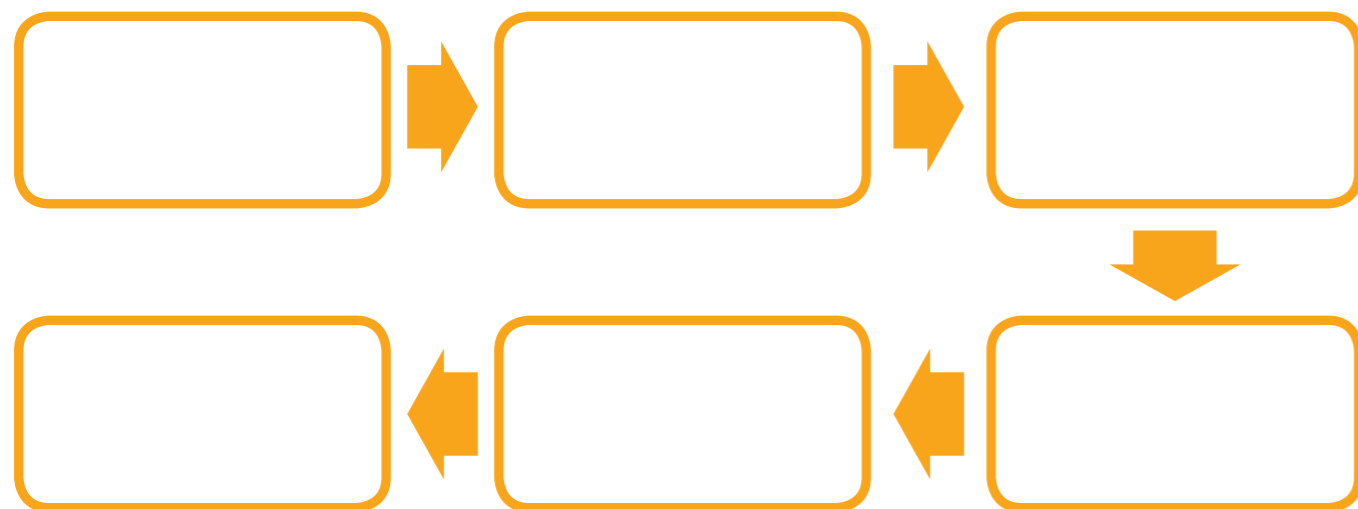
3.1.5.2 THE MEANING OF MARKET FAILURE

01 | Define this

Market failure	
Complete market failure	
Partial market failure	
Missing market	
Public good	
Merit good	

08 | Chain of argument

Complete the flow chart diagram below with as many steps in your argument chain as you can, to explain why factor immobility may lead to market failure.



3.1.5.7 AN INEQUITABLE DISTRIBUTION OF INCOME AND WEALTH

01 | Define this

Inequality	
Equity	
Income	
Wealth	
Progressive tax	
Benefits	

02 | Give me 5!

Give me 5 factors that could influence income inequality

1

2

3

4

5

03 | True or False?

Statement	True or False?
In the absence of government intervention, the market mechanism is likely to result in a very unequal distribution of income and wealth.	
The UK has low income inequality compared with other developed countries.	
Generally, income and wealth inequalities are similar in an economy	
In a market economy, an individual's ability to consume goods and services depends upon their income and wealth.	
An unequal distribution of income and wealth is necessarily inequitable.	
An inequitable distribution of income and wealth will likely lead to a misallocation of resources.	
Inequality is likely to be a cause of market failure.	

04 | 3 2 1!

Give me 3 sources of wealth

1

2

3

Give me 2 links between income inequality and wealth inequality

1

2

Give me the name of 1 economist famous for writing about the impact of inequality

1

05 | Draw me!

Inequality is sometimes thought of as generating externalities. Draw a suitable diagram to illustrate this.

06 | Give me 5!

Give me 5 policies that could be used to reduce inequality

1

2

3

4

5

07 | Pros and Cons

Give two advantages and two disadvantages of income inequality in an economy

Advantage 1	Disadvantage 1
-------------	----------------

Advantage 2	Disadvantage 2
-------------	----------------

3.1.5.8 GOVERNMENT INTERVENTION IN MARKETS

01 | Define this

Regulation	
------------	--

Taxation	
----------	--

Indirect tax	
--------------	--

Subsidy	
---------	--

Price control	
---------------	--

Maximum price	
---------------	--

State provision	
-----------------	--