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Revision Guide

TheGOALKeeper

BREAK YOUR BOUNDARIES

TheGOALKeeper's Guide to

GCSE AQA ECONOMICS 9-1 (8136)

First Edition

BREAK YOUR BOUNDARIES©

A Message from TheGOALKeeper©

Dear GOALsetter,

Welcome to the beginning of your AQA GCSE 9-1 Economics journey with TheGOALKeeper©. This revision guide was forged from 2 years worth of experience and knowledge tackling this course, compressing hundreds of pages of content into just a few dozen, to use as an aid to your revision. TheGOALKeeper© believes in effective fast revision with minimal amount of time reading and writing notes, with more of an emphasis on practice and exam style questions, hence why this guide is so compact, with us doing the work for you.

TheGOALKeeper© mission is to provide 100% free resources covering studies, fitness and motivation which are easy to access and always there when you need it. TheGOALKeeper© was formed at the heart of the Corona Virus Pandemic, where millions of student's educations were disrupted, including my own GCSE's. The impact of this at the time seemed detrimental to my future and a ideal place for an on demand free service like TheGOALKeeper© to exist.

In order to achieve top grades at GCSE level an individual must embody a life of self-mastery, forging discipline, resiliency, drive, determination, vision and courage. Your GCSE's are just the start, a life of learning, personal fulfillment, and success awaits, so Break Your Boundaries© now, and remember, it pays to be a winner!

Best Wishes,

TheGOALKeeper©

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What's in the exam?

- 1 hour 45 minutes long.
- Multiple choice questions.
- Long and short written questions.

Paper 1 – 80 marks – 50% of GCSE

-Economic foundations; Allocating resources; How prices are determined; production, costs, revenue and profit; Competitive and concentrated markets; Market failure.

Paper 2 – 80 marks – 50% of GCSE

- Introduction to the national economy; Government objectives; How the government manages the economy; International trade and the global economy; The role of money and financial markets.

How can you revise?

- Make the most of this free revision guide.
- Contact TheGOALKeeper© for tutoring and online support.

Email: thegoalkeeper05@gmail.com

Website: www.thegoalkeeper.org

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*This guide is printer friendly

Contents:

How to use this guide-

1. Even within chapters and units there are further separations between content to help you study in chunks!
2. This guide should not be used as your primary resource for study. Use this guide as an aid to your revision. Your primary area of study should be conducted directly from the exam boards website through the specification.
3. In most cases, each bullet point represents a mark in the exam.
4. For hard calculation questions examples are shown as these are best learnt when practiced.

Paper 1-

1. Economic foundations-

- **Economic activity-** The production of goods and services that satisfy the needs and wants of a society.

Need-

- Something that is necessary for survival.
- **e.g.** Water and food.

Want-

- Something that is not necessary for survival but desired by an individual.
- **e.g.** A new phone or clothes.

- **Economic problem-** Limited resources to satisfy infinite wants.

- **Opportunity cost-** The next best thing given up when making a choice.

Economic groups-

- Producers
- Consumers
- Governments

Factors of production-

Land	Natural resources	Rent
Labor	Human input	Wages
Capital	Man-made resources	Interest
Enterprise	Risk	Profits

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2. Allocating resources

- **Market-** A place where buyers interact with sellers in order to establish a price.

How resources are allocated-

- **Rationing-** Results in some people being able to afford goods and services, whilst others not.
- **Signaling-** The significance of a good and service in the market.
- **Incentive-** The price can act as an incentive to suppliers.

Goods-

- Tangible.
- **e.g.** Phone or clothes.

Services-

- Intangible.
- **e.g.** Massage and legal services.

Factor market-

- Where factors of production are sold.
- **e.g.** Coal and labor.

Product market-

- Where final products such as goods and services are sold.
- Phone and a massage.

Sectors of the economy-

Primary	1%	Concerned with extracting the natural resources
Secondary	19%	Concerned with manufacturing products
Tertiary	80%	Provision of service

- **Specialization-** When a firm individual or organization produces what they are best at producing.

Why firms specialize-

- Greater variety
- Greater Output

- Cheaper prices

Division of labor- Dividing your workforce to ensure a more efficient production process.

Advantages associated with division of labor-

- Increases overall production subsequently reducing average unit cost.
- Workers become much more efficient at one specific task, increasing the quality of the product.
- Production times are faster as workers are able to produce products faster.

Disadvantages associated with division of labor-

- Workers may become bored due to constant repetition leading to low output and low quality products.
- Workers may quit due to boredom, increasing staff turnover resulting in higher training costs.
- Workers may loose critical skills and not be able to do other tasks.

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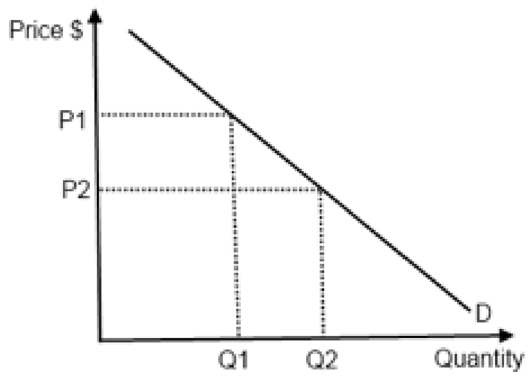
3. How prices are determined-

- **Demand- Shows** the price and quantity that consumers are willing to purchase certain goods and services at.

Demand curve-



Shifts in a demand curve-

- Shifts in a demand curve are due to a change in different factors influencing demand.
- **Right shift-** Increase in demand
- **Left shift-** Decrease in demand

Movements in a demand curve-

- Movements are due to a change in price.
- **Contraction-** Increase in price but decrease in demand.
- **Expansion-** Increase in price but fall in quantity.

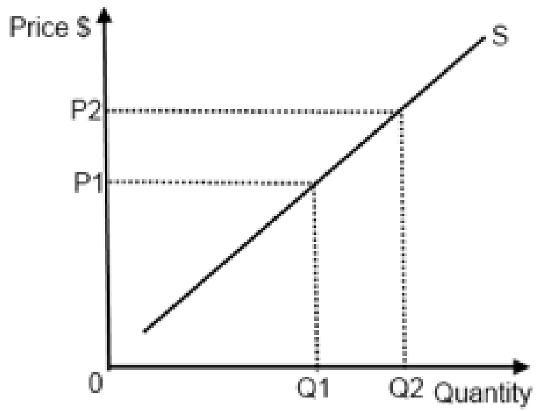
Factors influencing demand-

Pneumonic PASIFIC

- **P-** Population
- **A-** Advertisements
- **S-** Substitute goods
- **I-** Income
- **F-** Fashion and trends
- **I-** Interest
- **C-** Complimentary goods

- **Supply-** Shows the price and quantity that firms are willing to supply at.

Supply curve-



Shifts in a supply curve-

- Shifts in a supply curve are due to a change in different factors influencing supply.
- **Right shift-** Increase in supply
- **Left shift-** Decrease in supply

Movements in a supply curve-

- Movements are due to a change in price.
- **Contraction-** Decrease in price and quantity.
- **Expansion-** Increase in price and quantity.

Factors influencing supply-

Pneumonic PRIEST

- **P-** Production costs
- **R-** Related goods
- **I-** Increased competition
- **E-** Environment
- **S-** Subsidies
- **T-** Technology

Complimentary goods-

- A good that is often used with another good.
- **E.g.** Fish and chips.

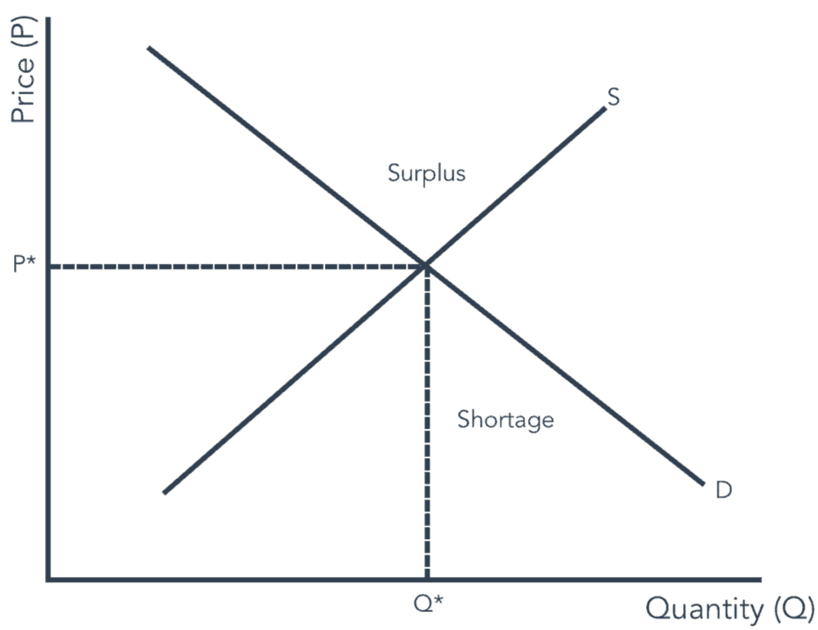
Substitute goods-

- Can be replaced and used instead of another good.
- **E.g.** iPhone and Android phones.

How prices are established in a market-

- The exact point on the demand supply graph where demand is equal to supply.
- This is called the equilibrium price.

Demand curve-



- The equilibrium point is shown in this supply and demand diagram.
- **Revenue=** Price X Quantity
- The dotted box represents the revenue.

- **Price elasticity of demand-** The responsiveness of quantity demanded due to a change in price.

- **Elastic-** Quantity demanded is very responsive to a change in price.
- **Inelastic-** Quantity demanded is not very responsive to a change in price.

Factors influencing price elasticity of demand-

Pneumonic SINTH

- **S-** Substitutability (The harder it is to substitute with something else, the more inelastic it is).
- **I-** Income (The lower the percentage it takes up of someone's income, the more inelastic it is).
- **N-** Necessities (If it is a need it is likely to be inelastic).
- **T-** Time taken for individuals to change their spending patterns (The slower it is, the more inelastic it is).
- **H-** Habit (If people get 'addicted' to it is likely to be inelastic).

- **PED=** Percentage change in quantity demanded/ Percentage change in price.

You must add a negative sign to your answer. PED is always negative

- **Price elastic-** An answer more than 1 will be shown.

- **Price inelastic-** An answer less than 1 will be shown.

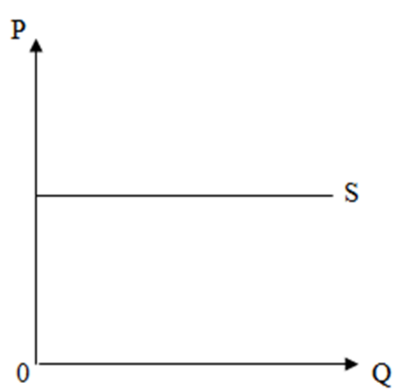
- **Price elasticity of supply-** The responsiveness of quantity supplied to a change in price.

Factors influencing price elasticity of supply-

Pneumonic PACT

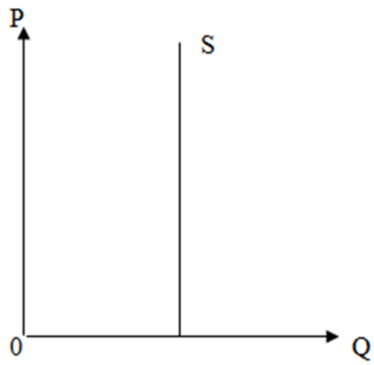
- **P-** Production alternatives (If a firm can easily switch between capital and labor, it can easily respond to demand)
- **A-** Available stock
- **C-** Capacity
- **T-** Time

Perfectly elastic-



Perfectly elastic SS

Perfectly Inelastic-



Perfectly inelastic SS

- **PES=** Percentage change in quantity supplied/ Percentage change in price.

Price elasticity of supply will always give a positive number.

- If something is price elastic it will be >1
- If something is price inelastic then it will be <1

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4. Production, costs, revenue, and profit

Firms costs-

- **Fixed-** cost that does not change with output **e.g.** rent.
- **Variable-** cost that does change with output **e.g.** raw materials.
- **Total cost=** fixed costs + variable costs.
- **Average=** Total costs / Total number of units.

Business objects-

- **P -** Profit maximization (having high profits).
- **I -** Increase market share (proportion of the market controlled).
- **S -** Social enterprise (provide a social purpose).
- **S -** Sales growth (maximize the number of units they sell).

- **Average revenue=** total revenue / total number of units
- **Profit=** total revenue - total costs

Ethical and moral considerations-

- All staff are paid equally.
- Taxes are completely paid off.
- No negative environmental impact.
- No exploitation of workers.

Production and productivity-

- Production is the manufacturing process.
- Productivity is the level of efficiency during the production process.

Factors that influence productivity-

- Production is the manufacturing process.
- Productivity is the level of efficiency during the production process.

Benefits of increased productivity-

- Lower costs resulting in higher profits.
- Lower costs could also lead to lower prices meaning more competition.
- Improve the quality of products.
- Larger output resulting in larger sales.

Economies of scale- Financial advantage due to increase in output which will result in a fall in costs.

Different economies of scale-

Technical– Using technology which can increase speed and accuracy.

Managerial– Larger firms can afford to employ more managers making communications effective.

Purchasing– When it becomes cheaper to buy materials in bulk.

Marketing- effective advertising.

Financial- larger firms can take larger loans at a lower interest rate.

Risk bearing- larger firms can try increasing their range of products.

Diseconomies of scale- Factors that lead to an increase in costs.

Different diseconomies of scale-

Communication problems- With many people working, effective communication can become very hard.

Low morale – Large number of employees may mean that people feel unappreciated.

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5. Competitive and concentrated markets-

Competitive market-

- A market that has a lot of buyers and sellers.
- No barriers to entry.
- Firms in a competitive market try to maximize their profits as much as possible.
- This also means that they can lower cost and eventually their prices leading to more Competition.

Non-competitive markets-

- A non-competitive market is a market with few buyers and sellers.
- High Barriers of entry.
- Products are very limited.
- Firms have complete control over prices.

Characteristic	Perfect Competition	Oligopoly	Monopoly
No. of firms	Many firms	Few dominant firms	One firm
Type pf product	Homogenous	Differentiated	Limited
Barriers to entry	None	High	High
Supernormal short run profit	Yes	Yes	Yes
Supernormal long run profit	No	Yes	Yes
Pricing power	Price taker	Price maker but interdependent behavior	Price maker– constrained by demand curve and possible regulation
Non-price competetion	No	Yes	Yes

- **The labor market-** market where the producers are households and consumers are firms.

Paying labor-

- **Wages-** Hourly Rate.
- **Salary-** Fixed annual pay distributed monthly.

- **Gross pay–** Is the wage given before any deductions are made.
- **Net pay–** Is the amount of money you actually receive.

Factors influencing labour-

Demand	Supply
Performance of the economy	Monetary benefits
Changing demand in specific markets	Fringe benefits
Wage rates	Wage rates
Productivity of labor	Education and training

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6. Market failure-

- **Market failure-** Market failure is when markets cannot allocate resources effectively and efficiently.

Types of market failure-

- **Public goods–** When people use goods for free and do not pay for it.
- **Merit goods–** When products are under consumed and people underestimate their benefits.
- **Demerit goods–** When products are over consumed and people underestimate the cost.
- **Information failure–** When consumers lack information.
- **Market structure–** The existence of monopolies where quality is bad and prices are high.

Costs of market failure-

- Cost to society **E.g.** When you don't dispose of chewing gum correctly.
- Impact on quality of life

- Global warming will eventually lead to a low quality of life.

Inequality

- Some people will not have access to necessities such as food and water.

Government intervention methods-

- **Regulation-**

- Introduce new rules to the market.

- **Indirect taxation-**

- Increase prices of demerit goods.

- **Information-**

- Policies to make sure customers are informed.

- **Subsidies-**

- Help fund firms that provide merit goods.

- **Government provisions-**

- Government will provide products and services if they are underprovided by society.

An externality–

- Is the impact made during a transaction on the 3rd party.
- There are positive externalities and negative externalities.

Externalities can occur either during the production stage or the consumption stage:

- During the production process.
- After consumption.

- **Private cost:** cost to private individual during economic activity.
- **Private benefit:** benefit to private individuals during economic activity.
- **Social cost:** cost to society during an economic interaction.
- **Social benefit:** benefit to society during an economic interaction.

- **SOCIAL COST=** PRIVATE COSTS + NEGATIVE EXTERNALITY.
- **SOCIAL BENEFIT =** SOCIAL COST + POSITIVE EXTERNALITY.

7. Introduction to the national economy-

Interest rates significance-

- Reward for saving.
- Cost for borrowing.

Calculating interest-

- Total money before X 1.(interest rate) interest rate = Total money after interest
- E.g. Interest rate =0.01
- 100 X 1.01= 101

Consequences of high interest rates-

Consumers-

- Consumers will save their money as the reward is larger.
- Overall demand will decrease as they will save their money.
- Less incentivized to spend or borrow as there is a larger cost in doing so.

Producers-

- Will save their money as the reward has increased.
- Will not take loans as the cost of borrowing has increased.
- Less likely to invest as this means they will have to borrow, and the cost of borrowing has increased.

Consequences of lower interest rates-

Consumers-

- Will borrow money from banks as the cost for borrowing has decreased.
- Stimulates demand.
- Less incentivized to save as the reward is less.

Producers-

- Will borrow more money.
- Reward for saving has decreased.
- More likely to invest as the cost of borrowing is low.

- Taxes are the main form of Income for the UK Government.

Direct taxations- One type of taxes an individual pays that are paid straight or directly to the government.

- Council tax
- Corporation tax
- Income tax
- NIC
- Inheritance tax

Indirect taxations- These are applicable to individuals who directly use these services, through spending.

- VAT (20%)
- Excise duties
- Customs duties
- Landfill tax

Regressive taxes– Are taxes that are the same for all people and is not adjusted to their income.

- **E.g.** VAT

Progressive taxes- Are taxes that are adjusted to the individual's income

- **E.g.** Income tax

The main areas of government expenditure:

- Health
- Education
- Defense

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8. Government Objectives-

Balance of payments –

- Balanced current account on the balance of payments.
- This means it is not permanently in deficit.

Current account-

- Measures flows of money (inflow and outflow).
- If exports = imports, then there is a balanced current account.

Primary income-

- Returns from businesses and individuals abroad.
- For example, a bank in the UK issues a loan to a Spanish investor that is seen as positive flow/credit as there is interest returned, and the money is being used within the country.

Secondary income-

- Records money transfer between 2 individuals.
- For example, a Spanish worker in the UK sending their money to Spain is seen as a negative flow/debit, as money is leaving the country

Current account deficit

- May show lack of global competitiveness
- Due to a strong currency, demonstrates people have faith in the economy.
- Leads to cheaper imports, which makes the deficit worse, which makes the deficit worse as exports are more expensive.

Current account surplus

- Surplus indicates the economy is very competitive.
- Can lead to export-led growth which can increase employment and other benefits.

Inflation –

- Ensuring price stability (2%).
- Causes the value of money to fall.
- Rate of inflation is the rate prices increase every year.
- A persistent increase in price levels.

CPI - Consumer Price Index

Calculation: Total price of basket after - Total price of basket before = X

(X/total price before) x 100 = inflation rate

RPI - Retail Price Index

Cost push inflation: Increase in the cost of production forcing producers to increase prices.

Demand pull inflation: When there is a lot of demand for a product or service, prices will increase as a method to ration demand.

Consequences of inflation-

- **Poorer areas of society:** Money received from funds will be insufficient due to the increase in prices.
- **Savers:** If inflation is greater than interest their funds will begin to lose value.
- **Business:** Increase in prices will lead to an increase in wages and if a firm cannot afford that it can lead to strikes, therefore leading to a decrease in profits.
- **Current account of the balance of payments:** If UK products increase in price it becomes less competitive meaning a decrease in exports, therefore creating a larger deficit in the current account.
- **Banks:** if inflation is higher than interest rates charged on loans then the value of the interest is lower, meaning banks are less likely to give out loans during high inflation.
- **Deflation-** Persistent fall in the general price level (people will keep waiting for prices to decrease, leads to decrease in demand).
- **Hyperinflation-** Prices rising at a very high rate, for example: 1000% per year.

Government policies:

- Controlling demand (taxes and interest rates).
- Control costs of production (firms do not need to increase prices).

- **Economic Growth-** Achieving economic growth (2.5%).

- **GDP -** Gross Domestic Product.
- **Real GDP -** GDP without the effects of inflation.
- **GDP per capita -** Gross Domestic Product per head (average income of each person in the country).

Benefits:

- Rise in living standards.
- Rise in welfare standards.

- Reduction in poverty.
- Rise in employment.

Costs:

- Environmental damage
- Inequality
- Inflation

- **Unemployment-** Maintaining full employment (3%).

- **Employment-** Use of labor to produce goods and services in an economy.

- **Labor force-** People that are willing and able to work (includes employed and unemployed).

Claimant count-

- Number of people claiming benefits.
- **Calculate-** (no. unemployed/labour force) x 100

Types of unemployment -

- **Cyclical:** Unemployment caused by changes in demand due to changes in economic Growth.
- **Frictional:** People moving between jobs.
- **Seasonal:** Changes in employment due to changes in demand around different times of the year.
- **Structural:** Mismatch of skills as the pattern of labor demand changes.

These types of unemployment lead to-

- Lower standard of living.
- Increase cost to taxpayers.
- Opportunity cost to other sectors.
- Geographical inequality.
- Larger budget deficit.

- **Inequality-** Smaller gap between highest paid and lowest paid.
- **Income-** Reward for service of a factor of production (flow of money).

Types of income

- Wages
- Pensions
- Rent from property
- Interest from savings

Wealth– Market value of all assets owned by an individual.

Types of wealth

- Savings
- Properties
- Household assets

Why income is distributed unequally in the UK-

- People with more assets can generate more income from those assets.
- Wage differentials.
- Age difference between workers.
- Unemployment can be a source of unequal income distribution.

Why wealth is distributed unequally in the UK-

- Inheritance
- Savings
- Purchasing property
- Enterprise

TRADE OFFS: (conflicts)

- A number of government objectives can have conflicts between them when enforcing their policies.

For example:

- Economic growth and balance of payments.
- Economic growth and price stability.
- Economic growth and managing environmental damage.

These don't need to be known in great detail

9. How the government manages the economy-

Fiscal policy-

- Fiscal policy involves the use of government spending, direct and indirect taxation and government borrowing to affect the level and growth of aggregate demand in the economy, output and jobs.
- Fiscal policy is also used to change the pattern of spending on goods and services e.g. spending on health care and scarce resources allocated to renewable energy.
- Fiscal policy is also a means by which a redistribution of income and wealth.

There two main parts to fiscal policy:

- Government spending
- Taxation

- **Government Spending-** Government spending takes up around 40% of annual GDP. The three main areas of government spending are:

- **Transfer Payments–** Welfare payments made to benefit recipients such as state pensions and other benefits.
- **Current Spending–** Spending on state-provided goods & services such as education and health.
- **Capital Spending -** Infrastructure spending such as spending on new roads, hospitals, motorways and prisons.

Why government spending exists-

Government spending enables direct government (public sector) provision of:

- Public goods
- Merit goods

- It also facilitates state welfare support for low income households / the unemployed.
- Government spending is also a means of redistributing income within society e.g. to reduce the scale of relative poverty.
- Government spending can also be used as a tool to manage aggregate demand (GDP) as part of macroeconomic policy.

Taxation-

Taxation is required by any government in order to:

- **Raise revenue -** to finance government spending.
- **Manage demand in the economy-** to help meet the government's macroeconomic objectives.
- **Change the distribution of income and wealth.**
- **Address market failure and environmental targets –** taxes may help correct market failures.

Monetary Policy-

- Monetary policy involves the use of interest rates and changes to the money supply to achieve relevant economic objectives.

- The main objective of monetary policy has been keeping inflation low and stable.
- However, the Bank also tries to support stability of economic growth.

Quantitative easing-

- Introducing new money into the money supply.
- By purchasing a large number of assets.

Forward guidance-

- Give clear indicators whether it will change interest rates in the near future.
- Stabilizes confidence in the economy as the public know what will happen to interest rates.

- The monetary policy ensures price stability, which leads to an increase in confidence and further investment by firms.
- Expansion of the output of firms will lead to economic growth.
- It also leads to higher employment as jobs become more secure, less likely to be made redundant.
- If prices are stable, exports become more competitive and attractive which will reduce the current account deficit.

Supply-side objectives-

- Improve incentives to look for work and invest in people's skills.
- Increase labour and capital productivity.
- Increase occupational and geographical mobility of labour to help reduce the rate of unemployment.
- Increase investment and research and development spending.
- Promoting more competition and stimulate a faster pace of invention and innovation to improve competitiveness.
- Provide a platform for sustained non-inflationary growth.
- Encourage the start-up and expansion of new businesses / enterprises especially those with export potential.
- Improve the trend rate of growth of real GDP.

Market-based supply-side policies

- Cutting government spending and borrowing.
- Lower business taxes to stimulate investment and lower income taxes to improve work incentives.
- Reducing red-tape to cut the costs of doing business.

- Measures to improve the flexibility of the labour market / reforming employment laws.
- Policies to boost competition such as deregulation and tough anti-monopoly and anti-cartel laws.
- Privatization of state assets (selling off public sector businesses into the private sector).
- Opening up an economy to overseas trade and investment.

Interventionist policies

- State has key role in investing in public services and building critical infrastructure.
- Tax incentives and welfare reforms can encourage more people into work.
- A commitment to a fair minimum wage / living wage to improve work incentives
- Active regional policy to boost under-performing areas / areas of high unemployment
- Some case for selective import controls to allow domestic industries to expand
- Management of the exchange rate to improve competitiveness of export industries
- Nationalization of some key industries
- Stronger regulation of industries

Policies to correct externalities:

- **Consumption–** Knock on effects such as obesity, which lead to increases in NHS funding
- Laws and regulation
- Subsidies positive externality products
- Government campaigns
- Nudges (non-priced)
- Taxations
- State provision
- **Production-** negative externalities during the production process.
- Laws and regulation
- Subsidize positive externality products
- Property rights (able to charge a polluter)

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10. International Trade and the Global Economy-

- International trade is the exchange of goods and services globally.

- Countries specialize in goods and services which means that economies need to be efficient as a method of being competitive.
- Lower prices for customers.
- More choice for customers as different countries specialize in different products.
- Business that specialize can decrease average unit costs, larger profit margins.

- **IMPORTS ARE GOODS AND SERVICES YOU BUY**
- **EXPORTS ARE GOODS AND SERVICES YOU SELL**

UK MAIN IMPORTS-

- 1. Germany
- 2. USA
- 3. France
- 4. China
- 5. The Netherlands

UK MAIN EXPORTS-

- 1. USA
- 2. Germany
- 3. France
- 4. The Netherlands
- 5. Ireland

Free trade– Is when countries have a free movement of goods and services (no tariffs).

- Free trade is encouraged by the World Trade Organization.
- An example is the European Union.
- Eurozone: countries that have the Euro as their currency.
- Makes trade easier as there are no extra costs due to a change of currency.

Exchange rate– Is the price of one currency in comparison to another.

- If a currency appreciates in value it is stronger.
- If a currency depreciates in value it is weaker.
- If there is money leaving the economy then it becomes weaker because there is more supply in the global market, if there is money coming into the economy it becomes stronger because there is less supply in the global market.

How exchange rates are determined-

International trade-

- If a country is exporting more than demand for the currency will increase and it's value will appreciate.
- Also if a country is importing more it would lead to their currency will decrease and will depreciate in value.

Speculation-

- Traders hope to make a profit by speculating whether a currency will become stronger or weaker.
- For example, if a trader believes a currency will depreciate in value, they will sell their currency and then buy it at a cheaper price.

Economic growth-

- Strong economic growth encourages foreign companies to set up and buy the currency of the country.

Interest rates-

- If the interest rate increases then international investors will buy the currency and put it into bank accounts. This is known as "hot money".

Political stability-

- Investors store their money in stable countries therefore if there is a political upheaval then the currency will depreciate in value.

Effects of a change in exchange rate on consumers and producers

If a currency gets-

Stronger:

- It becomes cheaper to import and more expensive to export.
- Consumers and businesses who import have cheaper prices.
- Exported products become less competitive.

Weaker:

- It becomes more expensive to import and cheaper to export.
- Consumers will likely face higher prices.
- Cost-push inflation is likely to occur.
- Producers will see a fall in demand.
- Could experience export-led growth from foreign markets.
- Tourism will increase in the UK.
- Unemployment could potentially fall due to export-led growth.
- Current account deficit could recuse as the UK will export more (however this depends on price elasticity).

- **Strong Pound - Imports Cheap - Exports Dear**
- **Weak Pound - Imports Dear - Exports Cheap**

- **Globalization–** Is a process by which economies and cultures have been drawn deeper together and have become more inter-connected through global networks of trade, capital flows, and the rapid spread of technology and global media.

- The share of global GDP accounted for by exports of goods and services has risen from 12% in 1960 to almost 30% now.

Among the main drivers of globalization are the following:

- **Containerization–** the costs of ocean shipping have come down, due to containerization, bulk shipping, and other efficiencies. The lower cost of shipping products around the global economy helps to bring prices in the country of manufacture closer to prices in the export market, and makes markets more contestable in an international sense.

- **Technological change–** reducing the cost of transmitting and communicating information – sometimes known as "the death of distance"; – a key factor behind trade in knowledge products using web technology.

- **Economies of scale-** Many economists believe that there has been an increase in the minimum efficient scale (MES) associated with particular industries. If the MES is rising, a domestic market may be regarded as too small to satisfy the selling needs of these industries.

- **Opening up of global financial markets-** This has included the removal of capital controls in many countries facilitating foreign direct investment.

- **Differences in tax systems-** The desire of corporations to benefit from lower unit labor costs and other favorable factor endowments abroad and develop and exploit fresh comparative advantages in production has encouraged countries to adjust their tax systems to attract foreign direct investment (FDI)

- **Less protectionism-** old forms of non-tariff protection such as import licensing and foreign exchange controls have gradually been dismantled. Borders have opened and average tariff levels have fallen – that said in the last few years there has been a rise in protectionism as countries have struggled to achieve growth after the global financial crisis.

Costs of globalization-

- High barriers of entry for smaller firms.
- Consumer incomes have risen leading to a larger demand for scarce resources.
- This can have a negative environmental impact due to the transportation and litter from tourists
- Could result in an increase in prices as demand for local goods and services increases

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Benefits of globalization-

- Increase in the range of goods and services, which also leads to competition which provides better quality and lower prices.
- Consumers able to explore new cultures and countries.
- Skill gaps have been filled as immigration becomes easier.
- Producers can set up anywhere in the world to increase profit margins due to lower prices in different areas around the world.
- Rising prices may occur which will be very costly to people in LDC where they earn lower incomes.
- Producers in LDC are less likely to be competitive in global markets as they have no assisted finance from the government.

How is development measured-

- **GDP per capita–** If there is a high GDP per capita it can demonstrate how the population is able to afford higher quality goods and services.
- **Life expectancy–** If a country has a high life expectancy it can demonstrate the effectiveness of their healthcare system.
- **Healthcare**– If a country has better access to healthcare it can suggest a healthier labor force and therefore higher productivity.
- **Education–** If there is a good standard of education it can suggest a higher literacy rate and therefore demonstrate development.
- **Consumers in less developed countries can access global brands due to technological advancements.**

Break Your Boundaries©

11. Role of money and financial markets-

Money has 3 main roles-

- **Unit of account–** Allows goods and services' values to be expressed in an understandable way.
- **Store of value–** Allows an asset to be used now or in the future (it can be saved).
- **Medium of exchange–** Allows people to buy products or services (it eliminates the use of the barter system which relies on a double coincidence).

Standard of deferred payment-

Money must be:

- Durable
- Portable
- Have value (limited in quantity)
- Must be divisible
- Accepted by everyone

Role of the financial sector-

- Facilitating the exchange of money for goods and services (storing and transferring money).
- Allow saving (individuals or organizations can store their money for later use).
- Management of risk (lending to large numbers).
- Offer advice to individuals or organizations.

Main institutions:

Banks-

- Banks allow individuals to store their money securely or take out loans and offer financial advice.
- Banks earn their income through interest on loans.

Building societies-

- Less popular than banks (offer less services).
- Owned by the members (people that save) and operate to the benefit of the members. They mainly give out long term loans and savings accounts.

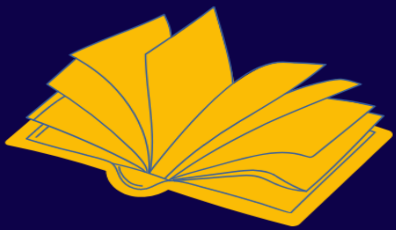
Insurance companies-

- Enable people to reduce risk.
- Individuals or organizations will purchase insurance to avoid a loss.
- It costs less than what is being insured but they make their money as people do not always make claims.

Guess what? We have guides for many other subjects too!





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