

Advanced Higher Economics guidance document

This guidance document for Advanced Higher Economics complements the arrangements for Advanced Higher Economics and the guidelines issued for the completion of the Course dissertation and should be used in conjunction with these.

This guidance elaborates on pages 7 and 8 of the Arrangements document.

Advanced Higher Economics extended syllabus

The Advanced Higher Economics syllabus should supplement and extend the knowledge and understanding gained by students at Higher level. However, it is intended to be much more open-ended and thereby grant teachers considerable flexibility in preparing and managing the delivery of the Course. The teacher is expected to oversee the learning environment for students, acting effectively as a tutor. In the role of tutor, the teacher will carry out a number of tasks including:

- ◆ introducing, by teaching and lecturing, new ideas and theories that have not been encountered by students at Higher level
- ◆ making available a range of resources based on books, newspapers, magazines and internet information
- ◆ encouraging small group discussion by the students of issues as they arise
- ◆ making students aware of the contemporary economic developments that are a vital element of the philosophy and content of the Course
- ◆ acting as a supervisor in the completion of the dissertation Unit of the Course

Students should learn how to undertake individual learning without the need for the teacher or lecturer to 'spoon feed' them with information that they can then regurgitate in the examination hall. The student who completes the Course should thus be better equipped to deal with the demands of higher education. We recognise that the nature of the Course and the way in which it is delivered can prove challenging for the teacher.

The attached extended syllabus should assist teachers and lecturers in their Course design. However, it is not a template for each Course because we hope that teachers will use their initiative in designing a learning programme that is interesting, contemporary and challenging for each student.

Microeconomics

Students should have a fuller understanding of the theories underpinning market behaviour and should be able to apply this knowledge in their study of contemporary issues.

The nature of markets

1. The importance of perfect competition and monopoly in setting parameters in which competition theory can be studied.
2. The characteristics of markets should be studied in some depth.
3. The markets studied should extend beyond basic product markets to factor markets (for example the housing and labour markets) and international market conditions and arrangements including the activity of organisations such as the Organisation of Petroleum Exporting Countries (OPEC).

Perfect competition

1. The six essential characteristics — large number of buyers and sellers, perfect market information, price takers, inability to influence the market price, uniformity of product, and absence of barriers of entry to or exit from the market.
2. Revenue and cost curves for the individual firm and the whole market in the short run and the long run.
3. The nature of normal and abnormal profit; this should also be demonstrated by diagrams.
4. Examples of markets that are almost perfect, for example internet trading and some aspects of commodity markets.
5. Advantages and disadvantages of perfect competition for consumers, employees, firms and international competition.
6. The role of international competition in making markets more ‘perfect’ than they appear when the domestic economy is viewed in isolation.

Monopoly

1. Natural monopoly, pure monopoly and legal monopoly (as determined by competition legislation in various countries).
2. The essential characteristics — single firm, price fixing, entry and exit barriers, ability to earn long term abnormal profit.
3. Revenue and cost curves in the short run and the long run.
4. Monopoly and productive and allocative efficiency with reference to marginal cost and price and the elasticity of demand curves.
5. The relationship between profit maximisation, monopoly output, and monopoly profit.
6. Constraints on monopoly power, for example legislation, international competition, and rivalry from substitute products.
7. Advantages and disadvantages of monopoly for the consumer, the employee, other firms and international competition.
8. The practice and significance of price discrimination.
9. Monopoly power in other markets — monopsony, for example in the supply of labour and land.

Monopolistic competition

1. The essential characteristics — some firms are market makers, competitive advertising and branding, relative freedom of entry to and exit from a market.
2. Diagrams to demonstrate short run and long run equilibrium.
3. Profit in the short run and the long run.
4. Absence of productive and allocative efficiency in the short run and the long run.

Oligopoly

1. The essential characteristics — number of firms, product differentiation, competitive advertising, collusion, price leadership and game theory, non-price competition, effective entry barriers.
2. Recognition of the extent of oligopoly in a range of markets, notably in the UK.
3. Duopoly and examples.
4. The kinked demand curve and its application to the behaviour of firms.
5. Basic game theory demonstrating the behaviour of different firms and diagrams to illustrate firms' behaviour as leaders and followers in the market.
6. Oligopoly and price discrimination.
7. Advantages and disadvantages of oligopoly to consumers, employees, other firms and international competition.
8. International oligopoly, especially multinational enterprises, the behaviour of OPEC and other commodity cartels and networks.

Contestable markets

1. Essential characteristics — firms unable to make abnormal profits because of the absence of entry barriers and sunk costs, availability of close substitutes.
2. Baumol's theory and its reality.
3. Application to very competitive oligopolistic markets, for example supermarket trading and air travel.

Externalities and market failure

1. Positive and negative externalities, including diagrams to represent their incidence.
2. Private costs and social costs.
3. Diagrams to demonstrate internal and external costs of any economic activity, particularly with reference to the environment — traffic congestion, pollution, global warming.
4. Market failure caused by market forces failing to meet the conditions for economic efficiency — lack of competition, failure to cost externalities, lack of provision of public goods and services, 'free rider' problem, distribution of income.
5. Globalisation and the growth and power of multinational enterprises.

Government response to externalities and market failure

1. Types of response — including taxation, licensing, subsidies, regulation, supply-side policies to improve efficiency, state provision of public goods and services, legislation.
2. Impact of different policies on firms, individuals, and the performance of the UK economy.
3. Role and effectiveness of the Competition Commission, the Office of Fair Trading (OFT), enterprise initiatives, and industry regulators.
4. Awareness of similar intervention in the European Union and the USA.

Economic policies and issues

UK current economic issues

1. UK economic performance over the last 10 years, including statistics and reasons for changes in key indicators.
2. Detailed look at changes in real gross domestic product, per capita living standards, inflation rates, employment levels and trade statistics.
3. Current issues: these will vary but might include economic growth, price inflation, the balance of payments, the value of the pound, budget deficits, personal debt, pension provision, and the performance of the housing market and the environment.

UK economic policies

Monetary policy

1. A detailed knowledge of the monetary transmission mechanism is expected along with the role of the Monetary Policy Committee of the Bank of England.
2. Variations in UK interest rates in recent years.
3. The success of the policy in securing greater stability, controlling UK inflation, and promoting the wider progress of the UK economy.
4. The consequences of changes in UK interest rates.
5. UK monetary policy in relation to monetary policy, interest rate levels, and inflation rates in the wider world.

Fiscal policy

1. A full knowledge of how demand management policies are used by governments through taxation and government spending levels.
2. UK fiscal and public sector management and levels of public sector borrowing.
3. Comparisons between the UK's performance and that in other developed countries.

Supply-side policy

1. The nature of policies that seek to improve the productivity of the UK economy by making it more responsive to market forces.
2. Measures to improve labour efficiency, for example better information services and improved education and training.
3. Measures to improve the use of capital, for example dismantling controls and easing restrictive practices.
4. Measures to promote entrepreneurship and innovation, for example limiting monopoly power and encouraging an enterprise culture.
5. Measures to improve incentives, for example tax cuts and making unemployment benefits harder to secure.

Exchange rate policy

1. Not in use currently.
2. UK possible membership of the euro and its implications.

NB: Candidates should be aware of the relative merits of the different types of policy and their use and effectiveness in tackling economic problems and issues.

International policy issues

European Union

1. Development, aims and objectives.
2. UK membership, advantages and disadvantages.
3. The operation of the euro.
4. The reasons for, and consequences of, wider membership of the EU.
5. Finance; the reform of the CAP, structural funds, and the problems associated with the budget.
6. Attempts to introduce a European constitution and how they affect the economic role and policies of the EU.
7. The EU and other countries, for example the USA and Japan.
8. Conflict between the EU and WTO.

Globalisation

1. The nature of, and reasons for, the development of the global economy.
2. The advantages and disadvantages for developed and developing countries.
3. The growth of India, China, Russia and Brazil.
4. Slow growth in some countries, especially those in Africa (resulting from geography, unequal distribution of resources, corruption, missed opportunities).

World economic activity

1. Periods of growth, slowdown and recession and the reasons for, and consequences of, varying performance in the world economy.
2. The importance of oil and other commodities to world economy activity.
3. International co-operation, for example at G8 summits.

Environmental issues

1. The conflict between economic growth and climate change.
2. Reports and initiatives to deal with environmental issues, for example Kyoto, the Stern Review, and carbon emissions trading.
3. Attempts to tackle the issues on an international scale

Developed and developing countries

1. The characteristics of developed economies, developing economies, and economies undergoing rapid change such as 'Tiger' nations and BRIC (Brazil, Russia, India and China).
2. Reasons for poverty in developing countries.
3. Attempts to address the problem of poverty by the international community, especially foreign aid, debt cancellation, and freer trading arrangements.
4. The effectiveness of attempts to address the problem of world poverty.

This is not prescriptive. Other important issues should be studied as they arise, for example the role of the WTO and the future of world energy resources, both renewable and non-renewable.