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## Economics of the Market

**SCQF:** level 6 (6 SCQF credit points)

**Unit code:** J292 76

### Unit outline

The general aim of this Unit is to enable learners to analyse the economic problem of unlimited wants in relation to limited resources and how this impacts on the daily choices made by individuals, firms and governments. Learners will analyse how demand and supply drives resource allocation and economic production. This provides learners with an in-depth understanding of the operation of markets.

Learners who complete this Unit will be able to:

- 1 Apply knowledge and understanding of the basic economic problem and opportunity cost to choices made by individuals, firms and governments
- 2 Analyse market economics in relation to demand, supply, production and costs

This Unit is available as a free-standing Unit. The Unit Specification should be read in conjunction with the *Unit Support Notes*, which provide advice and guidance on delivery, assessment approaches and development of skills for learning, skills for life and skills for work. Exemplification of the standards in this Unit is given in *Unit Assessment Support*.

## **Recommended entry**

Entry to this Unit is at the discretion of the centre. However, learners would normally be expected to have attained the skills, knowledge and understanding required by one or more of the following or equivalent qualifications and/or experience:

- ◆ National 5 Economics Course or relevant Units
- ◆ Numeracy (National 5) Unit
- ◆ Literacy (National 5) Unit

Examples of other such relevant prior learning and experiences would include an interest in the economy and/or current affairs.

## **Equality and inclusion**

This Unit Specification has been designed to ensure that there are no unnecessary barriers to learning or assessment. The individual needs of learners should be taken into account when planning learning experiences, selecting assessment methods or considering alternative evidence. For further information, please refer to the *Unit Support Notes*.

# Standards

## Outcomes and assessment standards

### Outcome 1

The learner will:

- 1 Apply knowledge and understanding of the basic economic problem and opportunity cost to choices made by individuals, firms and governments by:**
  - 1.1 Explaining the basic economic problem and its impact on a choice made by an individual, a firm or a government
  - 1.2 Explaining the concept of opportunity cost using a production possibility diagram

### Outcome 2

The learner will:

- 2 Analyse market economics in relation to demand, supply, production and costs by:**
  - 2.1 Using a diagram to analyse how changes in demand and supply affect equilibrium price and quantity traded
  - 2.2 Describing factors affecting price elasticity of demand and analysing how price changes of price elastic or price inelastic goods/services affect total revenue
  - 2.3 Comparing short-run and long-run average total cost curves
  - 2.4 Describing types of market failure

## Evidence Requirements for the Unit

Assessors should use their professional judgement, subject knowledge and experience, and understanding of their learners, to determine the most appropriate ways to generate evidence and the conditions and contexts in which they are used.

Evidence can be drawn from a variety of sources and presented in a variety of formats including short written responses and/or recorded oral evidence. Learners should use appropriate economic terminology in their responses at all times and, where appropriate, make use of relevant examples.

Evidence may be presented for individual Outcomes or it may be gathered for the Unit as a whole through combining assessment in one single activity. If the latter approach is used, it must be clear how the evidence covers each Outcome.

Exemplification of assessment is provided in *Unit Assessment Support*. Advice and guidance on possible approaches to assessment is provided in the *Unit Support Notes*.

## **Assessment standard thresholds**

If a candidate successfully meets the requirements of the specified number of Assessment Standards they will be judged to have passed the Unit overall and no further re-assessment will be required.

The specific requirements for this Unit is as follows:

- ◆ 5 out of 6 Assessment Standards must be achieved.

It should be noted that there will still be the requirement for candidates to be given the opportunity to meet all Assessment Standards. The above threshold has been put in place to reduce the volume of re-assessment where that is required.

# Development of skills for learning, skills for life and skills for work

It is expected that learners will develop broad, generic skills through this Unit. The skills that learners will be expected to improve on and develop through the Unit are based on SQA's *Skills Framework: Skills for Learning, Skills for Life and Skills for Work* and drawn from the main skills areas listed below. These must be built into the Unit where there are appropriate opportunities.

## **1 Literacy**

1.2 Writing

## **2 Numeracy**

2.3 Information handling

## **4 Employability, enterprise and citizenship**

4.1 Employability

## **5 Thinking skills**

5.2 Understanding

5.3 Applying

5.4 Analysis and evaluating

Amplification of these is given in SQA's *Skills Framework: Skills for Learning, Skills for Life and Skills for Work*. The level of these skills should be at the same SCQF level of the Unit and be consistent with the SCQF level descriptor. Further information on building in skills for learning, skills for life and skills for work is given in the *Unit Support Notes*.

# Appendix: Unit support notes

## Introduction

These support notes are not mandatory. They provide advice and guidance on approaches to delivering and assessing this Unit. They are intended for teachers and lecturers who are delivering this Unit. They should be read in conjunction with:

- ◆ the *Unit Specification*
- ◆ the *Unit Assessment Support packs*

## Developing skills, knowledge and understanding

Teachers and lecturers are free to select the skills, knowledge, understanding and contexts which are most appropriate for delivery in their centres.

## Approaches to learning and teaching

Topic	Skills, knowledge and understanding	Suggested experiences and activities
The economic problem	<p>Learners should be aware of:</p> <ul style="list-style-type: none"> <li>◆ the concepts of scarcity, choice, and opportunity cost — their relationship and importance</li> <li>◆ dealing with the problem of scarcity in different economic systems</li> <li>◆ the effect of opportunity cost on individuals, firms and governments</li> <li>◆ the distinction between scarcity and shortage</li> <li>◆ the distinction between economic goods and free goods</li> <li>◆ resource substitution and mobility</li> </ul>	<ul style="list-style-type: none"> <li>◆ Using group work. Each group reports on what they think are the most important economic problems facing the world today and ranks them in order. Class discuss responses.</li> <li>◆ Asking learners to describe three choices they made that week and explaining why they had to choose and how they decided what to choose. This is a good way of introducing the concept of opportunity cost. Follow this up by considering choices made by businesses and governments.</li> <li>◆ Using ‘the survival game’ to illustrate aspects of limited resources.</li> <li>◆ Class discussing what they think is the main purpose/aim of economics. Their answers should draw out that it is ‘to show how to make the best (ie most efficient) use of our scarce resources’.</li> </ul>
Production possibility diagrams	<p>Learners should be able to:</p> <ul style="list-style-type: none"> <li>◆ draw and interpret production possibility diagrams</li> <li>◆ use the diagrams to explain opportunity cost</li> <li>◆ use the diagram to illustrate and describe economic growth and the efficient allocation of resources</li> <li>◆ distinguish and relationship between technical efficiency and economic efficiency</li> </ul>	<ul style="list-style-type: none"> <li>◆ Explain the difference between technical and economic efficiency, then ask groups to discuss how the two are related.</li> <li>◆ Show how technical efficiency and opportunity cost can be illustrated by constructing a production possibility diagram.</li> <li>◆ Discuss the difference (and similarity) between a movement of actual production towards the curve and an outward movement of the curve.</li> <li>◆ Give out production possibility diagrams and get the class to use the diagram to explain concepts of scarcity, choice and opportunity cost.</li> </ul>

<p>Demand (theory of)</p> <p>Determinants of demand</p>	<p>Learners should be able to:</p> <ul style="list-style-type: none"> <li>◆ define effective demand, demand schedules/curves, aggregate demand, individual demand and market demand</li> <li>◆ explain Utility - Total, marginal and diminishing marginal</li> <li>◆ explain the shape of a normal demand curve using marginal utility, income and substitution effects</li> <li>◆ explain exceptions to the law of demand</li> <li>◆ draw and analyse demand curve diagrams</li> </ul> <p>Learners should be aware of:</p> <ul style="list-style-type: none"> <li>◆ the determinants of demand</li> <li>◆ the relationship between the determinants of demand and price and quantity demanded</li> <li>◆ the effects of changes of determinants of demand on overall demand</li> <li>◆ the distinction between shifts of and movements along a demand curve</li> </ul>	<ul style="list-style-type: none"> <li>◆ Carrying out a class experiment using a learner and a packet of biscuits that the learner likes. The learner is invited to eat them (all?) one at a time and records his/her level of enjoyment/satisfaction after each one (first one = 100). From the results discuss total, marginal and diminishing marginal utility.</li> <li>◆ Conducting market research with the class to show the inverse relationship between price and quantity demanded, eg would their demand for a good they regularly buy increase or decrease if its price doubled/halved?</li> <li>◆ Using group work, pupils discuss why they are likely to buy more of a good when its price falls (and vice versa). Relate their answers to (marginal) utility, real income and the price of substitutes.</li> <li>◆ In groups, discussing: <ul style="list-style-type: none"> <li>— What could happen that would cause them to buy more of a good than they do at the moment?</li> <li>— How their increase in demand would affect their demand curve for the good.</li> <li>— From the results, they should be able to deduce the determinants of demand and the causes of shifts in a demand curve and movements along it.</li> </ul> </li> <li>◆ Draw and analyse demand curves from a demand schedule.</li> </ul>
<p>Price elasticity of demand (PED)</p>	<p>Learners should be aware of:</p> <ul style="list-style-type: none"> <li>◆ the factors influencing PED</li> <li>◆ the relationship between PED and total sales revenue</li> </ul>	<ul style="list-style-type: none"> <li>◆ Giving groups a list of goods consisting of some which are essential, habit-forming, substitutes, cheap, durable, etc. Assume that tomorrow the price of all of these goods will increase by 10%. Pupils should discuss what is likely to happen to the demand for each good, ie do they think it will fall by more or less than 10%? They should justify their conclusions. Their results can be used to explain PED and the factors which determine it.</li> </ul>



		<ul style="list-style-type: none"> <li>◆ The groups should now assume that they are retailers and should discuss the following question: 'In times of rising prices, would you prefer to be selling goods whose demand is price elastic or price inelastic?' From their answers, they should be able to deduce the relationship between PED and total revenue. The groups could then discuss what they could do to make the demand for their goods more price inelastic.</li> </ul>
Production and Costs	<p>Learners should be aware of:</p> <ul style="list-style-type: none"> <li>◆ the advantages and disadvantages of specialisation, division of labour</li> <li>◆ returns of factors of production and returns to a single variable factor</li> <li>◆ productivity and measures to improve productivity</li> <li>◆ the relationship between costs, sales revenue and profit</li> </ul> <p>Learners should be able to:</p> <ul style="list-style-type: none"> <li>◆ define and give examples of fixed costs and variable costs</li> <li>◆ use graphs to explain total costs, average costs and marginal costs</li> <li>◆ use graphs to explain total sales revenue and marginal sales revenue</li> <li>◆ define, draw and explain short-run and long-run average cost curves taking into account the law of diminishing returns and economies and diseconomies of scale</li> <li>◆ compare short-run and long-run average costs curves</li> </ul>	<ul style="list-style-type: none"> <li>◆ Using simulations such as Foundations of Wealth DVDs and the Survival Game to illustrate specialisation, division of labour and productivity.</li> <li>◆ Using hypothetical scenarios, eg a farmer employing an increasing number of workers to grow potatoes. A table can be constructed showing what happens to the total output of the workers (and why) as their number increases. The class can then calculate what happens (and why) to average and marginal output. The figures in the table can be used to draw average and marginal output curves.</li> <li>◆ Giving groups a list of production costs of a particular firm, eg one making wooden tables. The groups work out what would happen to costs if the firm increased its weekly output by 20%. Answers can be used to discuss the difference between fixed and variable costs.</li> <li>◆ Constructing a table showing a firm's hypothetical total cost at increasing output levels and using the figures to calculate average and marginal costs. Average cost curves can be drawn from the table and their shapes discussed.</li> <li>◆ Researching the origins of large companies, eg Sainsbury's, Marks and Spencer, etc. Their results can be used to explain the short run, the long run and economies of scale.</li> </ul>

		<ul style="list-style-type: none"> <li>◆ Researching the possible causes of climate change and their results — this can be used as an introduction to diseconomies of scale.</li> </ul>
Supply and Determinants of supply	<p>Learners should be aware of:</p> <ul style="list-style-type: none"> <li>◆ supply schedules/curves, aggregate supply</li> <li>◆ individual and market supply</li> <li>◆ the determinants of supply</li> <li>◆ the relationship between the determinants of supply and price and quantity supplied</li> <li>◆ the effects of changes of determinants of supply on overall supply</li> </ul> <p>Learners should be also able to:</p> <ul style="list-style-type: none"> <li>◆ draw and analyse supply curve diagrams</li> <li>◆ distinguish between shifts of and movements along a supply curve</li> </ul>	<ul style="list-style-type: none"> <li>◆ Splitting the class into two groups. One group is to assume that they are strawberry producers, the other group oil producers. Each group has to discuss what situations can arise (other than a change in the price of their good) that would result in altering their supply (either increasing or decreasing it). They can ignore changes in the demand for their good as that would alter the price. Their answers can be used to describe the determinants of supply and the causes of shifts in a supply curve.</li> <li>◆ Draw and analyse supply curves from a supply schedule.</li> </ul>
Markets	<p>Learners should be aware of:</p> <ul style="list-style-type: none"> <li>◆ the interaction of demand and supply and its effect on equilibrium price and quantity</li> <li>◆ the difference between excess demand and excess supply</li> <li>◆ the impact of changes in demand and supply on equilibrium</li> <li>◆ how the price mechanism allocates scarce resources</li> <li>◆ factors affecting short-run shut-down decisions</li> <li>◆ use demand and supply analysis to demonstrate the impact of taxes and subsidies on consumers and producers</li> <li>◆ the characteristics of the market structures of perfect competition and monopoly and be able to make</li> </ul>	<ul style="list-style-type: none"> <li>◆ Arranging a visit to a local market — preferably one selling fruit and vegetables. Pupils have to find out how the market sellers decide on their price; do they ever get it wrong? How would they know if their price is right or wrong? The findings can be used to explain market clearing, shortages, gluts and the price mechanism.</li> <li>◆ Splitting the class into four groups — all groups are strawberry producers. Assume that the equilibrium price of strawberries is £1 a punnet. Each group is to explain, using a supply and demand diagram, what would happen to the equilibrium price if the market conditions changed. Group one is to assume an increase in demand, group two a decrease in demand, group three an increase in supply and group four a decrease in supply.</li> </ul>

	<p>comparisons between perfect competition and monopoly</p>	<ul style="list-style-type: none"> <li>◆ Group one now combines with group three to work out what would happen to the equilibrium price if their changes occurred at the same time. Groups two and four do the same. Group one then does the same with group four and group two does the same with group three. This will highlight the effects of changes in demand and supply.</li> <li>◆ Drawing demand and supply diagrams to show what will happen in the market for: <ul style="list-style-type: none"> <li>— cream, if there is an increase in the supply of strawberries</li> <li>— Shell petrol, if there is a decrease in the price of BP petrol</li> <li>— wool, if there is an increase in the demand for mutton</li> </ul> </li> <li>◆ Researching information on different industries/markets and discussing their findings. This is a good exercise for encouraging logical thinking as well as understanding how changes in the market for one good can affect the market for a related good.</li> </ul>
<p>Market intervention</p>	<p>Learners should be aware of:</p> <ul style="list-style-type: none"> <li>◆ market failure in terms of the inefficient use of scarce resources</li> <li>◆ the different types of market failure</li> <li>◆ ways that governments intervene to correct market failure</li> <li>◆ the effectiveness of methods the government use to correct market failure</li> <li>◆ the distinction between merit goods and public goods</li> <li>◆ positive and negative externalities and the effects of externalities</li> </ul>	<p><b>Market intervention</b></p> <ul style="list-style-type: none"> <li>◆ Debating reasons for taxes on certain goods, eg ‘this house believes that the tax on cigarettes should be increased’.</li> <li>◆ Splitting the class into three groups and group researching one of the following issues to discover reasons for and against government intervention in the market: <ul style="list-style-type: none"> <li>— Why did the government subsidise the cost of installing solar panels on the roofs of private houses? Why was the subsidy later reduced?</li> <li>— Why does the Scottish Government wish to set a minimum price for alcohol? What are the arguments against this?</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>— Why does the Government allow rail companies to increase their fares every year by inflation + 1%? Should this allowance be increased or decreased?</li> <li>◆ Discussing: ‘what problems might arise if all resources in the UK were allocated by the market, ie demand and supply?’ From the answers, discussing the various forms of market failure — using real-world examples.</li> <li>◆ Drawing a competition spectrum on the board with perfect competition at one end and monopoly at the other. On the desk have a box containing folded pieces of paper containing the names of well-known firms/markets (eg Microsoft, Unilever, McDonald’s, Tesco, BP, the Stock Market, a local newsagent). Pupils are invited to pick a piece of paper and place the firm on the appropriate part of the spectrum. Once completed, the results should be analysed, ie is the firm in the ‘correct’ position? If it is not, why not? If it is, why is it? From this the class should appreciate the characteristics of perfect competition and monopoly.</li> <li>◆ Researching, in groups, a list of markets — the markets should have different degrees of contestability, eg computer software ... window cleaning. The groups should discuss how easy it would be for a new firm to enter each market — and why. Responses can be used to explain barriers to entry and their importance for monopolies.</li> </ul>
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## **Combining assessment within Units**

Assessment could be combined in this Unit by holistically assessing all the Outcomes of the Unit in a single assessment. When assessment within the Unit is holistic, teachers and lecturers should take particular care to track the evidence for each individual Outcome.

# Administrative information

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**Published:** September 2018 (version 2.0)

**Superclass:** EB

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## History of changes to National Unit Specification

Version	Description of change	Authorised by	Date
1.1	Minor wording changes in AS 1.1, AS 2.1 and AS 2.2 to clarify meaning.  The word 'describing' changed to 'explaining' and the word 'curve' changed to 'diagram' in AS 1.2.	Qualifications Development Manager	April 2014
2.0	Level changed from Higher to SCQF level 6. Unit support notes added. Assessment standard threshold added.	Qualifications Manager	September 2018
3.0	Unit code updated	Qualifications Manager	July 2019

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