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CAMBRIDGE
International Education

Singapore–Cambridge General Certificate of Education Advanced Level Higher 2 (2027)

Economics (Syllabus 9570)

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INTRODUCTION

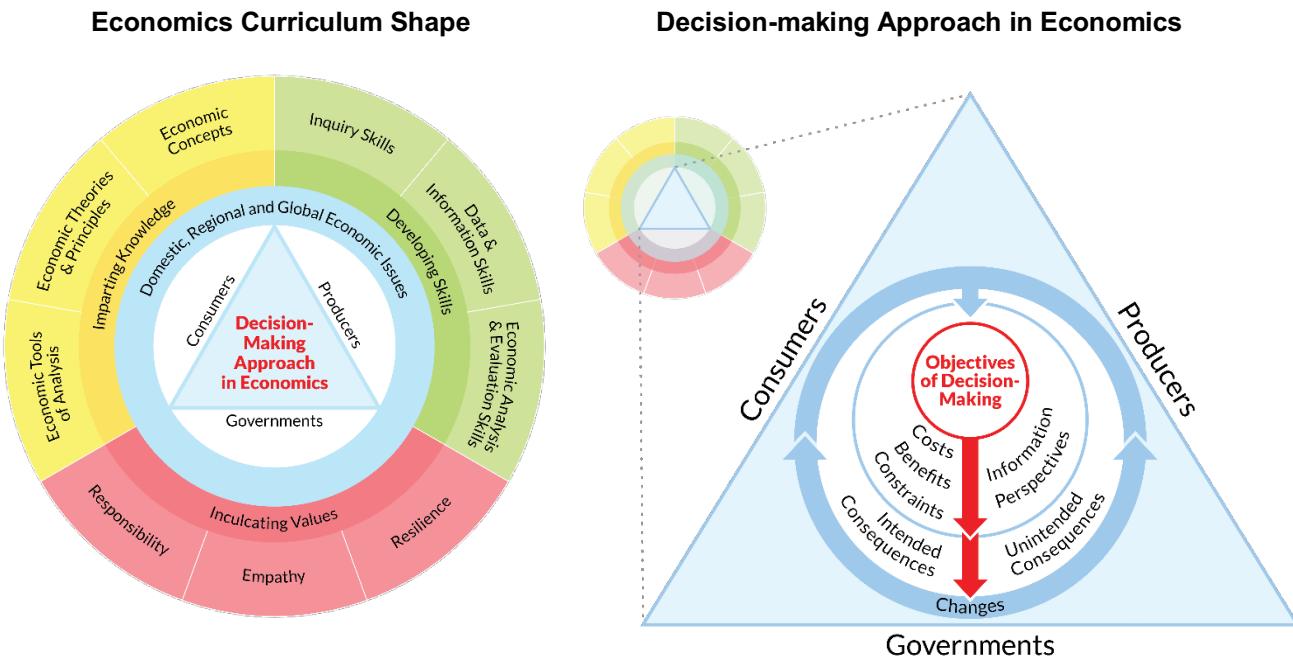
Desired Outcomes of Education and Learning of Economics in Singapore

The Desired Outcomes of Education (DOE) are attributes that educators aspire for every Singaporean to have by the completion of his formal education. The person who is schooled in the Singapore Education system embodies the Desired Outcomes of Education. In sum, he is

- a **confident person** who has a strong sense of right and wrong, is adaptable and resilient, knows himself, is discerning in judgment, thinks independently and critically, and communicates effectively
- a **self-directed learner** who takes responsibility for his own learning, who questions, reflects and perseveres in the pursuit of learning
- an **active contributor** who is able to work effectively in teams, exercises initiative, takes calculated risks, is innovative and strives for excellence; and,
- a **concerned citizen** who is rooted to Singapore, has a strong civic consciousness, is informed, and takes an active role in bettering the lives of others around him.

The value of learning Economics is aligned with the Desired Outcomes of Education and 21st Century Competencies (21CC). Through the inquiry of economic issues and application of concepts, theories and principles, students develop the capacity to analyse and evaluate the behaviour of economic agents in the allocation of scarce resources. In understanding domestic, regional and global economic issues, students adopt multiple perspectives, recognise trade-offs and consequences arising from decision-making and arrive at well-reasoned decisions. Students thus acquire knowledge and develop skills and values that will enable them to be active contributors and concerned citizens.

Economics curriculum shape and decision-making approach in Economics



Economics Curriculum Shape

The Economics Curriculum Shape sets the direction for and encapsulates the concept of learning A-Level Economics in Singapore. At the core of the curriculum shape is the Decision-Making Approach in Economics which guides disciplinary thinking in A-Level Economics. This approach emphasises Sound Reasoning and Decision-Making, which are components under the 21CC domain of Critical and Inventive Thinking. It enables students to better analyse and evaluate how different economic agents make decisions based on the fundamental disciplinary concepts of scarcity, choice and opportunity costs.

The middle ring of the curriculum shape highlights that students learn knowledge, skills and values through inquiry of domestic, regional and global economic issues. By applying the Decision-Making Approach in Economics, students will be able to better analyse and understand the implications of policy decisions arising from these issues.

The outer ring shows the Knowledge, Skills and Values learnt through the curriculum. The Knowledge segment signifies that students will learn economic concepts, theories and principles, as well as tools of economic analysis. The Skills segment represents inquiry, data and information, and economic analysis and evaluation skills that students will develop. The Values segment highlights the values of responsibility, resilience and empathy that students will develop through the learning of Economics. Focusing on these skills and values will allow the Economics Curriculum to support the development of MOE's 21CC.

Decision-Making Approach in Economics

In the light of the Central Economic Problem of scarcity, decision-making is fundamental. Scarcity leads to the inevitability of choice and trade-offs. In the context of A-Level Economics, decision-making is framed as a process where students analyse how decisions are made from the perspectives of different economic agents (consumers, producers, governments), adjusting for dynamic changes where relevant. Students will consider the benefits, costs, constraints, perspectives and other necessary information, while recognising the impact of the intended and unintended consequences arising from the decisions made and the corresponding trade-offs. Students will also recognise that decision-making by economic agents can have multifaceted implications, where decisions made by an economic agent can have an impact on other economic agents.

AIMS

The syllabus is intended to provide the basis for a broad understanding of economics. Specifically, the syllabus aims to develop in candidates:

- 1 an understanding of fundamental economic concepts, theories and principles, and of the tools and methods of analysis used by economists
- 2 the ability to use the tools and methods of economic reasoning to explain and analyse economic issues, and to evaluate perspectives and decisions of economic agents
- 3 the habit of reading critically, from a variety of sources, to gain information about the changing economic activities and policies at the national and international levels; and
- 4 the ability to use evidence in making well-reasoned economic arguments to arrive at rational and considered decisions.

ASSESSMENT OBJECTIVES

Candidates are expected to:

AO1: Knowledge and Understanding

- Demonstrate knowledge and understanding of economic concepts, theories and principles.

AO2: Interpretation and Evaluation of Information

- Interpret economic information presented in textual, numerical or graphical form.
- Make valid inferences based on the information presented and its limitations.

AO3: Application and Analysis

- Apply relevant economic concepts, theories and principles to analyse contemporary issues, perspectives and policy choices.
- Construct coherent economic arguments.

AO4: Evaluation

- Evaluate critically contemporary issues, perspectives and policy choices.
- Recognise unstated assumptions and evaluate their relevance.
- Synthesise economic arguments to arrive at well-reasoned judgements and decisions.

SCHEME OF ASSESSMENT

The assessment comprises two compulsory written examination papers: Paper 1 (Case Studies) and Paper 2 (Essays). Taken as a whole, both papers will incorporate a good balance of questions on microeconomics and macroeconomics.

Specification grid

H2 Economics	Description	Overall Marks (Weighting)	Duration
Paper 1 Case Studies	<p>There will be two compulsory case studies.</p> <p>Candidates are required to answer all questions for each case study.</p> <p>Each case study carries 30 marks and constitutes 20% of the total marks. About 12 marks of each set of case study questions will be for data response questions, and about 18 marks will be for higher-order questions.</p>	60 marks (40%)	2 hours 30 minutes
For Paper 1, questions testing AO1 + AO2 + AO3 will comprise about 40% of the marks and questions testing AO1 + AO2 + AO3 + AO4 will comprise about 60% of the marks.			
Paper 2 Essays	<p>There will be six essay questions.</p> <p>Candidates are required to answer a total of three essay questions, of which one must be from Section A, one from Section B and one from either Section A or B.</p> <p>Section A: Three essay questions focusing mainly on microeconomics will be set. Candidates must answer at least one question from this section.</p> <p>Each question carries 25 marks.</p> <p>Section B: Three essay questions focusing mainly on macroeconomics will be set. Candidates must answer at least one question from this section.</p> <p>Each question carries 25 marks.</p>	75 marks (60%)	2 hours 30 minutes
For Paper 2, questions testing AO1 + AO3 will comprise about 40% of the marks and questions testing AO1 + AO2 + AO3 + AO4 will comprise about 60% of the marks.			

DESCRIPTION OF COMPONENTS

Paper 1 (Case Studies)

The paper will include two case studies. Each of these will consist of two to three pages of data presented in textual, numerical or graphical form. Each case study will present contemporary multifaceted economic issues or policies, which may be from one or more themes in the syllabus.

The data for each case study will be followed by six or seven part-questions, including sub-parts. These questions will require candidates to apply relevant economic concepts, theories and principles in analysing, synthesising and evaluating economic issues, perspectives or policies, with reference to the data provided.

About 12 marks of each set of case study questions will be for data response questions, and about 18 marks will be for higher-order questions.

Paper 2 (Essays)

Questions in Section A will focus mainly on microeconomics and questions in Section B will focus mainly on macroeconomics. Each essay question will comprise two parts, with part (a) carrying 10 marks and part (b) carrying 15 marks. Questions may be based on real-world contexts.

Candidates are expected to apply relevant economic concepts, theories and principles to analyse issues and to evaluate perspectives or policies. They should synthesise and construct coherent arguments to arrive at well-reasoned judgements and decisions.

USE OF CALCULATORS

The use of a calculator as approved by the Singapore Examinations and Assessment Board is allowed for Paper 1 and Paper 2.

SYLLABUS CONTENT

The syllabus content comprises three core themes:

- Theme 1: The Central Economic Problem
- Theme 2: Markets
- Theme 3: The National and International Economy

As an introduction to the study of Economics, candidates should have an awareness of the nature of Economics as a social science (as compared to the natural sciences) and the differences between positive and normative economics, microeconomics and macroeconomics.

Theme 1: The Central Economic Problem	
<p>Theme 1 introduces candidates to the Central Economic Problem of unlimited wants and limited resources. The scarcity of resources necessitates choice and leads to decision-making. Through examining the concepts of scarcity, choice and opportunity cost, candidates will be able to understand the Central Economic Problem facing societies, and how economic agents (consumers, producers and governments) use available information, and also consider benefits, costs, constraints and perspectives, to make decisions, which may have intended and unintended consequences.</p> <p>This theme provides the foundation for the study of microeconomic and macroeconomic topics in Markets (Theme 2) and the National and International Economy (Theme 3) respectively, where the decision-making approach and concepts of scarcity, choice and opportunity cost recur.</p>	
Theme 1.1 Scarcity as the Central Economic Problem	
Economics Content	
1.1.1 Scarcity, choice and resource allocation <ol style="list-style-type: none"> The Central Economic Problem is scarcity, arising from limited resources and unlimited wants Scarcity implies that choices have to be made in the allocation of resources between different uses When choices are made, trade-offs and opportunity costs are incurred The concepts of scarcity, choice and opportunity cost can be explained from the perspectives of different economic agents (consumers, producers and governments) Production Possibility Curve (PPC) can be used to illustrate scarcity, choice, opportunity cost, productive efficiency, full employment, unemployment or under-utilisation of economic resources and changes in the productive capacity of an economy 	Additional information

Theme 1.1 Scarcity as the Central Economic Problem (continued)	
Economics Content (continued)	
1.1.2 Decision-Making Process of Economic Agents	Additional information
<p>a. Objectives of rational economic agents: consumers aim to maximise utility (satisfaction), producers aim to maximise profits and governments aim to maximise social welfare</p> <p>b. In the pursuit of their objectives, economic agents gather information, weigh benefits and costs, consider constraints and perspectives before making decisions. They take into account the intended and unintended consequences, and any changes occurring, before reviewing the decisions</p>	<p>A marginalist approach to weighing costs and benefits is expected.</p> <p>An understanding of the concept of cost-benefit analysis (CBA) as a project analysis tool is not required.</p> <p>An awareness of how consumers allocate resources to maximise utility is sufficient. The formal derivation of utility maximisation is not required.</p>
Concepts and Tools of Analysis	
<ul style="list-style-type: none"> • Scarcity, choice and opportunity cost • Production possibility curve (PPC) • Marginalist principle 	

Theme 2: Markets	
<p>In Theme 2, candidates examine how markets deal with the Central Economic Problem and how decisions are made by economic agents in markets. Theme 2 aims to provide candidates with a microeconomic analysis of how the price mechanism addresses the questions of what to produce, how to produce and for whom to produce. In addition, candidates will examine the strategies of firms to achieve their objectives and understand that while decisions made by consumers and producers are necessary for the functioning of markets, these decisions may lead to inefficient and/or inequitable outcomes. Candidates will be able to discuss how governments may intervene through public policy measures to improve efficiency and equity, while recognising limitations, unintended consequences and possible trade-offs of government intervention. This theme provides candidates with insights into real-world microeconomic issues and opportunities to deepen economic reasoning, analysis and application of microeconomic concepts to markets in Singapore and the global economy.</p>	
<p>Microeconomic concepts, theories and principles in Themes 1 and 2 provide the foundation for candidates to extend their understanding of the micro-economy to the macro-economy in Theme 3.</p>	
Theme 2.1 Price Mechanism and its Applications	
Economics Content	
2.1.1 Price Mechanism and its Functions	Additional information
<ul style="list-style-type: none"> a. How the price mechanism allocates scarce resources in the free market through signalling, incentive and rationing functions 	
2.1.2 Demand and Supply Analysis and its Applications	Additional information
<ul style="list-style-type: none"> a. Market demand as a summation of individual demand b. Market supply as a summation of individual supply c. Changes in price of the good/service itself cause a movement along the demand/supply curve d. Changes in non-price determinants and how they cause shifts in the demand/supply curve e. The equilibrium market price and quantity are determined by the interaction of demand and supply f. Changes in demand and supply can affect equilibrium price and quantity, consumer expenditure, producer revenue, consumer surplus and producer surplus g. These outcomes can be affected by price elasticities of demand and supply, income and cross elasticities of demand 	<p>Application to real-world markets, including the labour market, is required.</p> <p>Theory of Marginal Revenue Productivity (MRP) of Labour is not required.</p>
2.1.3 Government Intervention in Markets	Additional information
<ul style="list-style-type: none"> a. Governments may intervene in markets in the form of taxes, subsidies, price controls (maximum and minimum prices) and quantity controls (quotas) b. Government intervention in markets can affect the equilibrium price and quantity, consumer expenditure and producer revenue, consumer surplus and producer surplus c. Impact of government intervention on markets may be affected by price elasticities of demand and supply 	<p>Knowledge of 'incidence' in relation to taxes and subsidies is not required.</p>

Theme 2.1 Price Mechanism and its Applications (continued)**Concepts and Tools of Analysis**

- Price mechanism
- *Ceteris paribus*
- Demand and its determinants
- Change in demand versus change in quantity demanded
- Supply and its determinants
- Change in supply versus change in quantity supplied
- Market equilibrium
 - Equilibrium price and quantity
- Market disequilibrium
 - Shortage and surplus
- Price elasticity of demand
- Income elasticity of demand
 - Normal and inferior goods
- Cross elasticity of demand
 - Complements and substitutes
- Price elasticity of supply
- Consumer expenditure and producer revenue
- Consumer surplus and producer surplus
- Taxes and subsidies
- Price controls
 - Maximum and minimum prices
- Quantity controls
 - Quotas

Theme 2.2 Firms and Decisions**Economics Content**

2.2.1 Objectives of Firms	Additional information
<p>a. Firms aim to maximise profits</p> <ul style="list-style-type: none"> • Profit as the difference between total revenue and total cost • Profit-maximising output occurs at the point when marginal revenue (MR) equals marginal cost (MC) and where MC is rising <p>b. Firms may choose to pursue alternative objectives such as revenue maximisation, profit satisficing and market share dominance</p>	<p>Firms may lack sufficient or accurate information to make price and output decisions to maximise profits.</p>
2.2.2 Cost and Revenue	Additional information
<p>a. Firms' cost and revenue concepts in the short run and long run</p> <p>b. Internal and external economies and diseconomies of scale and their link to the long run average cost of production</p>	<p>The derivation of cost and revenue curves is not required.</p> <p>Detailed explanation of each type of internal (e.g. technical, marketing) and external economies of scale (e.g. concentration, information) and diseconomies of scale is not required.</p>

Theme 2.2 Firms and Decisions (continued)**Economics Content (continued)****2.2.3 Firms' Decisions and Strategies**

- a. Firms make decisions and engage in pricing, cost and product differentiation strategies aimed at raising revenue and/or lowering unit costs. These include:
 - growth, diversification and shut-down
 - price competition
 - third degree price discrimination
 - innovation, research and development
 - marketing
 - collusion with other firms
- b. Firms consider the existing and potential levels of competition in the industry when making decisions and engaging in strategies
- c. Impact of firms' decisions and strategies on:
 - efficiency (allocative, productive and dynamic efficiency)
 - consumer welfare (consumer choice, product quality and consumer surplus)
 - other firms (cost, revenue and profit)

Additional information

An awareness that economists generally classify the four market structures (perfect competition, monopolistic competition, oligopoly, monopoly) based on characteristics such as number and size of firms, barriers to entry and nature of product is required.

Diagrammatic analyses of

- comparison of types of market structure, price discrimination and shut-down condition; and
- firms' short run to long run equilibrium adjustment are not required.

An awareness that firms may:

- apply knowledge of consumers' cognitive biases (sunk cost fallacy, loss aversion or salience bias) in their strategies
 - be affected by technological disruptions in the industry
 - consider social and environmental concerns in their decisions
- is required.

Concepts and Tools of Analysis

- Profit maximisation condition: $MR=MC$, where MC is rising
- Revenue maximisation, profit satisficing, market share dominance
- Total cost, average cost, marginal cost
- Total revenue, average revenue, marginal revenue
- Internal and external economies and diseconomies of scale
- Third degree price discrimination
- Shut-down condition
- Product differentiation
- Barriers to entry
- Competition versus collusion
- Efficiency
 - Allocative, productive and dynamic efficiency
- Consumer welfare

Theme 2.3 Microeconomic Objectives and Policies	
Economics Content	
2.3.1 Governments' Microeconomic Objectives <ul style="list-style-type: none"> a. Governments' microeconomic objectives are efficiency and equity b. Efficiency in markets occurs when the social optimum is achieved, where Marginal Social Benefit (MSB) = Marginal Social Cost (MSC), maximising society's welfare c. Deadweight loss results when the social optimum is not achieved <ul style="list-style-type: none"> • Deadweight loss can be explained as the reduction in net benefit to society when output level is not at the social optimum d. Efficient resource allocation may not result in equitable outcomes e. Equity occurs when there is fairness in the distribution of essential goods and services 	Additional information <p>Inequity is a distributional issue and not considered a market failure.</p>
2.3.2 Market Failure and its Causes <ul style="list-style-type: none"> a. Market failure occurs when the free market is unable to allocate resources efficiently b. Markets may fail in terms of <ul style="list-style-type: none"> • non-provision of public goods due to non-rivalry and non-excludability • non-socially optimal levels of goods and services due to the presence of externalities, information failure (including asymmetric information), immobility of factors of production, and market dominance 	Additional information <p>An awareness of non-rejectability as a characteristic of public goods is required.</p> <p>Asymmetric information may lead to adverse selection and moral hazard.</p> <p>Diagrammatic analyses of factor immobility, asymmetric information, moral hazard and adverse selection are not required.</p> <p>A two-diagram approach will suffice – showing that MSC is higher than MPC for negative externalities, and MSB is higher than MPB for positive externalities.</p>
2.3.3 Microeconomic Policies <ul style="list-style-type: none"> a. Microeconomic policy decisions undertaken by governments to achieve microeconomic objectives in relation to efficiency and equity b. Policy measures including taxes and subsidies, quotas and tradeable permits, joint and direct provision, rules and regulations, public education in achieving efficiency and equity c. Effectiveness of policy measures and government failure 	Additional information <p>Government intervention may not always achieve efficiency and equity.</p> <p>An awareness that governments may apply knowledge of cognitive biases (sunk cost fallacy, loss aversion or salience bias) to nudge the decisions of economic agents is required.</p>

Theme 2.3 Microeconomic Objectives and Policies (continued)**Concepts and Tools of Analysis**

- Allocative efficiency
- Equity
- Market failure
- Deadweight loss
- Marginal private benefit and cost
- Marginal external benefit and cost
- Marginal social benefit and cost
- Social versus private (market) optimum
- Public goods
 - Non-excludability and non-rivalry
- Positive and negative externalities
- Information failure
- Market dominance
- Factor immobility

Theme 3: The National and International Economy	
<p>Theme 3 provides candidates with an overview of the workings and linkages of the national and international economy. Candidates will use the concepts, theories and principles from Themes 1 and 2 to examine the problem of scarcity of resources and the concept of trade-offs at the level of the national economy. In particular, candidates will examine how governments make policy choices at the national level to improve living standards. In doing so, candidates will discuss how governments consider competing needs, weigh costs and benefits, recognise trade-offs and consequences to make policy decisions. Candidates will first gain an understanding of the circular flow of income model and concepts of aggregate demand and aggregate supply, before applying the concepts to analyse macroeconomic issues and government decisions at the national level. Candidates will also examine domestic and external factors that influence economic growth, price stability, employment and balance of trade, with a focus on how these factors affect a country's standard of living. In addition, candidates will also discuss the different policy choices available to governments and their effectiveness in achieving higher living standards.</p>	
Theme 3.1 Introduction to Macroeconomics	
Economics Content	
3.1.1 Circular Flow of Income	Additional information
<ol style="list-style-type: none"> The circular flow of income as an interactive model involving households, firms, government and the foreign sector National income equals expenditure equals output 	
3.1.2 Aggregate Demand and Aggregate Supply	Additional information
<ol style="list-style-type: none"> Aggregate Demand (AD) and its components: consumption (C), investment (I), government spending (G) and net exports ($X - M$) How AD is affected by changes in the determinants of C, I, G and ($X - M$) How Aggregate Supply (AS) is affected by its determinants How interaction of AD and AS determines equilibrium level of national output and general price level How changes in the components of AD can have a multiplied effect on national income 	<p>A distinction between autonomous and induced expenditure is required.</p> <p>Knowledge of marginal propensities (of consumption, savings, taxes and imports) and the multiplier formula is required.</p>
Concepts and Tools of Analysis	
<ul style="list-style-type: none"> Circular flow of income Aggregate demand Determinants of C, I, G and ($X - M$) Aggregate supply Determinants of aggregate supply National output General price level Multiplier effect 	

Theme 3.2 Macroeconomic Objectives and Policies	
Economics Content	
<p>3.2.1 Standard of Living and Macroeconomics Indicators</p> <p>a. Economies are primarily concerned with improving the standard of living</p> <ul style="list-style-type: none"> Standard of living involves material and non-material aspects, as measured by real national income per capita taking into account other indicators such as income distribution, leisure time, quality of environment <p>b. Standard of living is affected by an economy's ability to achieve macroeconomic objectives in terms of sustainable and inclusive economic growth, low unemployment, price stability and a favourable balance of trade position</p> <p>c. Macroeconomic indicators</p> <ul style="list-style-type: none"> Indicators of economic performance include real Gross Domestic Product (GDP) or Gross National Income (GNI), real GDP or GNI per capita, unemployment rate, Consumer Price Index (CPI) and balance of trade Human Development Index (HDI) as an indicator to reflect standard of living Gini coefficient as an indicator to reflect income distribution <p>d. Comparison of living standards over time and over space (between economies)</p>	<p>Additional information</p> <p>An awareness of the key components of the balance of payments accounts (current, capital and financial accounts) is required. Knowledge of balance of payments accounting (including sign convention) is not required.</p> <p>An understanding of nominal and real concepts is required. An understanding of how index numbers are interpreted, including the base year and use of weights, is required. Calculation of index numbers and national income is not required.</p> <p>An understanding of the meaning of the Gini coefficient (using the Lorenz curve) and the variation of the coefficient between 0 and 1 is required.</p> <p>Calculation of current account of balance of payments, HDI and Gini coefficient is not required.</p>
<p>3.2.2 Macroeconomic Issues</p> <p>a. Macroeconomic issues and their causes</p> <ul style="list-style-type: none"> Undesirable economic growth – persistently low or negative, unsustainable, non-inclusive due to factors such as changes in AD or AS, environmental degradation, inequitable income distribution Unemployment – demand-deficient, structural, frictional due to factors such as lack of AD, technological changes, mismatch of skills, transition between jobs Price instability – demand-pull inflation, cost-push inflation, deflation due to factors such as changes in AD, costs of production, productive capacity Persistently large balance of trade deficit or surplus due to factors such as changes in global conditions, international competitiveness, exchange rates <p>b. Consequences of undesirable economic growth, unemployment, price instability, persistently large balance of trade deficit or surplus for economic agents on the standard of living</p>	<p>Additional information</p>

Theme 3.2 Macroeconomic Objectives and Policies (continued)	
Economics Content (continued)	
3.2.3 Macroeconomic Policies	Additional information
<p>a. Macroeconomic policy decisions undertaken by governments to achieve macroeconomic objectives in relation to living standards</p> <p>b. Policy measures and their effectiveness in achieving macroeconomic objectives:</p> <ul style="list-style-type: none"> • Fiscal policy <ul style="list-style-type: none"> – How discretionary fiscal policy can influence the level of economic activities and living standards through government spending and taxation • Monetary policy <ul style="list-style-type: none"> – How monetary policy can influence the level of economic activities and living standards through the management of exchange rates (case of Singapore) and interest rates • Supply-side policies <ul style="list-style-type: none"> – How supply-side policies can improve quantity, quality and mobility of factors of production to increase the productive capacity of an economy and hence affect living standards <p>c. Possibilities of conflicts between macroeconomic objectives and how this may affect governments' decision on macroeconomic policy</p>	<p>An understanding that governments around the world focus on different macroeconomic objectives, depending on the state of the economy and the level of development of the country is required.</p> <p>An awareness of the desirability for a government to maintain fiscal sustainability over the long term is required.</p> <p>An understanding of how transfer payments can improve income distribution and help achieve inclusive growth is required.</p> <p>Knowledge of the Marshall-Lerner condition is required. Derivation of its formula and calculation are not required.</p>
Concepts and Tools of Analysis	
<ul style="list-style-type: none"> • Standard of living <ul style="list-style-type: none"> – Material and non-material well-being – Gross Domestic Product (GDP) and Gross National Income (GNI) – Human Development Index (HDI) – Income inequality – Gini coefficient • Economic growth <ul style="list-style-type: none"> – Actual and potential growth – Sustainable growth – Inclusive growth • Full employment and unemployment <ul style="list-style-type: none"> – Demand-deficient unemployment – Structural unemployment – Frictional unemployment • Price stability <ul style="list-style-type: none"> – Demand-pull inflation – Cost-push inflation – Deflation – Consumer Price Index (CPI) • Nominal and real concepts • Balance of trade surplus and deficit • Short-term capital flows • Long-term capital flows <ul style="list-style-type: none"> – Foreign direct investment • Discretionary fiscal policy • Government budget surplus and deficit • Monetary policy <ul style="list-style-type: none"> – Interest rates – Exchange rates • Supply-side policies 	

Theme 3.3 Globalisation and the International Economy**Economics Content****3.3.1 Globalisation, International Trade and Economic Co-operation**

- a. Globalisation as the increased trade of goods and services, and flows of capital and labour between countries
 - Factors affecting globalisation
- b. Basis of free trade and specialisation
- c. Benefits and costs of free trade and flows of capital and labour on:
 - Consumers – Prices, choice and variety of goods and services
 - Producers – Size of markets, degree of competition, cost of production and innovation
 - Government – Macroeconomic objectives (and policy choice)
- d. Benefits and costs of protectionism
- e. Governments may decide to engage in economic co-operation and trade agreements between countries or impose protectionist measures to achieve macroeconomic aims

Additional information

An understanding of the Theory of Comparative Advantage, in terms of opportunity cost, is required. Numerical illustration of the Theory of Comparative Advantage is not required.

Diagrammatic analysis of the effects of tariffs is required.

Detailed knowledge of the forms of economic integration, institutional knowledge and legislation is not required. Diagrammatic analyses of economic co-operation and trade agreements between countries are not required.

Concepts and Tools of Analysis

- Globalisation
- Free trade
- Protectionism
 - Tariffs and non-tariff measures
- International and regional economic co-operation