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# Cambridge O Level Economics

Susan Grant



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*To the memory of my mother, Pat Grant,  
who was a woman of great cheerfulness and courage.*

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## INTRODUCTION

This book is designed to introduce you to the study of economics and to help you progress through your Cambridge O Level course. The book follows the structure of the Cambridge O Level courses closely.

It covers all the topics of the course. In places, the book goes beyond the syllabus to include concepts which will stretch your understanding and which will provide you with additional possible ways to approach particular topics and strengthen the depth of your answers. These are:

Allocative, productive and dynamic efficiency (pages 87–89)

Cost-benefit analysis (page 114)

Aggregate demand and aggregate supply analysis (page 312)

Velocity of circulation (page 367)

Flexible employment (page 376)

Purchasing power parity (page 399)

Lorenz curve (page 427)

The capital and financial accounts of the balance of payments (pages 463–464)

Absolute and comparative advantage (pages 476–478)

The terms of trade (page 479).

The Book is divided into 52 units. Each of these units explores a key economic topic and provides activities and multiple choice questions to assess your understanding of the same. At the end of each unit a teacher's tip is given. This may remind you of a key point, warn you about a common confusion, give you advice on how to approach a question or recommend an activity which will enhance your understanding. There is also a summary of the main points covered in the unit.

The units have been arranged into eight sections. At the end of each section, there are answers to the activities and multiple choice questions. Do not look at them until you have worked through the questions. Besides 'Answer Key', a section on 'Examination Practice' also contains ten multiple choice questions covering the whole

section and some structured questions from past examination papers. Answers to these multiple choice questions and structured questions can be found at the end of the book. You must remember that the answers, included for structured questions, are only suggested answers. There can be different approaches, particularly in the case of the higher marked questions, which are equally valid.

## Economics

Economics is an important, well-respected and exciting subject. Economists play a key role in the world. They give advice to firms and governments to improve their performance and also comment on their success or failure. The work of economists can make a significant difference to people's lives. For instance, the policies they recommend to governments may reduce poverty and improve the quality of the environment.

Whilst some of the people, who study economics, go on to become economists, others enter a range of professions including accountancy, banking, education, journalism and the law. Economists enjoy a lot of respect in universities and professional organisations. They regard it as a rigorous subject, that develops logical thinking and analytical and mathematical ability.

There are certain concepts – such as opportunity cost and price elasticity of demand, and certain topics – including price determination, unemployment and inflation, that are central to economics. The subject, however, is ever changing as new theories develop, new institutions are created and new problems are encountered. This makes it an interesting and challenging subject.

## The Skills of an Economist

To be a good economist, you need to be informed of the developments in your economy and other economies. You need to be able to think and write clearly and apply relevant economic terms and concepts. You need to be confident in handling figures. This involves being able to add, divide, subtract, multiply, calculate percentage changes and understand index numbers. You also need to be able to draw relevant, well-labelled and accurate diagrams. This book is designed to help you develop these skills.

## PREPARING FOR EXAMINATION

Revision is a continuous process. After every lesson, check your work and if necessary, add extra notes. As an examination approaches, you will need to do intensive revision. Try to engage in active revision. This involves, not just reading notes, but also using the information. There are a number of ways through which this can be done. These include testing other members of the class and getting them to test you, drawing spider diagrams and producing tables and revision cards.

### Examination Technique

It is not sufficient to have a sound knowledge and good skills in the subject. You also have to demonstrate these under examination conditions. So, it is essential to develop examination techniques.

Before an examination, check out the duration of the examination and the number of questions you have to answer. Read the instructions on examination paper carefully. Do not rush into writing your answers.

In answering multiple choice papers, consider every option in a question carefully. If you are uncertain of an answer to a particular question, proceed further and return to it when you have answered the other questions. At the end, check that you have answered all the questions. Never leave a question unanswered, even if you have to guess.

In answering structured questions read the questions very carefully, paying particular attention to the directive (instruction) words. A question which asks you to identify or state something will only require a brief answer, consisting of a few words. In contrast, a question which asks you to explain, assess or discuss something will require a longer answer, written in sentences and paragraphs. Unless specifically asked for, do not produce a list. Such an approach is likely to gain you a few marks.

The marks allocated to a question or part of a question should give you a clear indication of the extent of detail required. It is often useful to include a diagram (or diagrams) in your answers. These should be clear, accurate, well-labelled and backed up by an explanation in the text.

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