

# Part 1

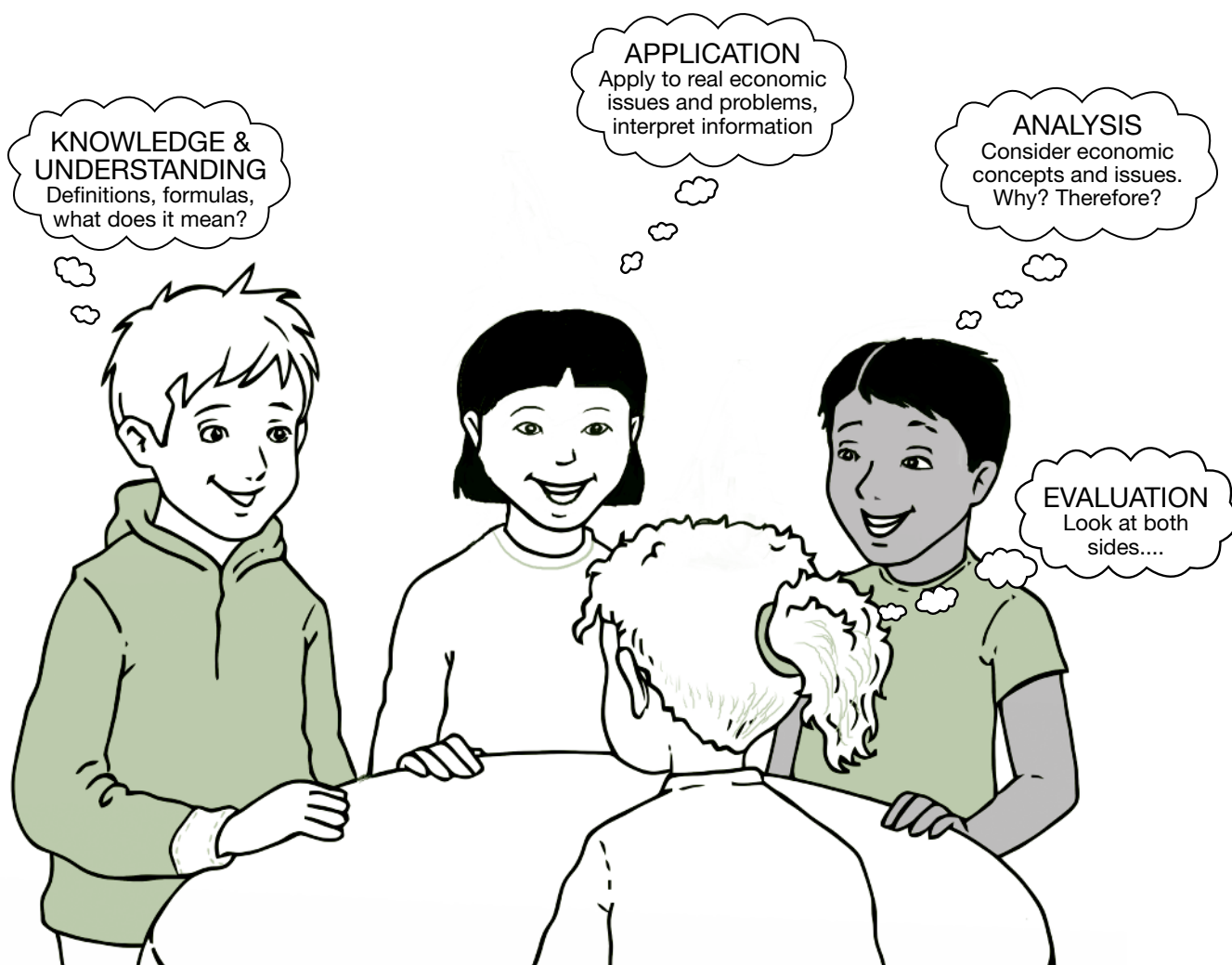
## 1.1 Developing skills

This part covers the range of skills that underpin the Cambridge International AS and A Level Economics syllabus. The aim is to progressively get you to think like an economist through being able to use what is often referred to as 'the economist's tool kit'.

The following sections are covered:

- Core skills for an economist: knowledge and understanding; application; analysis and evaluation.
- How to tackle the various types of question and apply the appropriate skills.
- Numerical data – an overview of the skills that you need.
- Diagrams – how these are used in economics as a means of explaining economic concepts.
- How to write clear convincing economic arguments.

Each section contains advice that is appropriate for AS and A Level students.



## Acquiring knowledge and developing understanding skills

### Why knowledge and understanding are important in economics

Like any academic subject, the starting point when studying economics is to acquire essential knowledge. This knowledge is the core of the subject and is progressively acquired as you work through the five sections of the AS and A Level syllabus.

Much of the knowledge can be obtained from the many 'key terms' set out in the various chapters of the course book. You should be able to define these key terms in an exact way.

Understanding is something that you can develop from this knowledge.

### How to recognise when knowledge and understanding is required

The directive or command word of a question should make this clear.

You will always find it useful to define any key terms at the start of an answer. But be careful to make sure you can do this correctly.

A few examples of directive or command words requiring knowledge and understanding are:

<b>Define</b>	:	Give the (exact) meaning of ...
<b>Describe</b>	:	Give the main features of ...
<b>Outline</b>	:	Describe the key points without going into detail.
<b>State</b>	:	Give a clear, brief answer with no need to provide anything else.
<b>Illustrate</b>	:	Use examples; use a diagram.

### How to show that you have a knowledge and understanding of economics

This is the first stage in developing the skills that will help you to think like an economist.

A few positive steps you can take are:

- be clear and precise when defining key terms
- avoid long drawn out definitions and vague descriptions
- try to show that you really understand what you are writing about and why it is important.

Some questions, especially in data response questions, may simply ask for a definition. Essay questions may use key terms, in which case, is often useful to define these before attempting more detailed application and analysis.

## 1.1 Developing skills

The table below gives some examples where students sometimes get confused over the meaning of key terms. You will find it useful to keep referring back to it. The terms are broadly set out in the order in which they appear in the syllabus.

Key term	Often confused with
wants	needs
public goods	merit goods
elastic	inelastic
price	cost
movement along demand/supply curves	shifts of demand/supply curves
maximum prices	minimum prices
direct taxes	indirect taxes
inflation	deflation
balance of trade	balance of payments
exchange rate	interest rate
terms of trade	balance of trade
trade creation	trade diversion
fiscal policies	monetary policies
expenditure switching policies	expenditure dampening policies
external costs/benefits	social costs/benefits
substitution effect	income effect
monopolistic competition	monopoly
horizontal integration	vertical integration
equity	equality
income	wealth
economic growth	economic development
autonomous investment	induced investment
multiplier	accelerator

**Table 0.1** Key terms

## Applying knowledge and understanding

### Why application is important in economics

Economics was once described as the ‘dismal science’, most likely because it was often difficult to see how the economist’s language of terms, concepts and theories had any real-world relevance. This criticism is not one that can be made of the subject in the 21st century.

The main reason for this modern view is that economics has substantial relevance in the complex, uncertain, global economy. The concepts and simple models that make up the subject form the way in which economists view the world around us. Economists try to simplify and make sense of what they see in terms of these tools. In short, the particular value of economics is through its application in making sense of an ever-wider range of micro- and macroeconomic problems and issues.

### How to recognise when application is required

Unlike other skills, there are only a few specific command or directive words, other than ‘apply’ and ‘explain’, that indicate that some application is required. These words are widely used.

The wording of the question should help you recognise when application is required.

For example:

**‘Use the information** in table 1 to explain ...

**‘What evidence** is there to indicate that ...?’

**‘With the aid of a diagram,** apply ...’

**‘How can** (concept *x*) be used to explain ...?’

**‘Distinguish** between ... and ...’

**‘Calculate** ...’

### How to show that you can apply a knowledge and understanding of economics

There are various ways in which you can do this.

In data response questions, an obvious way is to explicitly use the text or data provided in your answer whilst making reference to the concept or issue involved.

In essay questions, there is wider scope including:

- making a brief summary of a concept or key term and then specifically applying it to the topic of the question
- for more open-ended questions, drawing upon what you might have read either in a textbook or newspaper or some digital resource and applying this original knowledge to the question.

## Developing analysis skills

### Why analysis is important in economics?

The analysis of economic problems and issues is central to what economics is all about. Professional economists such as those working for banks, international organisations and especially the media, set about analysing a wide range of micro- and macroeconomic situations. Developing this skill is one that will help enhance your more detached understanding of economics and increase your confidence when preparing for examinations.

‘Analysis’ is concerned with the ability to dissect or separate an issue or problem into its basic elements or components. This enables you to show the essence of what it consists of, whilst avoiding unnecessary detail. This last point is very important otherwise you will struggle to give relevant answers.

In analysing a particular issue, the subject matter of economics provides you with a range of tools.

These are:

- a range of micro- and macroeconomic concepts
- corresponding theories that can be applied to compare theory and practice
- data that can be used to investigate a particular issue.

Making the transition from understanding and describing an economic issue is not easy, nor is getting to grips with writing in an analytical way. Both can be achieved as you develop your knowledge of economics and become more confident in understanding what is involved.

### How to recognise when analysis is required

Many economics questions require analysis. The directive or command word of the question can be a clue as to when analysis is required.

An obvious way of recognising when analysis is required is where the question says ‘analyse’. So:

**Analyse** : Set out the main points and show how they link and connect.

Other command words involving the same skill are:

**Explain** : Give clear reasons or make clear the meaning, using examples and theory where appropriate remember that this is also a directive word for application skills.

**Compare** : Explain similarities as well as differences (between two concepts).

### How to show that you can analyse economic issues, policies and arguments

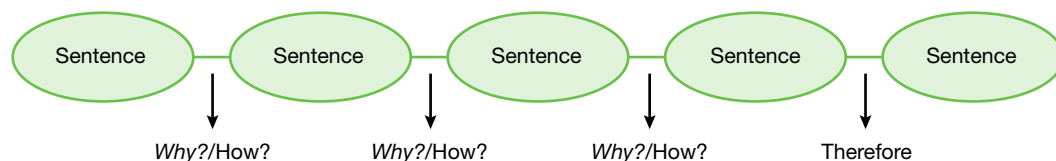
This skill requires practice, whether through homework tasks, the exercises and questions in this workbook or drafting answers to examination questions. It is not something that you can develop overnight. So, practice is the key.

**The most important advice is to always have the following in mind:**

- **Why?**
- **How?**
- **Therefore...**

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Think about these questions all of the time you are writing. This will enable you to ‘link’ individual sentences together – this is how to write in a critical, analytical way. The diagram below will help you understand this point.



**Figure 0.1** Linking individual sentences in a critical analytical way

Here is an example of what this means:

Question: **Analyse** how fiscal policy can be used to increase the level of activity in an economy.

Below is an example of an analytical response:

**Context** ← Fiscal policy is widely used by governments when seeking to reflate the economy and reduce the problem of rising unemployment.  
 (How?)

**Process** ← It is a policy that involves changes to taxation or government spending or to both.  
 (Why?)

An expansionary fiscal policy can increase the level of aggregate demand through a reduction in taxation or an increase in government spending.  
 (Why?)

Such measures increase consumption, one of the components of aggregate demand, by individuals and businesses.  
 (Why?)

A reduction in, for example, a general sales tax, increases disposable income; an increase in government spending on roads or constructing new state schools for example, provides a boost to firms involved in such work.  
 (Therefore)

**Outcome** ← This should increase aggregate demand and the level of activity in the economy since firms will buy more supplies and take on more workers to meet the increased demand.

## Developing evaluation skills

### Why evaluation is important in economics

Have you noticed how economists often disagree? This is because, unlike maths for example, economics is not an exact science – there can be different interpretations of a particular economic issue or alternative policies being put forward to deal with it. This is why, at AS/A Level, developing the skills necessary to be able to evaluate or make a judgement is important.

Let us consider two issues you may have studied. These are tariffs (AS) and market failure as a consequence of traffic congestion (A Level).

Tariffs are imposed, rightly or wrongly, to protect an economy from what might be seen to be unfair competition in international trade. Some economists argue that tariffs are necessary to protect sunrise and sunset industries and to reduce pressures on the balance of trade in goods. Others argue that tariffs are counter to the principle of comparative advantage and the resulting benefits that can be gained through specialisation in the global economy.

Traffic congestion is a classic example of market failure. All economists would agree on this point. Where they disagree is what to do about it. Some economists urge intervention through policies such as increased restrictions on vehicle use or greater public transport (mass transit) subsidies. Other economists promote a market solution through a policy of road pricing.

In both examples, therefore, there are alternative viewpoints. Their evaluation involves studying the evidence available and putting forward what is seen as the 'best' policy outcome.

Here are a few useful tips:

- It is important that any evaluation of a problem or issue is based on good quality information. This is sometimes difficult as there may be no precedent or no empirical (real-world) evidence to support a particular policy approach.
- Evaluation can also be derived from recognised economic principles or concepts, such as those you study at AS/A Level. Economic theories have often stood the test of time and can be used to 'benchmark' real situations.
- Avoid making rash judgements that are not based on quality information or economic principles. At least 99% of the time, these will be meaningless, purely a matter of biased personal opinion.

## How to recognise where evaluation is required

This is relatively straightforward since evaluation is clearly flagged up by the command or directive word in a question.

The most common such word is **'discuss'**. This invites you to look at both sides of an economic issue, policy or argument.

A good way of knowing how to discuss an economic issue is to think about the 'two-handed economist'. Typically, economists often argue 'on the one hand' but 'on the other hand' when considering something. The aim is to give a balanced answer. A very good answer, if valid, would go that bit further and conclude by making clear which side (or hand) has most credibility **based on the evidence in your answer**. This is particularly valuable at A Level since your knowledge and understanding of economics will be that bit greater.

Other command words, mainly in A Level questions, requiring an evaluation in an answer include:

- |                       |   |
|-----------------------|---|
| <b>Assess</b>         | : Look at the respective arguments and make a judgement (based on what you have written) of how important something is.   |
| <b>To what extent</b> | : Look at reasons for and against and come to a conclusion based on what you believe to be the strongest side of the argument.  |
| <b>Evaluate</b>       | : Again, consider the respective arguments but make some deliberate attempt to weight them in terms of their importance.  |
| <b>Comment</b>        | : This may sometimes require you to only make an evaluation of one rather than both sides of an economic argument. If so, you need to be clear why you have rejected other arguments whilst giving a reasoned opinion |
| <b>Consider</b>       | : Give your thoughts about the statement with some justification.   |

## How to show that you can evaluate economic issues, policies and arguments

Making an evaluation in an answer is the final challenge. In general, there are two main ways you can do this. These are:

- i** To round off your answer with a concluding paragraph or two. You can do this by summing up what you have found, for and against, and then make a final statement such as:

*'From the evidence, it is clear that ... is a better policy than ...'*

*'There is no particular evidence for one policy over another. The best approach is that of using a mixture of policies.'*

*'In the short term, a policy of ... is most likely to succeed but in the long term ...'*

What you have said earlier really does have to consider the two respective sides of the issue, policies or argument.

- ii** Evaluation can also be incorporated at various points in the full answer to a question. This is more of a challenge but is evidenced in the way in which you write or structure an answer to a question.

To be effective, such an answer needs to have a clear linkage between the points made, as distinct from a set of discrete points. It should also periodically include an evaluative sentence once linked points have been set out. For example:

*'These policies are clearly relevant since they are widely used.'*

*'It is therefore debatable whether there really is any one solution to this problem.'*

*'Other approaches need to be considered because of the problems that have so far been identified.'*

Either way of incorporating evaluation is acceptable. As previously mentioned, the key thing is to have included appropriate underpinning content in your answer.