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1. Introduction to Microeconomics

Key idea: Micro looks at how *individual agents* (consumers, firms, government) make choices under scarcity.

Teach:

- The basic **economic problem** – scarcity → choice → opportunity cost.
- **Positive vs normative statements**
  - Positive = testable fact
  - Normative = value judgment (e.g., "the government *should…*")

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2. Demand & Supply Fundamentals

Demand

- Law of demand (inverse relationship between price and quantity demanded).
- Shifts vs movements:
  - Only price → movement along curve
  - Income, tastes, substitutes/complements, population → shift.

Supply

- Law of supply (direct relationship).
- Supply shifts:
  - Production costs, technology, taxes/subsidies, shocks.

Market Equilibrium

- Where supply = demand.
- Surpluses & shortages: how the price adjusts.

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3. Elasticities

Teach conceptually without calculation detail.

Price Elasticity of Demand (PED)

- Formula idea only: responsiveness of demand to price changes.
- Elastic vs inelastic goods:
  - Inelastic examples: petrol, cigarettes.
  - Elastic examples: luxury clothes, restaurant meals.

Why firms care:

- If demand is inelastic → raise price → revenue increases.
- If demand is elastic → lower price → revenue increases.

Other Elasticities

- **YED:** normal vs inferior goods. If positive between 1 and 0 its normal if less than 0 its inferior good and if its greater than 1 its luxury
- **XED:** substitutes (+) and complements (−).

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- **PES:** how flexible producers are.

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4. Consumer & Producer Theory: Utility & Costs

Consumer Side

- **Diminishing marginal utility** → demand curve slopes downwards.
- Choice and rationality.

Producer Side

- **Short-run vs long-run costs**
- Diminishing marginal returns
- Economies of scale (internal & external)
    - Technical, managerial, purchasing, marketing economies. (See Note 6)

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5. Market Failure

This is one of the most exam-heavy areas—cover the main types.

1. Externalities

- Spillover effects on third parties.
- Negative production: pollution.
- Positive consumption: vaccinations.
- Social vs private costs/benefits.

2. Public Goods

- Non-rival + non-excludable.
- Free rider problem.

3. Information Gaps

- Asymmetric information:
    - e.g., used car market, financial services.

4. Monopoly Power

- Can lead to higher prices, allocative inefficiency.

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6. <u>Types of Economies of Scale</u>

1. Internal Economies of Scale

These occur **within the firm** as it grows.

Examples:

- **Technical economies** – using advanced machines that produce large quantities.
- **Managerial economies** – hiring specialist managers (finance, marketing).
- **Bulk buying economies** – buying raw materials in large quantities at discounts.
- **Financial economies** – large firms get loans at lower interest rates.

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- **Marketing economies** – advertising cost spread across many products.

Exam Question and answer

Extract D

The growing problem of electronic waste

Electronic waste is the fastest growing element of the world's household waste problem. The problem in the UK is particularly bad. The country produces 24.9 kg a person a year – nearly 10 kg more than the EU average. In 2018, 1.2 million tonnes of electrical devices were sold in the UK, and 500 000 tonnes made it to recycling centres. Some appliances are more likely to be recycled than others. The recycling rate for big appliances, such as fridges and cookers, is about 80%. Of small appliances, barely one in five makes it to the recycling centre. As items such as toasters, hairdryers and headphones fit into household bins, they are not often taken to a recycling centre. This causes many problems, such as hazardous substances contaminating soil, water pollution and other external costs.

Policy makers have a long list of options to combat this problem including stricter regulation, environmental education, taxation and financial incentives. In some countries, for example, household rubbish is weighed and recycling initiatives are subsidised.

(c) Assess whether firms in the electronics industry benefit from economies of scale.

(10)

1 Economies of scale occur when a firm's **average costs fall as output increases**. These can include **technical** economies (efficient machinery and automation), **purchasing** economies (bulk buying components), and **managerial** economies (specialist managers improving efficiency).

Application (2 marks)

2 Extract C states that large electronics firms "benefit from economies of scale" and can fund large-scale innovation and global advertising. Extract A highlights the high demand for components such as computer chips, while Extract D states that **1.2 million tonnes of electrical devices were sold in the UK in 2018**, showing the industry operates on a very large scale.

Analysis (2 marks)

3 Because output in electronics is extremely high, firms can achieve **technical economies of scale** by using advanced automated production lines and spreading the high fixed cost of machinery across millions of units. They also gain **purchasing economies**, since large producers can negotiate lower prices for chips, wiring and circuit boards by buying in bulk. **Managerial economies** may also arise as large firms can employ specialist engineers and supply-chain managers, reducing inefficiencies and lowering average costs further.

Evaluation (4 marks)

4 However, the benefit of economies of scale is not universal. Extract D shows many **small appliances** (toasters, hairdryers, headphones) that may be produced by smaller firms with lower output levels, limiting their ability to access technical or purchasing economies. Extract B highlights a **shortage of skilled labour**, which could raise costs for firms as they expand and may reduce the cost savings gained from economies of scale. Rising chip prices (Extract A) and increasingly strict waste-management requirements (Extract D) may add regulatory and input costs, creating potential **diseconomies of scale** such as coordination difficulties or higher compliance expenses.

2 The world's largest producer of natural gas is the USA. In 2021 production fell even though the price increased.

(a) Using the data provided, explain **one** likely factor that may influence the price elasticity of supply of gas.

(3)

One factor affecting the price elasticity of supply of gas is the **time required to increase production**. Natural gas extraction depends on drilling facilities and pipelines, which cannot be expanded quickly. This means that even when the price rises, firms cannot immediately increase output, making **PES inelastic**. This helps explain why US gas production fell in 2021 despite higher prices — producers did not have the capacity to respond quickly.

Academy

Extract C

Educational Website and TV Programmes

BBC Bitesize is a learning platform created by the BBC in 1998. The online study resource allows parents to teach their children from home, using ready-made lesson plans and study guides with questions for all ages. The revision sessions are free to watch and they are available for children aged five up to their late teens. The guides are written by teachers and subject experts, so they are reliable and follow the National Curriculum. Last year Bitesize attracted around two million weekly unique browsers with a peak week of 3.3 million in the GCSE exam period.

Oak National Academy is a freely available learning resource website created for pupils aged four to sixteen. Launched in 2020, as a response to the global health crisis, the website includes lesson slides, video lessons, worksheets, and quizzes conforming to the national curriculum in England. Ministers have set aside £43 million to fund the Oak National Academy over the next three years.

(Source adapted from: https://www.bbc.co.uk/bitesize/articles/zmjdhbk

(d) With reference to Extract C, discuss the likely private and external benefits of viewing educational websites and TV programmes.

(12)

Knowledge (2 marks)

Private benefits are the **gains enjoyed by the individual** consuming a good, such as improved skills or higher future earnings.
External benefits are **positive spillover effects on third parties or society**, meaning the social benefit is greater than the private benefit.

Application (2 marks)

Extract C states that BBC Bitesize offers **free online study guides**, written by teachers and subject experts, and is available to children from age 5 to late teens. It also says the platform had **around two million weekly users**, rising to **3.3 million during GCSE season**. Oak National Academy also provides **free lessons, worksheets and quizzes** funded by the government.

Analysis (4 marks)

One private benefit is improved academic performance. Students using these websites gain better understanding of the curriculum, which can lead to higher grades, increased confidence, and improved future job opportunities. Another private benefit is cost savings for families, since resources such as lesson plans, revision videos and worksheets are free, reducing the need for paid tutors or textbooks.

External benefits arise because a more educated population generates **positive spillovers**, such as higher productivity, lower unemployment and reduced reliance on welfare. Extract C notes that

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resources are written by qualified experts and follow the national curriculum, meaning students become better prepared for exams, which benefits employers who gain more skilled workers. Free access also ensures inclusivity, helping reduce educational inequality — a benefit to society as a whole.

Evaluation (4 marks)

However, these benefits may not be equally experienced by all students. Access to educational websites requires reliable internet and digital devices, so families without these may not gain the same private benefits. Additionally, online resources may not fully substitute for teacher-led explanation, meaning learning gains could be uneven.
External benefits may also be limited if students do not use the resources effectively or lack motivation, reducing the overall impact on productivity or skill levels.

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