

Subject	Year		Term
Economics (macro)	Year 13		2
Topic			
Financial markets and monetary policy (4.2.4) Fiscal policy and supply-side policies (4.2.5)			
Content (Intent)			
Prior Learning – Students have no prior knowledge of financial markets. The monetary policy covered in Year 12 focusses on interest rates. Students should have an understanding of fiscal and supply-side policies from the work covered in Year 12.			
4.2.4.3	Central banks and monetary policy	<ul style="list-style-type: none"> • The main functions of a central bank. • That monetary policy involves the central bank taking action to influence interest rates, the supply of money and credit and the exchange rate. • The current objectives of monetary policy set by the government. • The role of the Monetary Policy Committee of the Bank of England (MPC) and how it uses changes in bank rate to try to achieve the objectives for monetary policy, including the government's target rate of inflation. • The factors considered by the MPC when setting the bank rate. • How changes in the exchange rate affect aggregate demand and the various macroeconomic policy objectives. • The monetary policy transmission mechanism, including the relationship between changes in interest rates and the exchange rate. • How the Bank of England can influence the growth of the money supply. 	
4.2.4.1	The structure of financial markets and financial assets	<ul style="list-style-type: none"> • The characteristics and functions of money. • Definitions of the money supply and the distinction between narrow money and broad money. • The difference between the money market, the capital market and the foreign exchange market. • The role of financial markets in the wider economy. • The difference between debt and equity. • Why there is an inverse relationship between market interest 	

		rates and bond prices
4.2.4.2	Commercial banks and investment banks	<ul style="list-style-type: none"> • The difference between a commercial bank and an investment bank. • The main functions of a commercial bank. • The structure of a commercial bank's balance sheet. • The objectives of a commercial bank, ie liquidity, profitability and security. • Potential conflicts between these objectives. • How banks create credit.
4.2.4.4	The regulation of the financial system	<ul style="list-style-type: none"> • Regulation of the financial system in the UK, eg the role of the Bank of England, the Prudential Regulation Authority (PRA), the Financial Policy Committee (FPC) and the Financial Conduct Authority (FCA). • Why a bank might fail, including the risks involved in lending long term and borrowing short term. • Liquidity ratios and capital ratios and how they affect the stability of a financial institution. • Moral hazard. • Systemic risk and the impact of problems that arise in financial markets upon the real economy.
4.2.5.1	Fiscal Policy	<ul style="list-style-type: none"> • Fiscal policy involves the manipulation of government spending, taxation and the budget balance. • Fiscal policy can have both macroeconomic and microeconomic functions. • How fiscal policy can be used to influence aggregate demand. • How fiscal policy can be used to influence aggregate supply. • How government spending and taxation can affect the pattern of economic activity. • The types of and reasons for public expenditure. • Why governments levy taxes. • The difference between direct and indirect taxes. • The difference between progressive, proportional and regressive taxes. • The principles of taxation, such as that taxes should be equitable. • The role and relative merits of different UK taxes. • The relationship between the budget balance and the national debt. • Cyclical and structural budget deficits and surpluses.

		<ul style="list-style-type: none"> • The consequences of budget deficits and surpluses for macroeconomic performance. • The significance of the size of the national debt. • The role of the Office for Budget Responsibility.
4.2.5.2	Supply-side policies	<ul style="list-style-type: none"> • The difference between supply-side policies and supply-side improvements in the economy. • How supply-side policies can help to achieve supply-side improvements in the economy. • How supply-side policies, such as tax changes designed to change personal incentives, may increase the potential output of the economy and improve the underlying trend rate of economic growth. • How supply-side policies can affect unemployment, the rate of change of prices and UK external performance, as reflected in the balance of payments on current account. • The role of supply-side policies in reducing the natural rate of unemployment. • Free market supply-side policies include measures such as: tax cuts, privatisation, deregulation and some labour market reforms. • Interventionist supply-side policies include measures such as: government spending on education and training, industrial policy, subsidising spending on research and development. • Supply-side policies can have microeconomic as well as macroeconomic effects.

Future Learning – Many of the concepts and principles link into other areas of the macroeconomics syllabus as they impact the ability of the economy to meet its macroeconomic objectives.

How will knowledge and skills be taught? (Implementation)	How will your understanding be assessed & recorded (Impact)
This topic will involve links to the four assessment objectives throughout and will include, but not be limited to: <ul style="list-style-type: none"> - Teacher led lesson content - Independent learning tasks - Group discussion/debates and questioning - Using economic terminology - Reference to economic examples throughout 	<ul style="list-style-type: none"> - Past Paper responses and essays. Marked and feedback given. - Verbal responses. Individual and class feedback given.
How can parents help at home?	
<ul style="list-style-type: none"> • Discussing ideas and content at home & linking it to real world situations that they are aware of. • Watch the news and/or read a good quality newspaper • Watch any topical films or documentaries that link to economics e.g. Panorama, dispatches etc. 	

- Support us with our department's high expectations of spelling, grammar, punctuation, and minimum standards.

Helpful further reading/discussion

Reading

- Economics A level textbooks
- Tutor 2u website and YouTube channel
- www.econplusdal.com
- <https://www.tutor2u.net/>
- BBC website for current economics articles

Vocabulary Key Words

- Central bank
- Monetary policy
- Interest rates
- Money supply
- Exchange rates
- Monetary policy transmission mechanism
- Narrow money
- Broad money
- Money Market
- Capital Market
- Foreign Exchange Market
- Debt
- Equity
- Bonds
- Commercial Bank
- Investment Bank
- Liquidity
- Prudential Regulation Authority (PRA)
- Financial Policy Committee (FPC)
- Financial Conduct Authority (FCA)
- Liquidity Ratios
- Capital Ratios
- Moral Hazard
- Systematic Risk
- Fiscal policy
- Direct tax
- Indirect tax
- Progressive tax
- Regressive tax
- Proportional tax
- Budget deficit
- Cyclical deficit
- Structural deficit
- Budget surplus
- National debt
- Office for Budget Responsibility (OBR)
- Supply-side policies
- Supply side improvements
- Free market supply side policies
- Interventionist supply side policies

Careers Links

A level economics develops skills and knowledge that help in a wide range of careers. An understanding of how changes in economic variables impacts the economic environment that firms operate in is useful for careers in a wide range of industries. Data handling and interpretation skills, along with the ability to construct alternative arguments to a problem before drawing conclusions are valued in many careers.