The Thomas Hardye School

Summary Preparation Task

Economics A Level
AQA 7136

Purpose of task:
This task focuses on economic thinkers. There are three key economic theorists that we will look at throughout the course, each have a very different perspective regarding the role of market forces and state intervention in the running of an economy.

Task:

Read the information about each theorist, make notes and complete the 4 research tasks:

You will be handing in your research notes as well as a final poster/leaflet/ mindmap about the three theorists.

Recommended resources:

Tutor2you – Economics

Youtube:

Econplusdal

Pajholden

Economics online

Physics and maths tutor

The economist

Recommended reading & activities list:

Karl Marx (1818–1883)

Karl Marx was an extremely influential thinker whose ideas ignited the movement by a third of the world's countries towards communism in the 20th century.

Marx provided a criticism of capitalism. Capitalism is a system where the small minority – the 'bourgeoisie' (the owners of capital such as machines and factories) – are the ruling class, and the masses – the 'proletariat' (the labourers) – provide the labour to produce goods and services. Marx essentially believed that economic systems progress through different stages – capitalism is just one stage in this development process and, due to its weaknesses and flaws, will eventually self-destruct, leading to the final stage of communism.

Marx believed that capitalists (the owners of capital), whose objective is to make a profit, must end up exploiting workers to achieve this objective. This means that workers will earn wages lower than their true value. Capitalists will also have an incentive to replace labour with machines, creating both more monotonous jobs as well as unemployment. The combined effect will be to create an exploited and alienated workforce, leading to social unrest.
He also believed that competition would cause many firms to go bust, leading to a few firms holding monopoly power which would allow them to further exploit both workers and consumers. This would also lead to owners of the bust firms joining the ever-increasing proletariat majority, causing social tensions to further increase.

The capitalist economic system is also weak, Marx said, since it is an unplanned system which causes one crisis after another. This impacts most negatively on the proletariat.
Marx believed that revolution among the proletariat was inevitable. Revolution would enable workers to seize the capital (so that ownership would be among the majority). Economic planning would direct economic activity. As the economic system moves towards communism, there would be abolition of private property replaced by common ownership of resources.
However, although Marx wrote a lot criticising capitalism, he wrote relatively little on how

Deadline for Task: First lesson in week commencing 14th September 2026 communism would work.

Marxism has had a resurgence lately. Many global problems, such as the Global Financial Crisis and growing inequalities observed in many economies, may have their root cause in the free market system.

RESEARCH TASK 1:

Watch the video clip The World According to Marx from the BBC Two Masters of Money series, by Stephanie Flanders www.bbc.co.uk/programmes/p00z0yb2 . It is approximately four minutes long. Stephanie explains why capitalism, according to Marx, is inherently unstable and will lead to crisis after crisis. Watch the video and write a summary of the key points.

Adam Smith (1723–1790)

Adam Smith is viewed to be the founder of classical economics and was a key advocate of the market economy. The Wealth of Nations, which Smith wrote in 1776, remains a classic book in economics. His key conclusion is that, by pursuing their own self-interest, individuals would be led 'as by an invisible hand', with resources allocated in such a way that is in the best interests of society.

He was writing at a time when most firms were owned and run by single individual capitalists who had an active, hands-on approach to running their businesses. Like today, most capitalists ran their businesses with the self-interested aim of maximising profit. Consumers also had their own self-interest at heart when making decisions about what to buy.

Smith argued that these self-interest objectives, via the operation of the price mechanism, leads to the optimum resource allocation and therefore the best outcome for society.
The 'invisible hand' enables consumers and producers to interact in the market so that both can achieve their objectives.

For example, if consumers suddenly want more robot vacuum cleaners, then this will push up the price in the market: consumers are competing with each other for the existing number of robot vacuum cleaners. Firms currently in the market will react by wanting to supply more of the product since there is greater scope to make higher profits, while new suppliers will be enticed into the market to take advantage of the profit opportunity. (Smith said low barriers to entry were essential to make this happen.) More resources are then being allocated to the production of robot vacuum cleaners, which is precisely what consumers wanted. Therefore everyone is happy.

Smith believed that competition in markets ensures that firms, whose main objective is to maximise profits, produce their goods at the lowest possible cost. This benefits society and ensures markets will use resources efficiently.

Smith recognised the dangers of monopoly power but at the time of his writing this was not viewed as being too significant. He also believed prices would end up being 'fair' but that competition was essential in achieving this (low barriers to entry are necessary to prevent firms from gaining monopoly power).

Smith also wrote about the process of specialisation and the division of labour, and how this production method could increase production and create wealth. By breaking down the production process into smaller, specialised parts, productivity rises. This is because this process helps incorporate some automation into the production process, which speeds up production. Workers also spend less time switching between tasks and the repetition of tasks makes their efficiency increase.

RESEARCH TASK 2

Watch this Youtube video from The School of Life https://www.youtube.com/watch?v=ejJRhn53X2M
Making notes on the key points made

Friedrich Hayek (1899–1992)

Friedrich Hayek was a key supporter of the free market and deeply critical of socialism (state planning). He believed that the resource allocation brought about by individuals, spontaneously, by the operation of market forces, would be far superior to any state planning system. He believed that governments should not intervene in resource allocation decisions, except in the provision or protection of public goods. While Hayek did not think that individuals make decisions about what to demand or supply based on perfect information, he did believe that they have the best knowledge of their own situation. For example, a consumer will have the most accurate knowledge of his/her particular tastes, and a manager will know what raw materials he needs to make his product.

Price movements will occur as individuals and firms participate in the market. These price movements will be observed, and individuals and firms can choose how they wish to act in terms of their demand or supply decisions, with the information they each have. The price mechanism acts as a communication network.

The market will aggregate all these individual decisions, so ultimately the market will reflect all the information available to society as a whole. This means the outcome in terms of resource allocation will be the best that it can be. If government officials made decisions on how resources should be allocated; this would not be successful since these officials lack sufficient information about markets to be able to make informed decisions.

With the real-world failings of communism and the questioning of the effectiveness of Keynesian demand-side management, free market advocates such as Hayek have had more prominence again since the late 20th century.

RESEARCH TASK 3:

Read the article ‘Masters of Money: Friedrich Hayek’ on the BBC News Business website dated 24 September 2012 www.bbc.co.uk/news/business-19706272 which explores the theme that the Global Financial Crisis might have been caused by too much government intervention – a Hayek interpretation.
Listen to ‘Analysis: Radical Economics: Yo Hayek!’ www.bbc.co.uk/programmes/b00y2bwz, a BBC Radio 4 podcast which explores the same theme.

Watch this video to summarise the main schools of thought https://youtu.be/o6UXRZ2XwgU

RESEARCH TASK 4:

Produce a detailed poster/leaflet/mindmap on the three key thinkers covered in this task, summarising the opposing views

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Required Stationery and Equipment for A Level Economics

Lined paper, pen, HB pencil, rubber, calculator, ruler, two lever arch files, subject dividers

Essential Resources

AQA Economics, Alain Anderton, 6th edition textbook

Topic theory books will be available to purchase at approximately £8 each throughout the course.

Things to Consider Throughout the Year

There is a large emphasis on independent reading and research, students will be expected to read around topics after each lesson. Watching the news and keeping up to date with current economic affairs is essential. There are many online Economics sites and You tube tutorials such as Tutor2you and Econplusdal. Forming study groups and student led revision sessions is recommended