ECONOMICS – STUDENT TRANSITION WORK

SUMMER 2025

Student name:
Class code:

ST DOMINIC'S
Sixth Form College

Department of Economics

St Dominic's Sixth Form College

Mount Park Avenue

Harrow-On-The-Hill

HA1 3HX

Introduction

Welcome to St. Dominic's Sixth Form College – and to the exciting world of Economics!
At college, you will explore how choices shape the world we live in. You'll discover that Economics is not just about money – it's about people, power, and possibilities. You will also learn to think critically, argue persuasively, and see the world from new perspectives.

Don't worry if Economics is new to you – most students at the College haven't studied it before. Your teachers and tutors are here to guide you, step by step.

At St. Dom's, our standards are high. We expect all students to attend lessons regularly and arrive on time. You should come to class fully prepared and ready to participate. Our most successful students work hard, ask questions, challenge ideas, and stay curious. To succeed in this subject, you should aim to do the same!

This workbook is designed to help you prepare for life at St. Dom's. It contains essential preparatory tasks that must be completed before you join the College.

If you come across any unfamiliar words or terms, use a dictionary to find their meanings – learning the "language" of Economics is a key part of your journey.

Your teachers expect you to complete this entire workbook to the best of your ability. Please note: students who choose not to complete the work, or who submit incomplete work, may face consequences.

We are glad you are coming to St Dom's. Now let's get started.

How is the course structured?

You will be studying the **Edexcel (A) Economics** course, which is divided into two main areas: **microeconomics** and **macroeconomics**.

- **Microeconomics** is the study of individual markets and the behaviour of consumers, firms, and industries. It explores how decisions are made about **what to produce, how to produce it, and for whom.**
- **Macroeconomics** is the study of the economy as a whole. It examines large-scale economic factors such as **inflation, unemployment, economic growth,** and **government policies.**

Behavioural Economics

In this workbook, you will be introduced to the topic of **Behavioural Economics**. This area of the microeconomics course explores how people make decisions—especially when their behaviour does not align with the perfectly rational choices that traditional economics assumes.

In theory, individuals are expected to maximise **utility**—that is, their personal satisfaction—by making rational decisions. In reality, however, people are often influenced by **emotions, habits, social pressures**, or **limited information**, which can lead to **irrational behaviour**.

Behavioural Economics helps explain why individuals sometimes make choices that go against their own best interests. It also shows how small interventions—known as **"nudges"**—can encourage better decisions, without removing the freedom to choose.

What is Utility?

In Economics, **utility** refers to the amount of satisfaction or happiness you get from consuming a good or service.

For example, eating a slice of pizza gives you utility because it makes you feel good or full.

What is Utility Maximisation?

Utility maximisation is when a person tries to get the greatest possible satisfaction from their limited income or resources.

Imagine you have **£10 to spend**. You want to use that money in a way that gives you the most happiness or benefit—that is, you want to **maximise your utility**.

People do this by comparing the value or enjoyment they get from each item and choosing the combination that gives them the most satisfaction.

Example:

You're choosing between:

- **One burger**: £5 – gives **8 units** of utility
- **One milkshake**: £5 – gives **6 units** of utility

You have £10 to spend. You could:

- Buy **two burgers** → 8 + 8 = **16 units** of utility
- Buy **one burger and one milkshake** → 8 + 6 = **14 units** of utility

You would choose **two burgers**, because they give you the highest total utility.

Why is Utility Important in Economics?

Understanding utility maximisation helps economists explain:

- **Why consumers make certain choices**
- **How businesses attract customers**
- **How prices and budgets affect spending**

What is Rational Behaviour?

In Economics, **rational behaviour** means making decisions that are logical and based on what will give you the most **benefit** or **satisfaction** (utility).

Example:

Imagine you are hungry and have **£5**. You can either:

- Buy a **small pizza** for £5
- Buy **several chocolate bars** for £5

If you are very hungry, the pizza will fill you up more and give you more satisfaction.

Choosing the pizza would be rational because it gives you greater value based on your needs.

Rational Behaviour Means You:

- Compare options
- Consider the costs and benefits of each choice
- Choose the option that gives you the most overall value or satisfaction

What is irrational behaviour?

Irrational behaviour happens when people make choices that don't make sense or go against their own best interests. In Economics, this means making decisions that **do not maximise satisfaction (utility)**. This can happen because of **emotions**, **peer pressure**, **habits**, or simply **not thinking clearly**.

Example:

Imagine you are hungry and have **£5** to spend. Instead of buying something filling, you spend your money on a trendy energy drink, like **Prime**, even though it won't satisfy your hunger.

This is an example of **irrational behaviour** — you aren't getting much benefit, but you made the choice because it was fashionable, made you look cool, or you weren't thinking carefully.

Why Do Individuals Make Irrational Choices?

People often make irrational choices for many reasons. Understanding these reasons helps explain why behaviour sometimes deviates from perfect rationality.

Here are some common causes of irrational behaviour:

- **Habitual Behaviour**: Repeating actions automatically without thinking, simply because they have been done before.
- **Inertia**: A tendency to stick with the current situation or decision, even when better options are available, due to effort or resistance to change.
- **Herd Behaviour**: Following what others do, often assuming the crowd knows best, rather than making independent choices.
- **Computational Weakness**: Difficulty in processing complex information or calculating the best option, leading to simpler but less optimal decisions.
- **Information Gaps**: Lack of complete or accurate information, which can cause poor choices.
- **Anchoring**: Relying too heavily on the first piece of information encountered when making decisions, even if it's irrelevant or misleading.
- **Heuristics**: Mental shortcuts or "rules of thumb" people use to make decisions quickly, which can sometimes lead to errors or biases.

Exercise: Explaining Irrational Behaviour

Complete the table below by reading each scenario and explaining the likely reason(s) for irrational behaviour using the terms you have just learned.

Scenario	**Explanation of Irrational Behaviour**
Food waste in supermarkets	
Paying for plastic bags when shopping	
Vaping	
Auto-renewal on Netflix	
Not switching banks	
Not taking out travel insurance	

Instructions: For each scenario, write which term(s) best explain the irrational behaviour and why. Use full sentences where possible.

Why Does Rational and Irrational Behaviour Matter in Economics?

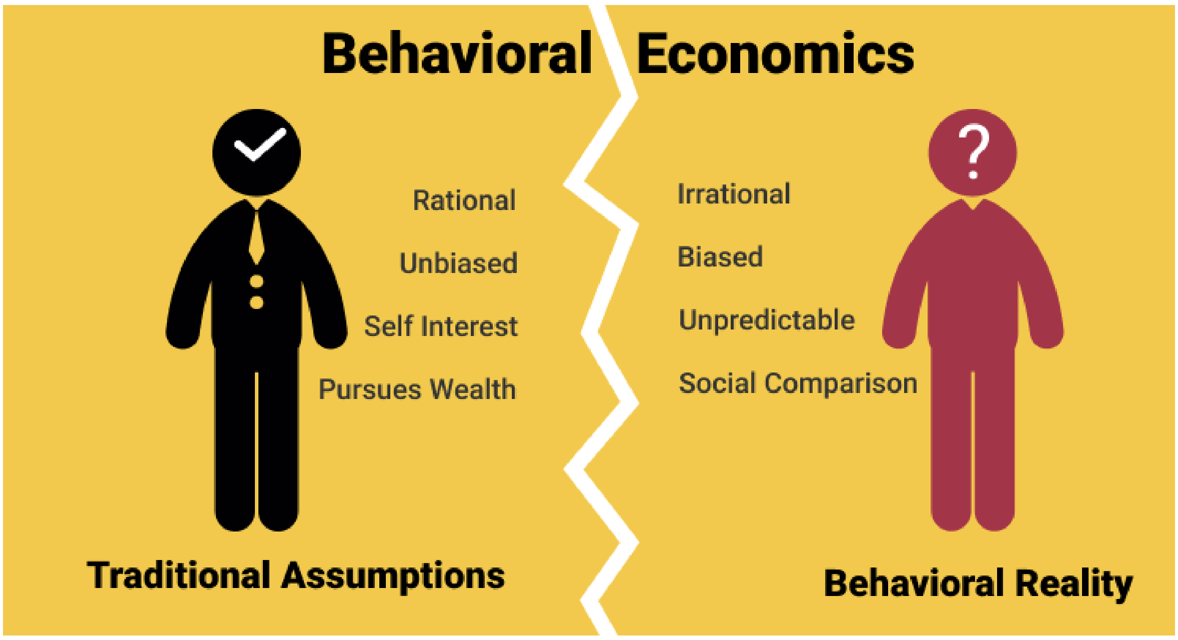
Economists often assume that people act rationally—that is, they make logical choices to maximise their benefit. However, in real life, people don't always act this way. They sometimes make unexpected, emotional, or irrational decisions. Understanding both rational and irrational behaviour helps us to:

- Predict how people spend money.
- Understand why markets sometimes behave unpredictably.
- Make better decisions ourselves.

What is Behavioural Economics?

Behavioural Economics is the study of how people actually make decisions in real life. Unlike traditional Economics, which assumes everyone acts rationally, Behavioural Economics combines Economics with psychology to explain why people sometimes make decisions that appear illogical, emotional, or habitual.

A key idea in Behavioural Economics is that people do not always act in their own best interest. Our choices can be influenced by emotions, social pressure, or the way options are presented to us (known as **framing**). We also often rely on mental shortcuts called **heuristics**, which can sometimes lead to mistakes.



Do You Always Act Rationally and Maximise Your Utility?

We'd all like to believe that we behave rationally and make wise, carefully considered choices. But do we really?

Watch this video called **"The Evil Design of Grocery Stores"** to explore how supermarkets influence our behaviour in ways we might not expect.

Click the link or scan the QR code below to watch: https://youtu.be/8qNAR5kt04M

Area for student notes

Once you have watched the video, answer each of the following questions.

1. Why are fresh fruits and vegetables often placed at the front of supermarkets?

2. Why are essential items like milk and eggs often positioned at the back of the supermarket?

3. How does the placement of sugary cereals affect children's buying behaviour?

4. What role do end-of-aisle displays play in consumer purchases?

5. Why do supermarkets frequently change their layouts?

6. How do shopping trolly sizes influence consumer spending?

7. What psychological effect does music have in grocery stores?

8. Why are high-margin items placed at eye level?

9. How does the use of colour on shelves affect product sales?

10. What is the impact of placing related items together in the store?

Activity

Step 1: Visit a Supermarket

Choose a supermarket near you and visit it. Take notes on the following:

- How does the supermarket try to **keep customers inside longer**?
- What tactics are used to **make customers notice more products**?
- What strategies encourage **impulse buying**?
- How does the supermarket make customers **feel good about spending money**?

Step 2: Organise Your Observations

Use the boxes below to write brief notes or sentences for each point based on what you observed:

Tactic	**Your Observations**
Keeping customers longer	
Making customers see more products	
Encouraging impulse buying	
Making customers feel good about spending	

Essay Question:

Discuss whether the methods used by supermarkets lead to irrational decision-making by customers.

Introduction Paragraph Prompts

1. **Define irrational decision-making:**
   Explain what irrational decision-making means in Economics — when people make choices that don't maximise their satisfaction or go against their best interests.
2. **Introduce the supermarket context:**
   Mention that supermarkets use various methods to influence how customers shop, which may affect the decisions people make while shopping.
3. **State the essay purpose:**
   Outline that the essay will explore whether these supermarket methods cause customers to make irrational choices, considering both supporting and opposing viewpoints.

Introduction - tell the reader what to expect from your essay.

Body Paragraph Prompts (one paragraph per tactic)

For each body paragraph, students should:

1. **Describe the tactic used by the supermarket.**
   What exactly did the store do to influence shopper behaviour? (e.g., placing sweets near the checkout, playing relaxing music, using bright discount signs).
2. **Link the tactic to a psychological concept.**
   Which behavioural concept does this tactic relate to? (e.g., heuristics, anchoring, habitual behaviour, framing).
3. **Explain how this tactic could lead to irrational behaviour.**
   How might this cause a shopper to make a decision that doesn't maximise their utility?
4. **Use a real example from their visit.**
   Describe what they saw and how they (or someone else) might have been influenced by it.

Paragraph one - what was the most important behaviour that you noticed?

Paragraph 2 - what was the second most important behaviour that you noticed?

Judgment Paragraph Prompts

(Use these to help structure your final paragraph.)

1. **State your overall judgment clearly.**
   a. Do you think supermarkets use tactics that lead customers to behave irrationally?
   b. Or: Which of the two tactics you analysed had the bigger impact?
   (This is your main claim — be bold and direct.)
2. **Justify your judgment with deeper reasoning.**
   You could consider one or two of the following:
   a. **Different types of shoppers** – Do younger people, older shoppers, or those with less money behave differently?
   b. **Short-term vs long-term** – Are people more likely to act irrationally when rushed or stressed?
   c. **Store type** – Do budget supermarkets rely more on behavioural nudges than premium ones?
   d. **Perspective** – Might some 'irrational' choices actually be rational, based on what the shopper values?
3. **Optional: Offer a final insight.**
   a. What should we learn from this?
   b. Should supermarkets be more transparent, or should customers take more responsibility?

Write your judgment here

Behavioural Economics

What is Behavioural Economics? A reminder

Behavioural Economics is the study of how real people actually make decisions. It differs from traditional Economics in that the latter looks at how decisions would be made if everyone acted rationally.

A key idea behind Behavioural Economics is that people do not always act in their own best interest. We are influenced by factors such as emotions, social pressure or how choices are presented to us (which we call framing). Often, we use mental shortcuts (which are called heuristics) which can lead to mistakes.

Dan Ariely: Why We Sometimes Make Irrational Choices

Dan Ariely is a leading expert in Behavioural Economics. In the talk you're about to watch, he explains how human decision-making is not always as rational as we like to believe. Here are some of the key ideas he explores:

- **Our perceptions can be misleading.**
  Just as our eyes can play tricks on us (like in optical illusions), so can our minds. We don't always see the full picture when making decisions, and our judgments can be flawed without us realising.
- **Defaults have power.**
  People often stick with the default option rather than making an active choice. For example, countries where organ donation is the default (with an opt-out option) have much higher donation rates than countries where people have to opt in. This shows how much influence a simple default setting can have.
- **We are influenced by comparisons.**
  Our choices are shaped by what we compare them to. If we see a slightly worse version of something (e.g., a lower-quality product), we're more likely to prefer the better-looking option—even if we didn't need it in the first place.
- **"Free" is a powerful trigger.**
  The word "free" makes us behave in surprising ways. Even when the free option isn't the best deal, it often feels irresistible. The idea of getting something for nothing can lead to decisions that aren't in our best interest.
- **Better design leads to better decisions.**
  By understanding how people behave, we can design systems and policies that gently "nudge" people toward better choices—without taking away their freedom.

Ariely's big message is that while we feel in control of our decisions, subtle influences often shape what we do. Recognising these influences can help us think more clearly and make better, more rational choices.

Click on this link - https://www.youtube.com/watch?v=9X68dm92HVI – or on the QR code below. Doing so will open a video entitled *Are We in Control of Our Decisions?* Watch the film and then answer each of the questions shown below.

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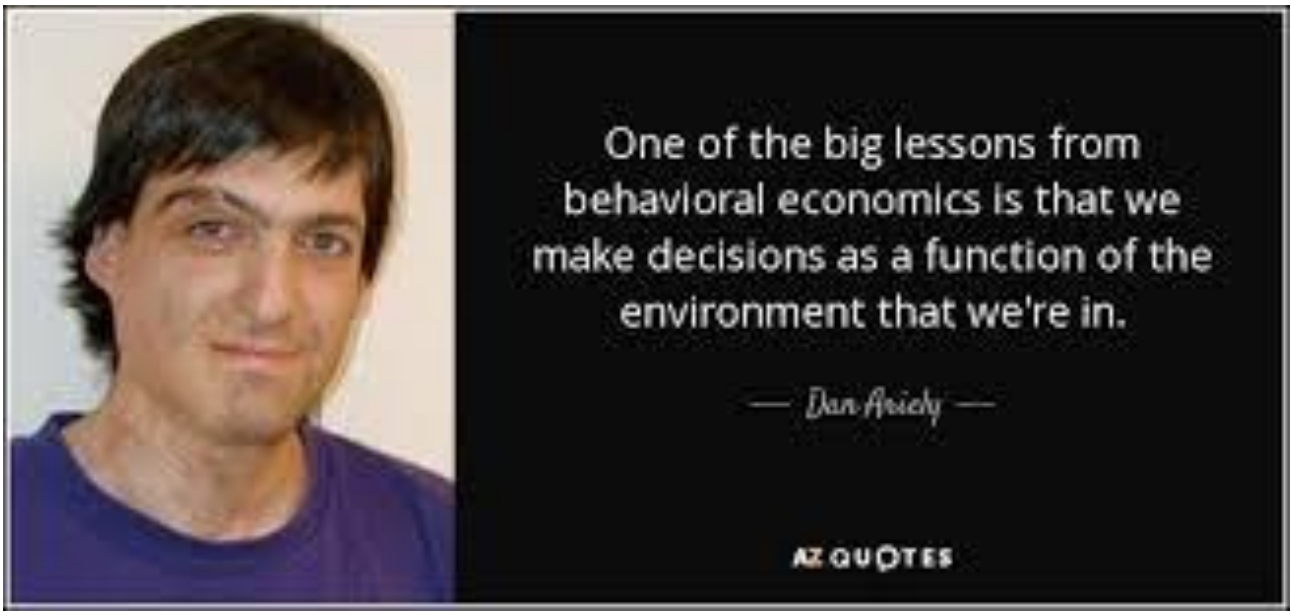

1. **What is the main idea explained in Dan Ariely's talk?**
   (Summarise his key message about decision-making and irrational behaviour.)

2. **How do visual illusions help us understand how we make decisions?**
   (Explain the link between what we see and how we think.)

3. **What is the "default effect" and how does it influence people's choices?**
   (Use the organ donation example in your answer.)

4. **What does Ariely mean by "cognitive illusions" and why do they matter in economics?**
   (Think about how our minds can be tricked without us realising.)

5. **How can comparisons influence our preferences—even when the options don't change?** *(Refer to the example involving choices between similar products or services.)*

6. **Why are we so drawn to things that are "free"?**
   (What does Ariely say about zero cost and rationality?)

7. **What role does complexity or confusing design play in shaping our decisions?**
   (Think about forms, websites, or policies.)

8. **How can understanding Behavioural Economics help people make better decisions?**
   (Give your own ideas based on Ariely's talk.)

Rory Sutherland: How Psychology Can Solve Problems

Rory Sutherland works in advertising and is also a journalist who writes for *The Spectator* magazine. (You can find this magazine, along with quality newspapers, in the college library.)

In the video you're about to watch, Sutherland shares a big idea: sometimes the smartest way to solve a problem isn't through expensive technology or big changes—but by changing the way people *think* or *feel* about the problem.

For example, instead of spending millions to make a train go faster, why not make the journey feel better? Adding free Wi-Fi, comfortable seating, or even snacks might make people just as happy—for a fraction of the cost.

Sutherland argues that **perception is powerful**. Advertising, for instance, often creates value by shaping how we *see* a product, not by changing the product itself.

His key message?

🧠 Sometimes the best solution isn't physical—it's *psychological*.

Watch: Life Lessons from an Ad Man – Rory Sutherland

Click on this link: https://www.youtube.com/watch?v=wXneozZwJR0
—or scan the QR code below—to watch the video **"Life Lessons from an Ad Man"** by Rory Sutherland.

In this talk, Sutherland explains a powerful idea:

How we see things can matter just as much as what they really are.

He explores how clever thinking and psychology can solve problems in cheaper, smarter, and more creative ways—often by changing perception, not reality.

Watch the film and then answer each of the following questions.

Area for students notes

1. What is the main point Sutherland is trying to make?

2. How does he show that value can be based on feelings, not just facts?

3. What idea from traditional Economics does he question?

4. What's the difference between real value and perceived value?

5. What's an example he gives of a cheaper, psychological solution?

6. What Behavioural Economics idea is shown in the train (Eurostar) story?

7. Why does he think advertising is useful in business?

8. How does he link value to the idea of things being rare or limited?

9. How could the government use his ideas to make better rules or services?

10. What advice does Sutherland give to people who make big decisions?

Can we use Behavioural Economics to help people make better decisions?

Behavioural Economics helps us understand why people often make decisions that do not seem logical or in their best interest. Unlike traditional Economics – which assumes people always act rationally to maximise their satisfaction (called **"utility"**) – Behavioural Economics recognises that human decisions are influenced by **emotions**, **habits**, **mental shortcuts**, and **social pressures**. These influences can lead to poor choices, like **overspending**, **not saving**, or **ignoring health advice**.

One way Behavioural Economics can help is through **nudges** – small changes in how options are presented. For example, **automatically enrolling** employees into pension schemes (instead of asking them to sign up) has led to much higher saving rates. This works because many people stick with the **default option** – a behaviour known as **default bias**. Another example is placing **healthy food at eye level** in school canteens. This helps students make better choices, without taking away their freedom.

Another important idea is **loss aversion**. People dislike losing things more than they enjoy gaining something of equal value. This explains why people might **keep bad investments** or **avoid good risks**. By understanding this, we can **change how choices are framed**. For example, saying **“You will lose £100 if you don’t act”** is often more persuasive than **“You could gain £100 if you do”**.

In short, Behavioural Economics gives us useful tools for improving decisions in areas like **money, health, education, and the environment**. It helps **governments**, **businesses**, and **individuals** design better systems that take into account **how people really behave**, not just how economic theory says they should.

Learning check - Cloze Activity (Fill in the Blanks)

Instructions: Fill in the missing words using the word bank below. You may use each word more than once.

1. Traditional Economics assumes that people act __________ and try to maximise their __________.
2. Behavioural Economics recognises that people are often influenced by __________, habits, and social pressure.
3. Small changes in how options are presented are known as __________.
4. Automatically enrolling someone into a pension is an example of using a __________ setting.
5. People are more motivated by avoiding losses than by making gains – this is called __________.
6. Putting __________ food at eye level in a school canteen is an example of a nudge.
7. Behavioural Economics helps explain why people make poor __________ like overspending or not __________.
8. Changing how a choice is presented is known as changing the way we __________ it.

🔑 **Key Ideas in Behavioural Economics (for Everyday Life)**

(Let's keep it simple — just 4 powerful concepts you already see in action.)

1. Nudge Theory

Definition: A *nudge* is a small change in how choices are presented that gently encourages people to make better decisions — *without forcing them*.

Example:
At school, if fruit is placed at eye level in the canteen while sweets are harder to reach, students are more likely to pick the fruit — *without anyone banning the sweets*.
🧠 **You're still free to choose – but the set-up nudges you to pick something better.**

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2. Loss Aversion

Definition: People dislike losing things much more than they enjoy gaining them — even if the value is the same.

Example:
Imagine you were given £10, but told you might lose it if you don't hand in your homework. You'd probably work harder than if you were just promised £10 as a reward.
🧠 **We are often more motivated to avoid a loss than to chase a reward.**

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3. Gamification

Definition: Turning everyday tasks into a *game* (with points, levels, badges, etc.) to make them more fun and motivating.

Example:
You might use a fitness app that gives you a gold badge when you reach 10,000 steps. Or your teacher might award leaderboard points for homework.
🧠 **Gamification taps into our love of challenge and reward to change behaviour.**

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4. Default Bias

Definition: People tend to stick with whatever option is already selected — even if it's not the best one — because it's easier.

Example:
Most of us never switch energy providers or bank accounts, even if we could save money — just because staying with the current one feels easier.
🧠 **We often go with the default, even when better choices are available.**

Now test your vocabulary – without looking back in the workbook.

✅ **True or False?**

Decide if the statement is true or false.

1. Nudge theory forces people to make better decisions by banning bad options.
2. Gamification means making something more fun by using elements like points or rewards.
3. Loss aversion explains why people are more upset about losing £5 than happy about gaining £5.
4. Default bias means people actively research the best choice before deciding.
5. Offering a healthy snack at eye level is an example of a nudge.
6. Gamification is mainly used in video games and not everyday life.

🔁 **Match the Term to the Example**

Draw lines or write the letter of the matching term next to the correct example.

A. Nudge Theory		2. 🏦 A person never switches their bank account, even if better deals exist elsewhere.
B. Loss Aversion		3. 🛒 A shop places fruit at the checkout instead of sweets to promote healthier choices.
C. Gamification		1. 🏃 A student uses a step counter app that gives rewards for daily walking goals.
D. Default Bias		4. 💸 A student feels more upset about losing £10 than excited about winning £10.

Now test your understanding.

Q1. An essential difference between behavioural and traditional economic theory is that behavioural economic models assume that

A people act rationally.

B consumers attempt to maximise utility.

C people consider all the available options when making choices.

D emotional factors influence economic decision-making.

Q2. A feature of the UK government's workplace pension scheme is that employers are required to enrol their employees in the scheme unless the employees make a conscious decision to opt out and join another scheme.

An individual choosing to remain in their workplace pension scheme is an example of a person.

A accepting the default choice.

B acting irrationally by ignoring an economic incentive.

C being anchored by a previous financial decision.

D using a rule of thumb to make the choice.

Q3. Behavioural economic theory suggests that when consumers are faced with complex financial decisions, such as choosing between pension schemes, social welfare is likely to increase if consumers are

A presented with all the options that are available.

B presented with a limited set of pre-selected options.

C provided with as much information as possible about each available option.

D not given any choice.

Q4. Which one of the following is a nudge technique that could be used to encourage healthy eating?

A Banning supermarkets from selling high-calorie energy drinks

B Increasing taxes on high-fat products to raise their price

C Moving products with a high sugar content away from supermarket checkout

D Subsidising fruit and vegetables to reduce their prices

Q5. Which of the following best describes a "nudge"?

A A strict rule that bans unhealthy behaviour

B A trick used to confuse consumers

C A small design change that gently guides people toward better decisions

D A legal requirement to make the right choice

Q6. Why might someone not switch their energy provider, even if it saves money?

A Because of gamification

B Because of default bias

C Because they enjoy paying more

D Because of a nudge

Q7. Which of these is an example of loss aversion?

A You eat fruit because it’s placed at eye level

B You join a challenge that awards points for exercise

C You choose not to gamble, because you don’t want to lose your money

D You always use the same streaming service

The speed camera lottery

Now watch this video – click https://www.youtube.com/watch?v=MbyGXMmRQRQ or by scanning the QR code shown below. Then answer the questions that follow.

VW Fun Theory – the speed camera lottery

The Speed Camera Lottery rewarded safe drivers with a chance to win money - just like a prize draw or game!

The Speed camera lottery video shows loss aversion and gamification at work. People do not want to get fined for speeding (they want to avoid losing money, or they are averse to this loss), while people want to be entered into a lottery to win if they drive safely (gamification).

The video shows how people can be nudged into better behaviour using both fear of loss and the hope of gaining a reward.

1. What happened in this video?

2. How is this different from usual speed cameras?

3. What Behavioural Economics idea is shown here?

4. What can we learn from these two videos (*The speed camera lottery*)?

Now it is your turn.

Select one of the four real-world problems shown below. Think about fun solutions that you might suggest, to tackle each problem. Write your description of your solution in the box provided.

1. Public toilet cleanliness. Many public toilets are unpleasant to use because people do not aim properly or forget to flush. How might we improve the experience of using a public loo?

2. Reduce food waste in school canteens. Students throw away large amounts of uneaten food. How might we reduce the amount of food waste?

4. Queue jumping in public places. People do not wait their turn at places like cafes, airports, or bus stops. How might we encourage them to wait their turn?

5. Leaving devices plugged in (energy waste). People leave laptops, chargers, or other devices plugged in unnecessarily, wasting energy. How might we encourage them to unplug?

From Individuals to the Whole Economy – Welcome to Macroeconomics

So far, we've explored how individuals make decisions and how Behavioural Economics helps us understand their choices. But Economics isn't just about single people or businesses — it's also about how the **whole economy** works. This is where **Macroeconomics** comes in. Macroeconomics looks at the bigger picture: things like inflation, unemployment, interest rates, government spending, and international trade. It helps us answer questions like: Why do prices rise? What causes a recession? Should the government increase taxes? And what happens when countries charge tariffs on imported goods?

To be good at macroeconomics, you'll need to build a few key skills. First, a **curiosity about the world** — watch the news, follow global events, and ask questions about how the economy affects people's lives. Second, an ability to **understand political and economic systems**, like how governments make decisions or how trade between countries works. You'll also need to think critically, **interpret data and graphs**, and apply **commercial or contextual knowledge** to real-life situations — like the effects of Brexit, global supply chains, or rising energy prices.

Let's begin with a topic that's in the news often — **tariffs** — and explore what they are, how they work, and why they can be both helpful and harmful.

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Now It's Your Turn – Nudge Challenge!

Below are four real-world problems. Your task is to choose *one* and come up with a fun, creative solution that uses a *nudge* — something that gently guides people to make better choices without forcing them.

Use what you've learned about **nudges, gamification, loss aversion, and default bias** to help you design your idea.

Be playful. Be clever. Think like a Behavioural Economist!

✅ **Problem 1: Public Toilet Cleanliness**

Many public toilets are unpleasant to use because people don't aim properly or forget to flush.
✏️ **What clever nudge could improve people's behaviour in public loos?**

👉 *Write your idea here:*

✅ **Problem 2: Reducing Food Waste in School Canteens**

Lots of students throw away uneaten food.
✏️ **How might we encourage people to waste less and take only what they'll actually eat?**

👉 *Write your idea here:*

✅ **Problem 3: Queue Jumping in Public Places**

At cafés, airports, and bus stops, some people ignore the line and go ahead.
✏️ **How might we nudge people to queue fairly and wait their turn?**

👉 *Write your idea here:*

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1. First, a **curiosity about the world** — watch the news, follow global events, and ask questions about how the economy affects people's lives.

2. Second, an ability to **understand political and economic systems**, like how governments make decisions or how trade between countries works.

3. You'll also need to think critically, **interpret data and graphs**, and apply **commercial or contextual knowledge** to real-life situations — like the effects of Brexit, global supply chains, or rising energy prices.

Let's begin with a topic that's in the news often — **tariffs** — and explore what they are, how they work, and why they can be both helpful and harmful.

What is a Tariff?

A **tariff** is a tax placed on goods imported from other countries. By making these foreign products more expensive, tariffs encourage people to buy local products instead. This simple idea connects directly to big economic questions about trade, prices, and jobs.

As you explore tariffs and their effects, you will practice and develop two important skills:

- **Contextual awareness** — learning to use sources like newspapers, TV news, and reports to understand what's happening in the economy around you. This skill helps you apply economic ideas to real-world situations and improve your exam answers.
- **Critical thinking** — the ability to carefully evaluate information and make smart, well-reasoned decisions. This means analysing arguments, questioning assumptions, spotting biases, and considering different viewpoints.

You already know more economics than you might think — you know who President Trump is, you know where the US is, and you understand what inflation feels like. Now, you're ready to build on that knowledge and think like an economist!

Task Introduction

Your first task is to watch a BBC News video titled **"What are Trump's tariffs and is the US in a trade war with China?"** You can watch it by clicking this link or scanning the QR code below. After watching, read the newspaper article from *The Wall Street Journal* that follows.

You will then answer 20 questions based on these two sources. Because the situation with tariffs changes quickly, you may also need to do some extra research on your own.

These questions will help you understand key economic terms and concepts, as well as the real-world impact of tariffs.

Area for student notes

Tariffs Are Projected to Slow U.S. Growth, Raise Inflation

OECD cuts outlook, expects the Federal Reserve to keep rates steady this year

By Harriet Torry And Joshua Kirby

President Trump's tariff regime threatens to significantly crimp U.S. economic growth this year while boosting inflation, the Organization for Economic Cooperation and Development said in a new forecast that sharply cut its outlook.

The Paris-based research group said it expects growth in the U.S. gross domestic product to decelerate notably to 1.6% in 2025 from 2.8% in 2024. The OECD previously expected GDP to grow by 2.2% this year, but it cut its forecasts due to the effects of the tariffs, retaliation from other countries, uncertainty around economic policy and slower immigration.

The OECD also expects U.S. inflation, as measured by the personal-consumption expenditures price index, to pick up to 3.9% by the end of the year, which it said could prevent the Federal Reserve from cutting rates again until next year. The index was up 2.1% in April from a year earlier.

The OECD's new estimates echo other mainstream forecasts for the U.S. economy this year. Goldman Sachs expects GDP growth of 1.7%, while the Federal Reserve downgraded its estimate in March to 1.7% from 2.1% previously.

The OECD downgrade "adds more credibility to the private-sector view that the U.S. economy will feel a cold wind until we start getting clarity on the trade and tax environment that businesses and households will face," ING chief international economist James Knightley said.

"They are confirming the view that while Donald Trump's policies may generate some positives for the U.S. economy over time, there will be a tricky and potentially quite painful transition period for parts of the economy," Knightley said.

The White House said the report "joins a growing list of doomsday prognostications that are untethered to reality" and pointed to higher business investment in equipment in the first quarter and strong personal income in April.

"Global growth does not need to be contingent on

Please turn to page A2

♦ **Labor market remained steady in April A2**
♦ **Factory orders fell more than expected A2**

Slower U.S. Growth Is Predicted

Continued from Page One

other countries taking advantage of the U.S. with unfair trade policies that undermine American industries and workers," White House spokesman Kush Desai said.

U.S. GDP contracted at a 0.2% annual rate in this year's first quarter, as businesses ramped up imports ahead of the Trump tariffs. Now that many tariffs have come into effect, imports are expected to slow sharply in the current quarter, inverting that trend: The latest estimate from the Atlanta Fed's GDPNow model predicts growth of 4.6% in the second quarter.

The OECD estimates assumed that the tariffs in place as of mid-May would remain in effect through 2026. Those brought the average effective tariff rate to above 15%—the highest since World War II—from about 2.5% previously.

GDP growth rates, change from a year earlier

Note: Adjusted for inflation. Rates for 2025 and 2026 are projections.
Source: OECD

The group's forecast doesn't take into account the U.S. federal trade court's ruling last week that said Trump didn't have the authority to impose sweeping tariffs on virtually every nation. A federal appeals court has temporarily put that ruling on hold.

In May, Trump said the U.S. would hold off implementing a threatened 50% tariff on goods from the European Union until July 9. On Tuesday, Trump signed an executive order doubling tariffs on imported steel and aluminum effective Wednesday, a move aimed at boosting the domestic industry and protecting U.S. jobs.

The OECD also expects the world's biggest economy to lose pace this year, hamstrung by uncertainty stemming from a whipsawing U.S. trade policy. "If you throw large, high tariffs at trading partners, their growth is going to slow down," said Brian Bethune, an economist at Boston College.

Collectively, the global economy is now set to grow by 2.9% this year and next, the OECD said in its quarterly report. That marks a downgrade to the group's previous forecasts of 3.1% in 2025 and 3% in 2026. The world economy grew by 3.3% last year.

Further increases to trade barriers would damp global growth even more, the OECD warned, urging governments to strike trade deals to forestall an even sharper slowdown.

Mexico and Canada, which are particularly vulnerable to a trade hit, will also see sharp slowdowns in growth this year, according to the latest OECD forecasts. The Mexican economy will grow just 0.4%, while Canada's economy will expand by 1%.

"All this uncertainty is not good for investment, it's not good for growth," said Alvaro Pereira, OECD chief economist.

The European Central Bank is expected to continue its recent cuts to its policy rate at a meeting this week. The U.S. Federal Reserve, by contrast, is more hemmed in by the impact of tariffs, Pereira said.

Questions:

1. What is a tariff, and how does it affect the price of imported goods?

2. How does the OECD help us understand the global economy?

3. Why are imports and exports important for a country's economy?

4. What is President Trump trying to achieve by imposing tariffs?

5. Why might UK steel producers be worried about tariffs from other countries?

6. How does GDP measure the size of an economy?

7. Why is the US's share of world GDP important when considering tariffs?

8. How do the world's largest economies affect global trade?

9. What is a supply chain, and why can tariffs disrupt it?

10. How do bonds help countries or companies raise money?

11. What are stocks or shares, and why do they matter in the economy?

12. How do stock market indexes like FTSE, NASDAQ, and CAC reflect economic health?

13. What is an interest rate, and how can it influence economic decisions?

14. How does the Federal Reserve affect the US economy through its policies?

15. What does GDP growth tell us about an economy's performance?

16. Why is inflation important, and how can tariffs impact it?

17. What role does the European Central Bank play in the economy?

18. How does a change in the policy rate affect borrowing and spending?

19. Why are Canada and Mexico particularly affected by US tariffs?

20. How might tariffs affect economic growth and inflation in the US?

Understanding Unemployment and Inactivity: A Task for New Economics Students

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Part 1: What is Unemployment?

Unemployment refers to people who are **able and willing to work**, are **actively seeking work**, but **do not currently have a job**.

Now answer:

1. **How is unemployment measured in the UK?**
   Use this link to for research https://senecalearning.com/en-GB/revision-notes/a-level/economics/edexcel/a/3-1-6-employment-and-unemployment

2. **Why is it important for a government to track the unemployment rate?**

Part 2: What is the Inactivity Rate?

Watch:
📺 *Youth inactivity in the UK*

- YouTube: Why aren't young people working?
- BBC article: What's keeping young people out of work?

Task:
Now that you've learned about unemployment, consider a different but related concept:

Labour market inactivity refers to people within working age who are *not working* and *not actively seeking work*. This could include students, carers, people with long-term illness, or those discouraged from looking for jobs.

Answer the following:

3. **List three reasons why someone might be counted as 'inactive' rather than unemployed.**
   (Hint: Think about health, education, caring responsibilities, or even lack of motivation.)

4. **According to the video and article, why are more young people becoming inactive in the UK?**
   (Make bullet points from what you've seen and read.)

Part 3: Think Like an Economist

5. **Why might a high youth inactivity rate be a concern for the UK economy?**
   (Think about skills, productivity, long-term growth, and government spending.)

6. **What could the government do to help more young people into work or training?**
   (Give at least two ideas—think about education, support services, or incentives.)

Stretch Yourself: Challenge Question

How might a rising inactivity rate distort the true picture of unemployment in the UK?
Think about this: If more people stop looking for work, what happens to the official unemployment rate—even if there's a problem?

Congratulations.

You have now completed your preparatory work for your A-level Economics course.

Bring this workbook to each of your Economics lessons. Your teachers will want to review your work. Pleased also come prepared to discuss this work with your teachers and fellow students in class discussions.

Please also ensure that you come to all lessons properly equipped for the demand of the course. Look at the illustration below – it tells you the equipment that you will need.

WHAT EQUIPMENT WILL I NEED IN ECONOMICS?

- **Black or blue pen x2**
- **Green/purple pen for peer assessment**
- **Ruler**
- **Highlighter (s)**
- **Calculator**
- **Folders (2 – one for each side of the course macro/micro)**
- **Dividers (the numbered ones with 8 sections) (2 sets, one for each folder)**
- **Textbook (preferable)**

PERSONAL PREPARATION IS KEY!