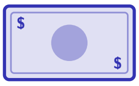
Microeconomic Decision-makers

IGCSE Economics ▪ Topic 3

IGCSE Economics



What we will cover

1 Money and households

Money and banking

Money 货币 beats **barter** 物物交换. Its four jobs: medium of exchange, store of value, unit of account, deferred payment. A **central bank** 中央银行 sets rates; **commercial banks** 商业银行 serve people.

Money is anything widely accepted in trade

Money and banking – four functions

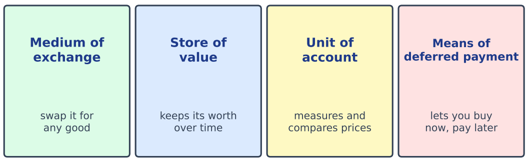
- **saving** 储蓄 is income that is not spent now.
- **borrowing** 借贷 is spending money you do not have yet, and paying it back later (usually with an extra charge).
- **income** 收入 – with more income, people spend and save more.
- interest rates – a higher interest rate makes saving more rewarding and borrowing dearer. So saving rises and borrowing falls.

Why money replaced barter, and what it must be

barter 物物交换	swapping goods directly – and it needs a double coincidence of wants: you must find someone with what you want *and* who wants what you have
durable 耐用的	it lasts a long time
portable 便于携带的	easy to carry
divisible 可分割的	can be split into small amounts for small payments
acceptable 可接受的	everyone will take it in payment
limited in supply 供给有限	scarce enough to keep its value, and hard to fake

> Each characteristic answers a way barter failed. That is the connection the question is looking for, not a memorised list.

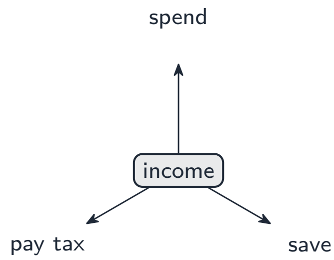
Money and banking – four functions, in detail



Exam: list all four functions — medium of exchange, store of value, unit of account, deferred payment

> interest rates – a higher interest rate makes saving more rewarding and borrowing dearer.

Households



A **household** 家庭 can spend, **save** 储蓄 or pay tax.

> Higher **interest rates** 利率 reward saving & make **borrowing** 借贷 dearer; **confidence** 信心 raises spending.

Workers and wages

Wages 工资 depend on skills, danger & how hard the worker is to replace.

> **Division of labour** 劳动分工 splits a job into specialised tasks, raising output.

Specialisation raises output per worker

Choosing a job

When a worker chooses an **occupation 职业** (a type of job), two kinds of factor matter:

- **wage factors** – the pay. The **wage 工资** is the money you earn. Higher pay attracts more workers.
- **non-wage factors** – everything else: working hours, holidays, how safe or pleasant the job is, whether you enjoy the work, distance from home.

Workers and wages – specialisation

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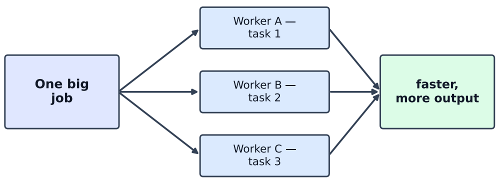
Workers and wages – specialisation, in detail



Exam: specialisation raises productivity — but monotony and interdependence are trade-offs

> interest rates – a higher interest rate makes saving more rewarding and borrowing dearer.

2 Firms

Firms and integration

Firms grow by joining together:

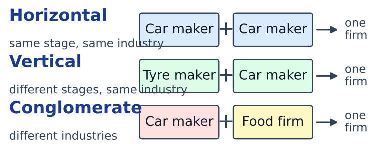
- **horizontal** 横向 – same stage
- **vertical** 纵向 – different stages
- **conglomerate** 混合 – different industries

Three kinds of merger

Horizontal merger	A **horizontal merger** 横向合并: two firms at the same stage of the same industry – market share, and economies of scale.
Vertical merger	A **vertical merger** 纵向合并: a supplier or a customer – securing an input, or a route to market.
Conglomerate merger	A **conglomerate merger** 混合合并: unrelated industries, joined to spread risk.
Barriers to entry	**Barriers to entry** 进入壁垒 – high set-up costs, patents, brand loyalty – are what let the merged firm keep the gains.

A firm's **objectives** 目标 are not only profit: **growth** 增长, **survival** 生存 and market share each justify a different merger.

Firms and integration, in detail



Exam: horizontal = same stage; vertical = supply chain; conglomerate = different industries

Firms grow by joining together:
horizontal 横向 – two firms at the same stage of one industry.
vertical 纵向 – different stages of the same industry.
conglomerate 混合 – different industries altogether.

Business failure

Firms can suffer **business failure 企业倒闭** (they close down) for many reasons: costs too high, too few sales, poor management, too many rivals, not enough cash.

Labour-intensive and capital-intensive

- **labour-intensive 劳动密集型** production uses a lot of **labour 劳动** (many workers) and little machinery – for example, hand-made crafts.
- **capital-intensive 资本密集型** production uses a lot of capital (machines) and few workers – for example, a modern car factory.

Demand for and supply of factors

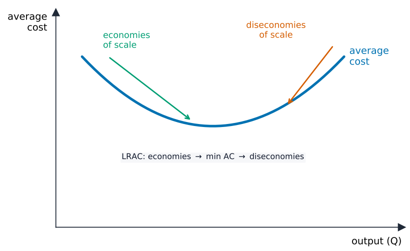
Firms buy **factors of production 生产要素 (land 土地**, labour, capital, and **enterprise 企业家才能**).

> The price and amount of each factor are set by its own demand and supply, just like any market.

Economies of scale

As a firm grows, average cost falls – **economies of scale** 规模经济. Grow too big & it rises again – **diseconomies of scale** 规模不经济.

Economies of scale, in detail



> As a firm grows, average cost falls – **economies of scale** 规模经济.

Market structures

Markets range from a **monopoly** 垄断 (one seller, high prices) to **perfect competition** 完全竞争 (many sellers, low prices). More competition usually means lower prices & more choice.

Competition shapes price and choice

Market structures – continuum

monopoly ←——————→ competition

one seller ... many sellers

more competition →

- firms must keep prices low and quality high, or buyers go elsewhere.
- firms work hard to cut costs and make new products.

Competition versus monopoly

	Consumers	**Firms**
competition	lower prices, more choice, better quality	lower profit; must w hard to survive
monopoly 垄断	higher prices, less choice	higher profit and easy life, but may g lazy

> The market structure that is most comfortable for the firm is the one that is worst for the consumer – which is why governments regulate it.

Why workers earn different amounts

- skills & qualifications
- danger / difficulty of the job
- demand for the job

all affect a worker's wage

Wages depend on skills, the difficulty of the job, and demand

Why wages differ

skill and training	a long training restricts supply, so the wage is higher
danger and unpleasantness	a compensating wage differential for work few will do
trade unions 工会	groups of workers bargaining together – a strong union can raise pay and improve conditions
the demand for the product	a worker's wage depends on the value of what they produce
discrimination	pay differences not explained by skill or productivity
government	a **minimum wage 最低工资** sets a legal floor

Wages are a price – set by the demand for and supply of that kind of labour. Every explanation should say which side of that market moved.

Why one worker earns more than another

Qualifications	**Qualifications 资格** and training restrict supply: fewer people can do the job, so the wage is higher.
Danger and hours	Compensating differentials – unpleasant, risky or unsocial work pays more to attract anyone at all.
Bargaining power	A union, a professional body or a scarce skill raises the wage above what an individual could negotiate.
Average revenue	An employer will pay up to what the worker adds: **average revenue 平均收益** per worker sets the ceiling on any wage.

Every wage difference is a supply story, a demand story, or a bargaining story. Name which one.

Exam tips

- Money's four functions: a **medium of exchange**, a **store of value**, a **unit of account**, and a **means of deferred payment**.
- Key formulas: profit = total revenue − total cost; total revenue = price × quantity; average cost = total cost ÷ number of units.
- **Fixed costs** do not change with output (rent, insurance); **variable costs** do (materials, power). Total cost = fixed + variable.
- **Economies of scale** make average cost *fall* as a firm grows; growing *too* big brings diseconomies of scale (average cost rises).
- Know the merger types: **horizontal** (same stage of the same industry), **vertical** (different stages of one industry), **conglomerate** (different industries).

3 Recap

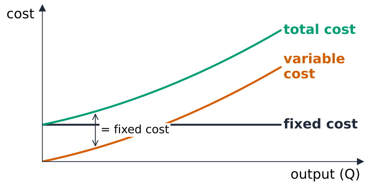
Worked example – profit and average cost

Fixed costs £2,000, variable cost £3/unit, 500 units sold at £10 each.

- Total cost $= 2{,}000 + (3 \times 500) = £3{,}500$
- Total revenue = price × quantity $= 10 \times 500 = £5{,}000$
- Profit = TR − TC $= 5{,}000 - 3{,}500 = £1{,}500$
- Average cost $= \frac{3{,}500}{500} = £7$ – below the £10 price, so each unit adds £3.

Do it in order: TC → TR → profit. Profit per unit = price − AC. Watch which costs are per unit and which are for the whole output.

Fixed, variable and total cost lines against output



$TC = FC + VC$ · gap between TC and VC is FC

> Fixed cost stays the same as output rises; variable cost rises; total cost is fixed plus variable, so the gap between total and variable cost is the fixed cost.

Competitive markets

A competitive market has many firms selling similar goods, and it is easy for new firms to enter.

- firms must keep prices low and quality high, or buyers go elsewhere.
- firms work hard to cut costs and make new products.

Topic 3 – key takeaways

1 Money
exchange, store, account, deferred payment

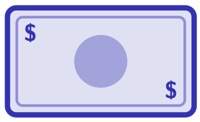
2 Households
spend, save or borrow; rates & confidence

3 Firms
integration; economies of scale lower cost

4 Markets
monopoly to perfect competition

Check yourself

1. What problem does money solve?
2. What does a higher interest rate do to saving?
3. What does division of labour raise?
4. How many sellers does a monopoly have?



> **Answers** **1.** the difficulty of barter **2.** makes saving more rewarding **3.** output / productivity **4.** one