**Specialisation - Notes**

One feature of nearly every aspect of economic life is that individuals, businesses and countries engage in **specialisation**. Specialisation is when we concentrate on a particular product or task. Surplus products can then be exchanged and traded with the potential for gains in welfare for all parties.

**The potential benefits from specialisation**

By concentrating on what people and businesses do best rather than relying on self sufficiency:
**Higher output**: Total output of goods and services is raised and quality can be improved. A higher output at lower costs means more wants and needs might be satisfied with a given amount of scarce resources.
**Variety;** Consumers have improved access to a greater variety of higher quality products i.e. they have more and better choice both from their own economy and from the production of other countries.
**A bigger market:** specialisation and international trade increase the size of the market offering opportunities for economies of scale (a fall in long run costs per unit of output).
**Competition and lower prices:** Increased competition for domestic producers acts as an incentive to minimise costs and innovate to remain competitive. Competition helps to keep prices down.

The **division of labour** is a particular type of specialisation where the production of a good is broken up into many separate tasks each performed by one person or by a small group of people. The division of labour raises output per person, thereby reducing costs per unit because lower skilled workers are easily trained and quickly become proficient through constant repetition of a task – ‘practice makes perfect’ – or “**learning by doing**”. Low unit costs allow firms to remain competitive in the markets in which they operate.

**Limitations of division of labour**

There are limits and downsides to the breaking down of production into many small tasks. Perhaps the greatest downside is that the division of labour may eventually reduce efficiency and increase unit costs because unrewarding, repetitive work lowers worker motivation and productivity. Workers begin to take less pride in their work and quality suffers, the result may be a problem of diseconomies of scale (essentially, the more you produce – average costs rise – A2 topic – but worth knowing a bit).

The division of labour also runs the risk that if one machine breaks down then the entire factory stops. Some workers receive very narrow training and may not be able to find alternative jobs if they find themselves out of work (known as structural unemployment). Another disadvantage is that mass-produced standardized goods tend to lack variety (although there are is a greater array of goods –as mentioned above, the goods themselves are less varied), which is a negative for the consumer.

**The Functions of Money - NOTES**

Money is often taken for granted for society, in that without it we would struggle to operate as an economic system and acquire the goods and services we need. Money is more than just coins and notes, technically *anything* can be used as ‘money’, just as long as it fulfils four functions:

* **Medium of exchange:** The most important function of money. Money is used to purchase goods and services. A worker accepts payment in money because she knows that she will be able to use that money to buy products in shops. There is no money in a **barter** economy. Exchange is conducted directly by swapping one good with another. For instance, a farmer might trade a cow in order to acquire a carpet. This is problematic as it requires a **double coincidence of wants.** If the person in possession of the carpet didn’t want a cow, then the transaction would not go ahead. Barter requires that each part in the transaction wants what the other party has to offer. When money is involved, both parties know that by accepting money for their goods they can then spend the money on other goods that they want.
* **Measure of Value:** Money acts as a **unit of account**. If a dress costs £30 and a skirt costs £15, we know that the value of one dress equals the value of two skirts. At times of very high inflation (prices rising), money ceases to act as a **unit of account**. Prices may change by the hour! As it what happened in Germany in 1923. Therefore comparing the value of the dress with the value of the skirt becomes difficult, as prices for both could be significantly different by the end of the day. This becomes even more problematic in a bartering system, as people’s opinions of the value of certain items differ greatly. Somebody may place a greater value on the skirt and others may place a greater value on the dress.
* **Store of value:** A worker receiving wages is unlikely to spend the money immediately. They may defer spending because it is more convenient to spend later, or they may not require a certain good/service at that specific time. A worker would only do this though if they can buy in the future, approximately equal to what they can buy today. So money links the present and the future. It acts as a store of value.
For example, if somebody earns £10 and knows that they can buy two chairs today, but actually doesn’t need them until next week, they can delay the purchase of the chairs knowing full well that their £10 can still purchase two chairs in the future. High inflation destroys this link because money in the future is worth far less than money today. For example, if somebody earning £10 knew that the price of chairs would double by next week, then they would bring forwards their purchase. As their earnings would be worth less in terms of the number of chairs that they could purchase.
* **Method of deferred payment:** If people lend money today, they will only do so if they think that they will be able to buy roughly the same amount of goods when it is paid back. In trade, a company which accepts an order at a fixed price today, for delivery and payment in a year’s time, will only do so if it is confident that the money it receives will have a value which can be assessed today. This allows contracts for future transactions to be created. So again money must link the present and future when it comes to borrowed as a well as saved money.