IGCSE ECONOMICS • EXERCISE SHEET

3.5 Firms and production

Name: ____________ Class: ________ Date: __________ **Total: 17 marks**

KEY WORDS economies of scale 规模经济 • productivity 生产率 • diseconomies of scale 规模不经济 • labour-intensive 劳动密集型 • capital-intensive 资本密集型

Objective

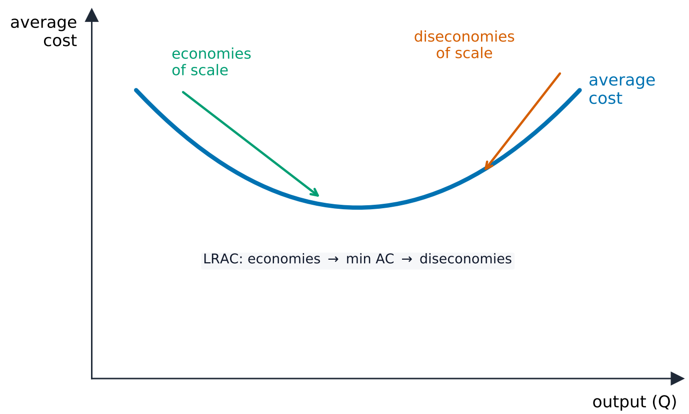
Build the skills to answer exam questions on **firms and production** 企业与生产 — **labour- and capital-intensive** 劳动密集型与资本密集型 production, **productivity** 生产率, and **economies and diseconomies of scale** 规模经济与规模不经济.

You must be able to:

- distinguish labour-intensive from capital-intensive production
- explain productivity and how to raise it
- explain economies and diseconomies of scale

1 Worked examples

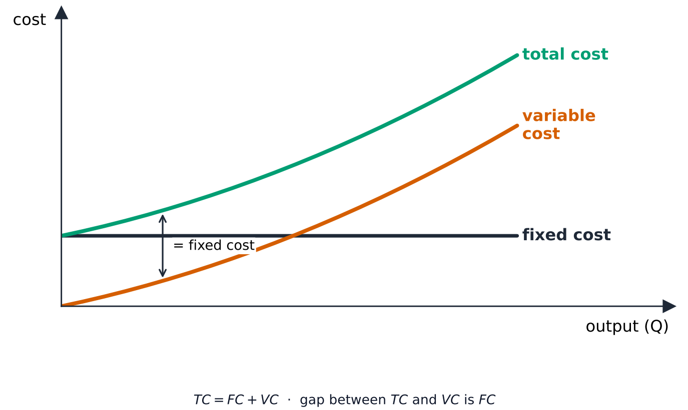
■ Production and scale



The cost per unit changes as a firm grows

- **Labour-intensive** 劳动密集型: mostly workers (hand-made crafts). **Capital-intensive** 资本密集型: mostly machines (a car factory).

- **Productivity** 生产率: output per worker/machine; raise it by training, better machines, good management.
- **Economies of scale** 规模经济: average cost falls as output rises (bulk buying, big machines). **Diseconomies** raise it if too big (hard to manage).



The cost behind the scale decision: fixed plus variable cost, averaged over output

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 State the difference between labour-intensive and capital-intensive production. [2]

2.2 Define the term *productivity*. [2]

2.3 Define the term *economies of scale*. [2]

3 Exam-style questions

3.1 Economies of scale mean that, as a firm produces more, its: [1]

A average cost per unit falls
B average cost per unit rises
C total cost falls
D revenue falls

3.2 Explain two ways a firm could raise its productivity. [4]

3.3 Analyse why a firm's average cost may fall and then rise as it grows larger. [6]