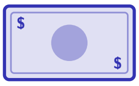
Microeconomic Decision-makers

IGCSE Economics ▪ Topic 3

IGCSE Economics



What we will cover

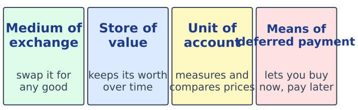
1 Money and households

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.

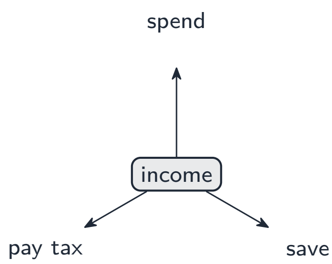
Money is anything widely accepted in trade

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

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.

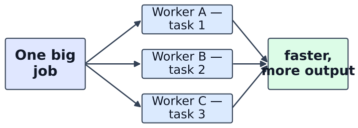
Workers and wages

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

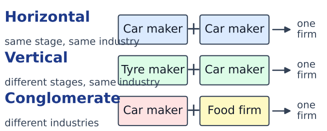
Workers and wages – specialisation



- **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

2 Firms

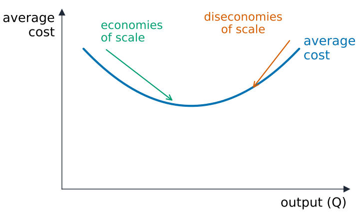
Firms and integration



Firms grow by joining together:

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

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.

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.

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.

Topic 3 – key takeaways

1. **Money**
exchange, store, account, deferred payment

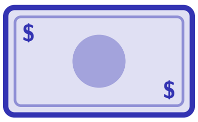
2. **Households**
spend, save or borrow; rates & confidence

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