

Microeconomic Decision-makers

IGCSE Economics ■ Topic 3

IGCSE Economics



Microeconomic Decision-makers

What we will cover

- 1 Money & banking
- 2 Households
- 3 Workers & wages
- 4 Firms & integration
- 5 Economies of scale
- 6 Market structures

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.



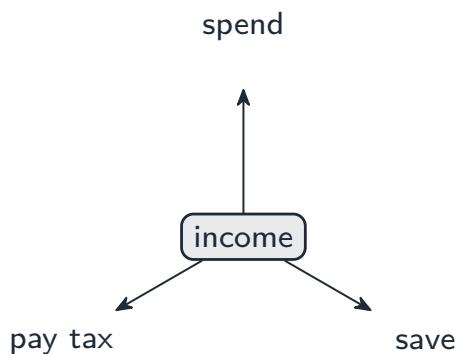
Money is anything widely accepted in trade

Money and banking – four functions

Medium of exchange	Store of value	Unit of account	Means of deferred payment
swap it for any good	keeps its worth over time	measures and compares prices	lets you buy now, pay later

- **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 **bor-
rowing** 借贷 dearer; **confi-
dence** 信心 raises spending.

Workers and wages

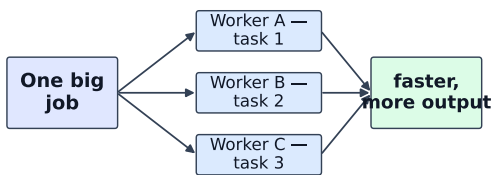
Wages 工资 depend on skills, danger & how hard the worker is to replace.

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



Specialisation raises output per worker

Workers and wages – specialisation



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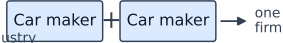
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Firms

Firms and integration

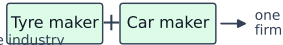
Horizontal

same stage, same industry



Vertical

different stages, same industry



Conglomerate

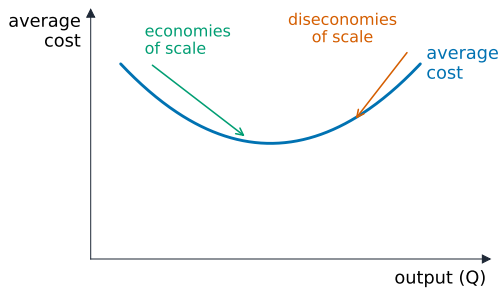
different industries



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



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

Do it in order: TC $\rightarrow$ TR $\rightarrow$ 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

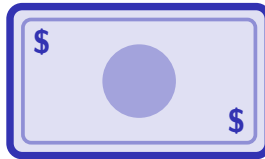
integration; economies of scale
lower cost

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