IGCSE Economics

Economics - The study of how scarce resources can be allocated to satisfy people's unlimited wants.

Scarcity - When there are not enough resources to satisfy our wants and needs.

Resources - The inputs that are used in the production process to produce goods and services. These are also called Factors of Production. Resources are limited.

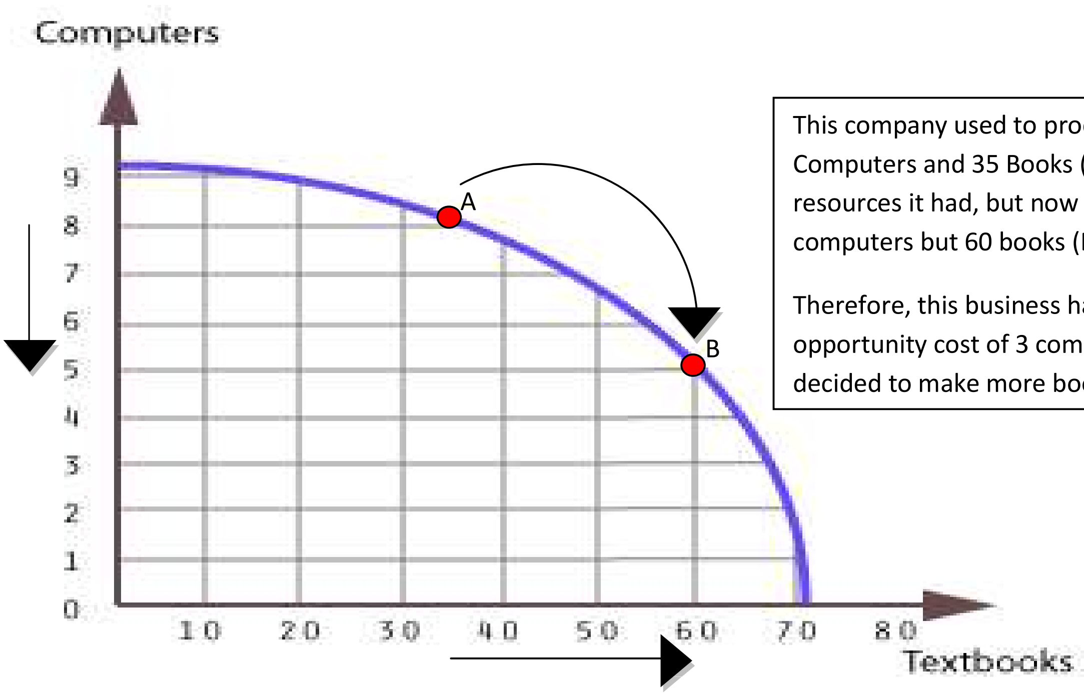
- Capital - Human-made goods that are used in the production of other goods. Payment comes in **Interest**
- Entrepreneurs (Enterprise) - The person who takes the risk and has the skills to combine the other factors of production to produce goods and services. Payment comes in **Profit**
- Labour - Human work or effort and the people who offer their services to businesses in exchange for wages. Payment comes in **Wages**
- Land - Any resource that exists as part of a natural process. Can be renewable or non-renewable. Payment comes in **Rent**

Geographical mobility – the resource is capable of changing location

Occupational mobility – the resource is capable of changing use

Opportunity Cost - The next best alternative foregone *e.g. Mary could buy lettuce or chips with her $5 and she chose chips. Lettuce would be Mary's opportunity cost.*

Production possibility curve - a curve showing the maximum output of 2 products and combinations of these products that can be produced given existing resources and technology.



This company used to produce 8 Computers and 35 Books (A) with the resources it had, but now it sells only 5 computers but 60 books (B).

Therefore, this business has an opportunity cost of 3 computers as it decided to make more books.

Consumer – people or firms who need or want goods and services

Producers – use resources to make goods and services to satisfy consumers' needs and wants

Wants – what we desire but do not necessarily need to survive *e.g. games, bags*

Needs – what we must have in order to survive *e.g. food, clothing, shelter*

Renewable resources – resources that will regenerate naturally within a reasonable time frame *e.g. Fruit, Trees, Vegetables*

Non-renewable resources – resources that will not regenerate naturally within a reasonable time frame *e.g. Coal, Oil, Ores*

Free good – goods that are available without limits *e.g. air, sunlight*

Economic good – goods that are scarce in comparison to people's wants and need and therefore must be paid for *e.g. television, paper, electricity*

Public (collective) good – goods that are non-excludable and non-rival

Non-excludable – once paid for, it is impossible to stop people from using the good or service. This creates the 'free rider' problem

Non-rival – consumers do not have to rival each other for use of the good; it will not run out

Merit good – a commodity or service that is regarded by society or government as deserving public finance *e.g. education*

Demerit good – a commodity or service that is regarded by society or government as not deserving public finance *e.g. cigarettes, alcohol*

Consumer good – goods that are used and paid by individuals or groups in the household sector

Normal goods - goods we demand more of as our income increases *e.g premium steak*

Inferior goods - goods we demand less of as our income increases *e.g second hand goods, 'budget' brand goods*

Durable goods – goods that can be used more than once

Non-durable goods – goods that are perishable and do not last very long

Positive good – beneficial to society *e.g. clean water, medicine*

Negative good – a cost to society *e.g. pollution, waste products*

Disposable Income – the money remaining after taxes are paid. If taxes increase, disposable income decreases

Semi-finished goods – goods that are used to produce other goods *e.g. leather, wool*

Demand - The quantity of a good or service that a consumer is willing and able to purchase at various prices at a certain time.

Law of Demand - as price increases, quantity demanded decreases, ceteris paribus and vice versa.

Demand Schedule – a table showing the quantity of a commodity consumers are willing and able to buy at a range of prices.

Demand Curve - a graph showing the quantity of a commodity consumers are willing and able to buy at a range of prices.

Market Demand - the total demand that all the individual consumers in the market are willing and able to buy at various prices.

What changes demand? (Non-price factors of Demand)

- **Taste** - things we like. They may be influenced by fashion, values, media, weather, seasons.
- **Income** - the money we gain from labour. When we earn more income we are more able to purchase goods and services, therefore we demand more normal goods, and demand a lesser amount of inferior goods.
- **Complements** - a good which is used in conjunction with another good
- **Substitutes** - a good which can be used in place/instead of another.

Supply – The quantity of a good or service that a producer is willing and able to produce at various prices at a certain time.

Law of Supply – as price increases, quantity supplied increases, ceteris paribus and vice versa.

Supply Schedule – a table showing the quantity of commodity producers are willing and able to produce at various prices

Supply Curve – a graph showing the quantity of a commodity producers are willing and able to produce at various prices

Market Supply – the total supply that all the individual producers in the market are willing and able to produce at various prices

What changes supply? (Non-price factors of Supply)

- **Productivity** – output per unit of input
- **Environmental** – natural conditions which affect output
- **Taxes** – payments made to govt., **Subsidies** – payments from govt. to firms for support
- **Restrictions on trade** – Tariffs = tax on imports; Quotas = restriction on number of imports
- **Other related goods** – different goods that can be produced using same resources/inputs
- **Legal** – rules and regulations set by the government
- **Costs of production** – costs that a firm/producer incurs during the production process

Making a Curve:

- **T**itle - Who, What, When
- **O**rigin - Your graph must start from zero
- **A**xes - Price on vertical, Quantity on horizontal (must be labelled)
- **D**o the D/S – Place a D or S next to the line to show it is a demand curve or a supply curve
- **S**cale - Graph must be even and consistent

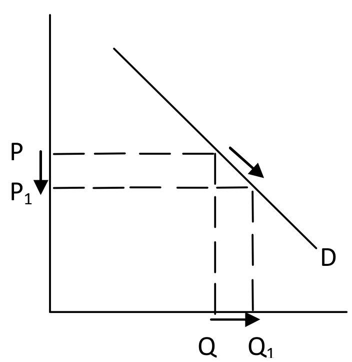
Movements along the Curve:

- A movement along the Curve occurs when a price factor changes
- Draw dotted lines from both points to the axes
- Draw arrows from the dotted lines to show the movement
- Label the dotted lines: P, P_1, Q, Q_1, with P_1 and Q_1 on the dotted lines with new point

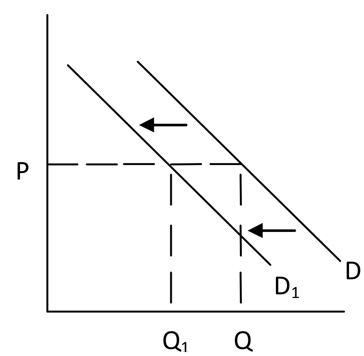
Shifts of the Curve:

- A shift of the curve occurs when a non-price factor changes
- A shift to the left means the Demand/Supply has decreased
- A shift to the right means the Demand/Supply has increased
- Draw dotted lines from where the change has occurred to the new axes
- Draw arrows from the line indicating where the line has shifted
- Label the new line D_1 or S_1 and Label the new and old quantities Q_1 and Q

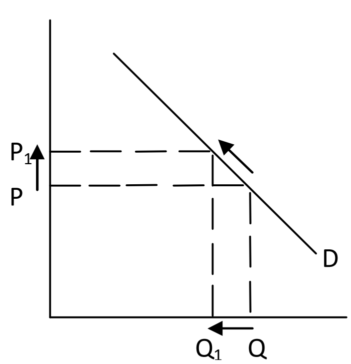
e.g.



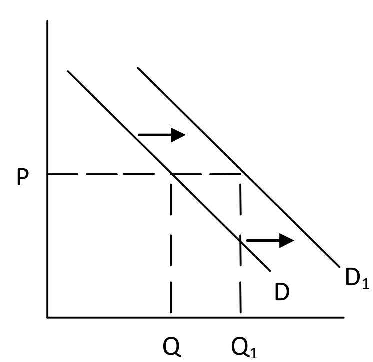
Decrease in Price



Decrease in Demand



Increase in Price



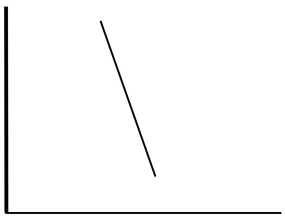
Increase in Demand

Price Elasticity of Demand - measures the responsiveness of the quantity demanded of a good or service to a change in its price

Elastic Demand – a change in price brings about a large change in the quantity demanded. These have a coefficient greater than 1

Inelastic Demand – a change in price brings about a small change in the quantity demanded. These have a coefficient between 0 and 1

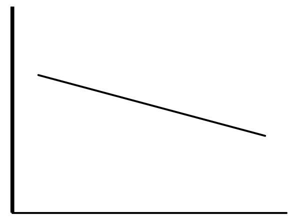
Inelastic Demand



PED =

$$\frac{\%\ \text{Change in Quantity Demanded}}{\%\ \text{Change in Price}}$$

Elastic Demand



Factors of Price Elasticity of Demand

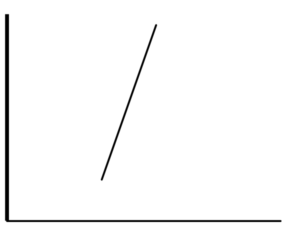
- **Proportion of Income** – small proportion = inelastic; large proportion = elastic
- **Addictiveness** – addictive = inelastic; not addictive = elastic
- **Necessity or luxury** – necessity = inelastic; luxury = elastic
- **Time period** – short time period = inelastic; long time period = elastic
- **Substitutes** – not many substitutes = inelastic; many substitutes = elastic

Price Elasticity of Supply - measures the responsiveness of quantity supplied of a good or service to a change in its price

Elastic Supply – when quantity supplied changes by a smaller percentage than price. These have a coefficient greater than 1.

Inelastic Supply - when quantity supplied changes by a greater percentage than the change in price. These have a coefficient between 0 and 1

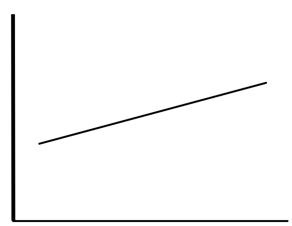
Inelastic Supply



PES =

$$\frac{\%\ \text{Change in Quantity Supplied}}{\%\ \text{Change in Price}}$$

Elastic Supply



Factors of Price Elasticity of Supply

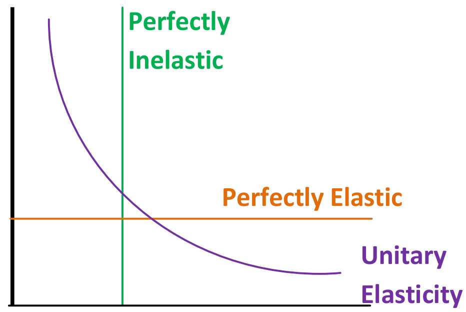
- **The cost of altering its supply** – not easy to produce = inelastic; easy to produce = eslatic
- **The ability to store the good** – not storable = inelastic; storable = elastic
- **Time** – long time to produce = inelastic; short time to produce = elastic

Special Price Elasticity Curves

Perfectly Elastic - a change in price brings about an infinite response (a tiny price change will cause a huge change in quantity demanded/supplied) giving a coefficient of infinity (∞)

Perfectly Inelastic – a change in price brings about no response (even if price drastically changes, Qd/Qs will stay the same) giving a coefficient of 0

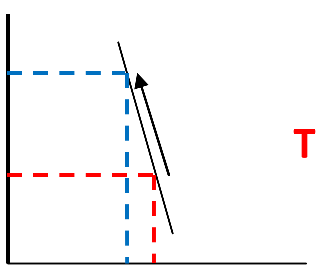
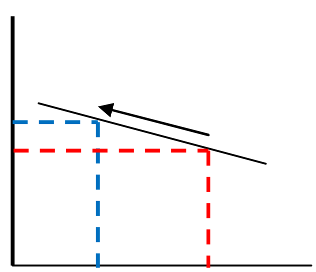
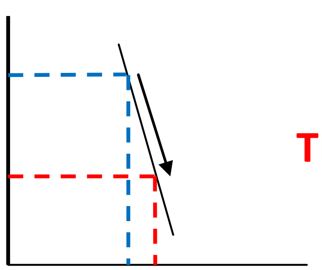
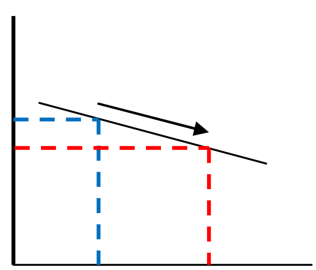
Unitary Elasticity - this occurs when a percentage change in the price results in an equal change in demand giving a coefficient of 1.



Revenue

Total Revenue – total receipts of a firm from the sale of any given quantity of a product

Total Revenue = Price x Quantity

Inelastic Demand	Elastic Demand
If price increases, the quantity demanded will decrease a little	If price increases, the quantity demanded will decrease by a lot
 $TR_1 < TR_2$	 $TR_2 < TR_1$
If price decreases, the quantity demanded will increase a little	If price decreases the quantity demanded will increase by a lot
 $TR_2 < TR_1$	 $TR_1 < TR_2$

Market – a place/situation where buyers and sellers exchange goods

Resource Market – where money is exchanged for inputs

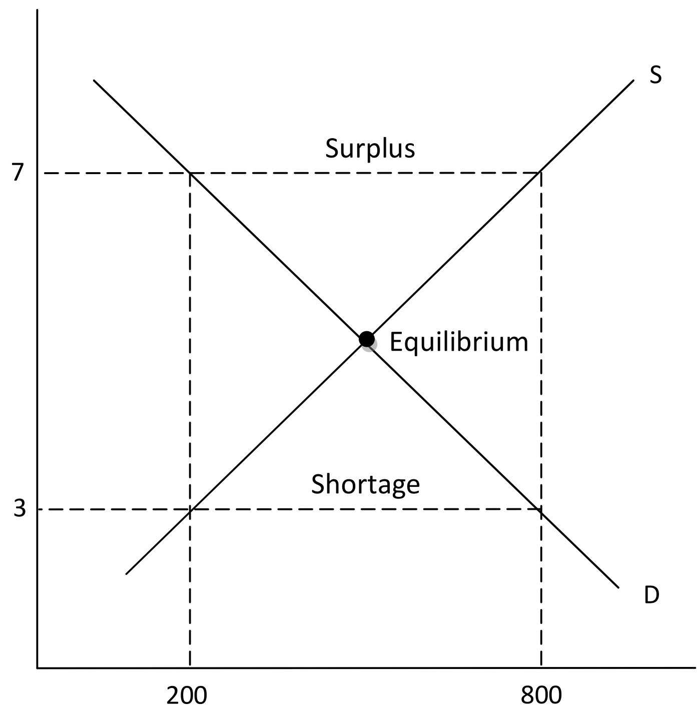
Goods Market – where output is exchanged for money

Price Equilibrium – the price where quantity supplied and quantity demanded are equal

Surplus – when the quantity supplied exceeds the quantity demanded. In order to sell the excess stock, the producers lower the price and therefore raising the consumers demand. These market forces keep bringing the price down until equilibrium is reached and the market is 'cleared'.

Shortage – when the quantity demanded exceeds the quantity supplied. Consumers who have missed out on the good, bid the price up so producers increase the quantity supplied due as the good is now more profitable. These market forces will push price up until equilibrium is reached and the market is 'cleared'.

e.g.



800 – 200 = 600

At \$7, there is a surplus of 600 as producers are producing more than demanded.

At \$3 there is a shortage of 600 as producers are producing less than demanded.

Change in Equilibrium:

- A change in the Equilibrium occurs when Demand or Supply has increased or decreased.
- From both Equilibriums, draw dotted lines to both axes
- Label the new points P_{Eq1} (on Price Axis) and Q_{Eq1} (on Quantity axis), and the old points P_{Eq}, and Q_{Eq}
- Draw arrows from the old points to the new points (e.g. Q_{Eq} to Q_{Eq1})
- Draw arrows from the old Equilibrium to the new Equilibrium

Producers

Private Sector – where scarce resources are owned by private individuals and are used in order to maximise profit

- Firms – businesses owned by individuals or groups in the hope of making profit
- Voluntary Organisations – driven by the fact that there is a 'need' in the community they can satisfy

Public Sector Producers: where scarce resources are owned by the government and are used to produce goods and services that they believe are good for the country

- Central Government – These are the elected representatives who meet in Parliament and are concerned with the country as a whole. They are not driven by profit. They may provide goods and services *e.g. public health and education.*
- Local Government – These are made up of officials and representatives that are elected by local communities. They provide public goods for the local area to look after the local people's welfare *e.g. libraries, swimming pools.*

Economic Systems

Free Market Economy – when the private sector decides on the three economic questions. They will only produce goods and services that people will want to buy in the hopes of gaining a profit.

Advantages	Disadvantages
The consumer is sovereign. The market will provide goods depending on what the customers demand.	Scarce resources will only be employed if there is a profitable use.
The market responds quickly to changes in demand.	Not all goods and services are provided in the free market *e.g. public goods*
Efficient use of resources, better machinery and better methods are encouraged.	The effects of production on society and the environment (such as pollution) can be ignored
High incomes provide an incentive for people to work hard and for entrepreneurs to set up and expand business	There may be encouragement to buy harmful goods (such as drugs and weapons). The government has to pass laws to stop this.

Merits of the Market System

- Resources are allocated by price – If the demand increases, price is increased and producers will allocate more resources to the production of this good.
- Competition and Incentives – In a free market there are many firms competing with each other for market share and profits. This encourages innovation. Innovation will result a wide variety and high quality of goods being produced
- Allocative Efficiency – when resources are allocated towards goods that reflect consumer demand. This consumer is said to be sovereign
- Productive Efficiency – In a free market, firms will produce at the lowest possible cost per unit to earn high profits and avoid being pushed out of the market.
- Dynamic Efficiency – arises when resources are used efficiently over time. The profit incentive will drive firms to innovate and continue to develop new, improved products that consumers desire

Market Failure

Market Failure – where the market mechanism fails to allocate resources efficiently. It occurs where:

- **Differentiation of goods and services;** tricking the consumers into paying for the good
  - Branding: designer labels cost three times as much but may not be that much better
  - Labelling and Product Information: may be inaccurate
- **Market Power;** other firms cannot enter in market, main firms can abuse price raise
  - Monopolies – where one firm is the sole supplier of a product.
  - Oligopolies – where there are a few firms who supply the product.
- **Insufficient quantity of goods and services provided**
  - Public goods may not be provided at all
  - Merit goods may be provided but be charged high prices or shortage
  - Demerit goods will be provided but will be over demanded and over produced
- **External costs and benefits exist**
  - External Costs/Benefits – the costs or benefits to a third party due to the consumption and production activities of others
  - Private Costs/Benefits – the costs or benefits on those who are directly involved in the decision to produce or consume a product
  - Social Cost = private cost + external cost
  - Social Benefit = private benefit + external benefit
  - Uneconomic use of resources – if the social costs exceed the social benefits
- **Inequality exists;** if without skill, one will find themselves unemployed
  - Poverty
  - Unequal distribution of factor ownership
  - Unequal distribution of income
  - Large income and wealth gap

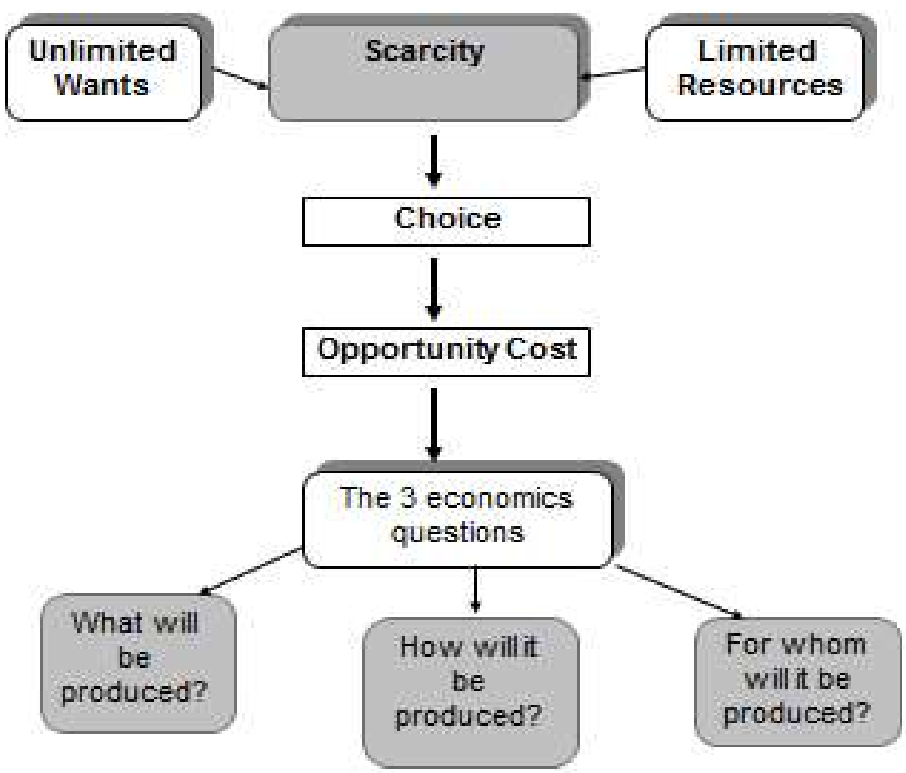
Measures to correct Market Failure

1. **Laws and Regulations**
   - The Government can intervene by making it so producers may not charge above a maximum price or below a minimum price
2. **Subsidies**
   - The Government offers subsidies to encourage production of merit goods so they take into account external benefits.
3. **Taxation**
   - The Government will place tax on demerit goods so they take into account external costs.
   - On goods with inelastic demand, the price change will not affect it that much and consumers will still wish to purchase the good. Therefore Indirect taxes are ineffective on goods that have inelastic demand.
   - On goods with Elastic demand, the price change will affect it a lot and consumers will no longer wish to purchase the good. Therefore Indirect taxes are effective on goods that have Elastic demand.

Mixed Economy – when the public sector and private sector decide on the economic questions for them solely. They do not have much influence over each other.

- Employment – In a mixed economy, the government can create jobs and provide incentives to private firms to employ people. If it were a free market economy, there would be high unemployment from market economies.
- Provision of Public Goods – In a mixed economy, the Government raises tax to provide public goods. If it were a free market economy, they would not be provided as it would be impossible to pay.
- Harmful Goods – In a mixed economy, the government can make the production and consumption of harmful goods illegal or make it less attractive to use the good by placing a tax on it.
- Social Costs – In a mixed economy, the government can use laws, taxes and fines to prevent firms from polluting the environment. If it were a free market economy, the costs to society (such as pollution) can go un-checked in a market economy because private firms will only take into consideration their own costs of production.
- Equity - in a mixed economy the government can provide benefits or free healthcare for those that cannot afford to pay. If it were a market economy, many people on low incomes would be unable to buy many of the goods and services provided.

Planned Economy – when the public sector decides on the three economic questions. There are no private firms and very little consumer choice.



Allocation of Resources

	Public Sector	Private Sector
Money Usage	Public Goods Merit Goods Supporting 'vulnerable' groups Helping private sector industries Managing the economy Cover losses incurred by SOE's	Private Goods A mixture of merit and demerit goods
Sources of Income	**Taxation** – this depends on the willingness of consumers to pay, rates in other countries, income of the country and the reactions of firms and workers to tax changes **Privatisation** – raises revenue in the short term but if the asset was profitable **Borrowing from Overseas** – this will depend on the governments 'credit worthiness' at home and abroad	**Profits** – this will depend on how profitable the business is **Loans** – this will depend on the firms 'credit worthiness' and size
Advantages	Ensures resources are allocated to merit goods/public goods Ensures fewer resources are allocated to demerit goods	Resources are used to produce goods and services of a high quality Low cost methods of production are used, less waste of resources Higher levels of productivity, therefore more output gets produced in less time
Disadvantages	If firms know the government is paying, no incentive to keep costs down State Owned Enterprises may lack expertise to complete projects on time Time consuming decision making	The firm may be a monopoly and therefore have less incentive to keep costs down. Resources will be wasted Resources may be over allocated to demerit goods and under allocated to merit goods

Disadvantages of Consuming Resources	Advantages of Consuming Resources
Burning of fossil fuels for energy release harmful emissions.	Employment rates will increase with higher rates of production and consumption
Deforestation destroys natural habitats for animal and plant species	The government will earn more tax revenue with higher production which can be used to finance new facilities for education and healthcare etc.
Pesticides and fertilisers used in crop production have polluted rivers and waterways – clean water supplies are becoming short in supply	As some resources become low in supply, the cost of these will increase forcing firms to look for alternative means and methods anyway
Overfishing has depleted fish stocks and harmed other marine animal populations	The trade position of the country may improve
Growing air pollution has increased breathing problems for many people	

Money – a unit of measurement that allows us to value different goods.

Functions of Money

- **Deferred Payment** – allows for purchases on credit (loans) that can be paid back later
- **Unit of Account** – money can be used to measure value
- **Medium of Exchange** – money can be used to carry out transactions between buyers and sellers. People are happy to accept it and know they can use it to buy something else.
- **Store of Value** – money can be kept and used later and still retain it's worth

Characteristics of Money

- **Scarce** – An increase in money supply can lead to a decrease in its value. For money to be valuable, it must remain scarce
- **Portable** – It must be easy to carry
- **Acceptable** – It is given legal status by the government
- **Recognisable** – It must be easily recognized, yet forgery must be difficult. Copying will cause problems with money supply
- **Durable** – It must be long lasting so it can be saved
- **Divisible** – It must be easily divided up into small amounts for smaller transactions

History of Money

1. Self-sufficiency – everything that someone needed, they produced themselves. However it was difficult to produce everything they needed as people had different skills,
2. Specialisation – when a person or group focuses on producing one main good or service. However, people were no longer independent and they had to trade with each other to get everything, thus people became Interdependent.
3. Barter – exchanging goods and services for goods and services. However Barter required a double coincidence of wants and people did not have a proper exchange rate and had no proper value of each good. It was also difficult to save goods and for people to bring all their goods and services to markets to trade.
4. Commodity Money – earliest form of money was goods e.g. pots, shells, etc. People were willing to accept goods in exchange for their produce.
5. Precious Metals – precious metals such as gold, and silver were scarce enough to make them possible money. Weighing and cutting tools were necessary – so rates of exchange could be fixed. Portability was a major problem.
6. Coins – precious metals of predetermined weight were moulded and stamped with the face of the ruler and the coins value. To stop shaving the edges of the coins "ribbed" coins were developed. Rulers would often debase the value of by mixing cheap metals with them, resulting in the precious metal content of coins to be virtually worthless today but people still accept such coins because they are generally acceptable.
7. Goldsmiths – first paper money was issued by goldsmiths, who accepted deposits of precious metals for safe-keeping – in return they issued paper receipts to the owner. The receipts were then often exchanged for goods or services.
8. Banks – Goldsmiths gave receipts for deposited precious metals and would be accepted as payment as the first paper money.

Banks

Commercial Banks – private sector banks which aim to make profit by providing a range of banking services. Their functions are:

- **To accept payments:** people can deposit their money into a Current or Savings Account.
- **To lend:** banks make profit from charging higher interest rates on borrowing than saving. People can borrow from banks in the form of Overdrafts and Loans.
- **To enable customers to make payments:** there is a range of ways people can receive money and make payments *e.g. credit card*
- **Exchanging foreign currency**
- **Storing important documents of customers**
- **Providing advice:** *e.g. completing tax forms, and the purchase and sale of shares*
- **Selling insurance**

Current Account – easily accessible account for everyday use

Savings Account – interest is paid and funds are not easily withdrawn

Overdrafts – customers can exceed their account limit up to an agreed amount

Loans – money borrowed for a particular purpose and paid back over a certain time period and when taken out, customers are usually required to provide collateral.

Collateral – something pledged as security for repayment of a loan, to be forfeited in the event of a default.

Central Banks – government owned banks which aim to maintain stability of the national currency and money supply. There functions are:

- **To act as a banker to the Government**
- **To act as a banker to Commercial Banks:** Commercial Banks have accounts at the central bank to settle debts between each other and draw out cash
- **To act as a lender of last resort:** the central bank will lend to banks which are temporarily short of cash
- **To manage national debt:** when government debt builds up, the central bank can issue government securities *e.g. government bonds*
- **Holds the country's reserves of foreign currency and gold**
- **Issue bank notes:** to central bank both prints and destroys notes
- **Operates monetary policy:** this involves controlling the money supply to influence interest rates to keep inflation low and steady.

Mortgages – borrowing to purchase land/property that is secured against the land/property

Islamic Banks – specialise in banking services that are compliant with Sharia's Law which forbids interest charges and payments. Instead they charge fees and share profits.

Investment Banks – specialise in helping large firms raise finance from the stock market

Stock Exchange

Shares – a unit of ownership interest in a corporation or financial asset. People buy them because of the dividends, capital gain and to influence the running of a company.

Stock Exchanges – an organization for the sale and purchase of shares and other securities

Listed/Quoted Companies – companies who sell shares to generate finance

Stock Brokers – those who trade on stock exchanges

Functions of Stock Exchanges:

- To provide a market enabling individuals, firms and governments to buy and sell shares on the global stock market
- To enable companies to grow by merging or taking over another company
- Mobilising savings for investment
- To supervise the conduct of firms and brokers. Any firm that wishes to be quoted on the stock market has to meet certain requirements such as providing a range of information for prospective buyers
- To provide up to date information on the market price of different stocks

Bear Market – when share prices are falling

Bears – someone who sells shares expecting their price to fall

Bullish Market – when share prices are rising in general

Bulls – someone who buys shares expecting their price to rise

Factors that Affect Share Prices

- **Takeovers** – buying up shares to gain control of a firm will usually drive up the price
- **Interest Rates –** if increased, people will want to save more in banks so less money is available for investment in shares. If people are saving more, they are spending less. This will reduce profit for firms; share prices for firms will decrease.
- **Profit record** – a firm with high/rising profits will see an increase in their share price
- **Issue of new shares –** an increase in the supply of shares of a firm will decrease the share price
- **Government policy** – if governments cut corporate taxes, firms will have lower costs of production. If governments cut income taxes, consumer expenditure will increase

Dividends and Yields

Dividend – a share in the profits of a company that is earned by a shareholder. They can be expressed as the nominal price or market (current) price of the share.

Nominal Price – the price at which the share was issued

Yield – the dividend expressed as a percentage of the market price and represents the return on the money paid for a share.

Occupations and Earnings

What influences a person's choice of occupation?

- **Wage Factors –** firms advertise a wage rate for jobs to attract people to supply their labour. They can be paid for in many ways:
  - **Time rate –** rate of pay per hour worked
  - **Piece rate –** rate of pay per unit of output produced. A worker who produces lots of output will earn more than worker who does not. This can be used to create an incentive for workers to increase productivity.
  - **Fixed annual rate/salary –** an agreed amount between the employer and employee will be divided into equal monthly/fortnightly payments regardless of the number of hours actually worked.
  - **Performance related payments –** usually offered to individuals or teams or workers who are highly productive. The more sales someone makes, the more commission.
- **Non-wage Factors –** some jobs don't necessarily offer high wages yet people are still attracted to them for other reasons such as:
  - Work Environment, Travel Distance/Benefits, Job Security, Training Opportunities, Qualifications required, Holidays, Fringe Benefits, Pension Entitlement, Job Satisfaction

Why do some occupations earn more than others?

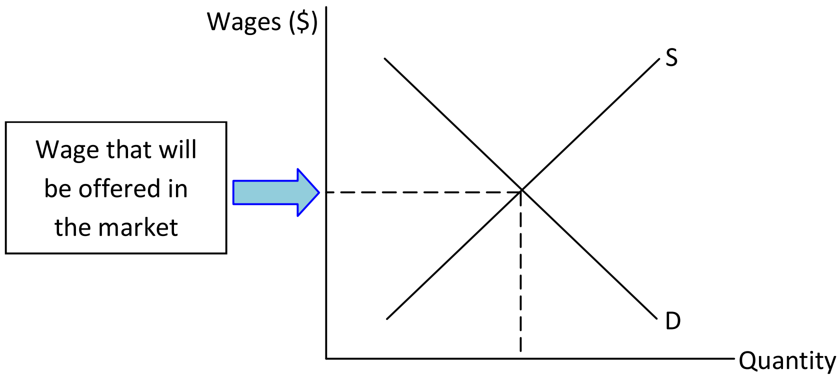
- **Different abilities and qualifications –** some jobs (*e.g. an accountant*) require more training and qualifications than those that don't. As supply is likely to be more limited due to the necessity of training, the wage will be higher.
- **'Dirty'/Risky jobs and unsociable hours –** this type of work usually offers a high wage to attract a supply of labour.
- **Job Satisfaction –** a job that is viewed by many as a rewarding occupation (*e.g. nursing*), attracts a large supply of labour. This results in low market wage rates.
- **Lack of information about jobs and wage –** some workers may work for less than they could in other jobs as they are unaware of better paid jobs elsewhere.
- **Labour Mobility –** when workers can move easily between countries. If a worker can move easily, they can easily move to the job that offers that most pay.

Changes in Earnings Over Time

- Entry to the workforce: A young employee will receive relatively low earnings, This is largely because of a lack of work and skills and experience. They can gain skills through apprenticeship, management training schemes or other training opportunities.
- Skilled workers: The more experience an employee has, the more opportunities there are to increase earnings as the more skilled a worker becomes, the greater the demand: more skilled employees will be in shorter supply and they will be able to command higher earnings. Higher wages must be offered to attract highly skilled workers.
- End-of-career empoyees: Employees may not keep up to date with changing trends or technologies and therefore have outdated skills, and there wages may decrease. Due to their long-time commitment to a business, they may continue to get high wages.

The Labour Market

Demand for Labour	Supply of Labour
Firms need labour to produce goods and services for consumers.	The supply of labour for a job will depend on how many people are willing to do that job.
Influenced by the amount of output workers can produce and the amount its sold for	
The higher the wage is the more expensive it is for firms to higher labour, therefore **when wage increases, quantity demand for labour decreases**	It is likely as the wage rate increases, more people are attracted to doing the job, therefore **when wage increases, quantity supplied of labour will increase**



Differences In Earnings Between Groups

- **The Public-Private wage gap**
    - **Public Sector** may be expanding and therefore causing more demand for labour, causing wages to be high. It may also be contracting causing less demand for labour, causing wages to be low. There may be a greater supply of labour due to non-wage factors of choosing an occupation and thereforefore wages will be low.
    - **Pirvate Sector** will offer high wages to attract the most skilled individuals who can work as efficiently as possible. However, a large number of unskilled labour is in the private sector and thus earn low wages due to the large supply and small demand. Wages in private sector may also appear lower as fringe benefits are no included.
- **The Male-Female wage gap**
    - **Females** generally work in lower paying jobs and often take breaks to raise children which limits career progression
    - **Males** generally work full time rather than part-time to look after children
- **The Skilled-Unskilled wage gap**
    - **In LEDC's** many low-skilled workers are willing to work for low wages.
    - **In MEDC's** firms are competing for skilled workers and offer high wages to attract them
- **The Industry wage gap**
    - **Agricultural Industry**: In many Asian and African countries, there is a surplus of agricultural workers, resulting in low wages
    - **Manufacturing Industry:** This is bigger than agricultural industry, resulting in more demand for labour and therefore higher wages
    - **Services Industry:** This has the highest demand for workers, thus the highest wages.

Trade Unions

Trade Unions – an association which represents the interests of a group of workers. It exists to negotiate on behalf of their members. There are four types:

- **Craft Unions –** they represent workers with particular skills *e.g. plumbers and electricians working in different industries.*
- **General Unions –** they represent workers with a range of skills in a range of industries
- **Industrial Unions –** they represent workers in a particular industry *e.g. railways*
- **White Collar Unions –** represent professional workers *e.g. teachers, pilots*

Functions of Trade Unions

- Negotiate wages and other non-wage benefits on behalf of their members
- Provide educations and training schemes
- Protect workers' rights
- Provide recreational facilities
- Fixing national minimum wage

Why will workers make wage claims?

- Workers working harder and have increased productivity
- The firm is making higher profits
- Maintain wage differentials *e.g. if a Nurse gets paid 60% the Doctor's pay, and the Doctor's get a pay rise, Nurses will want a pay rise to be back at 60% and restore the differential.*
- Keep up with the cost of living (inflation).

Collective Bargaining – the process of negotiating wages and other working conditions between union members and employers. Collective bargaining exists as individual employees may not have the skill, time, willingness or bargaining power to negotiate with employers

Factors affecting the strength of a trade union

- **Number of members –** more members means more funds to finance activities
- **High level of output and activity –** when output and incomes are high, firms compete for existing workers. Therefore they are more willing to agree to union requests.
- **High level of skills –** unions representing skilled workers are in a better negotiating position as it is costly to replace skilled labour
- **Consistent demand for the product –** unions representing workers who produce goods and services essential to consumers and where there are few substitutes in a strong bargaining position.
- **High level of public support –** if the public supports employees, the firm may lose credibility

Arbitration – needed when trade unions and employers fail to resolve a dispute. The Government of an independent third party will join negotiations.

Benefits of a Trade Union to employers

- **Short Time Consumption –** it is cheaper for firms to negotiate with a union than with individual workers as it is less time consuming
- **Increase in Productivity –** Unions encourage workers to undertake education and training. This encourages productivity.
- **Reduction in Conflict –** provided outlets for workers to channel their anger.

Industrial Action

Overtime ban – workers refuse to work more than their normal hours

Strike – workers withdraw labour

Go-slow – working deliberately slowly to reduce production

Work To Rule – workers deliberately slow down production by following every rule and regulation

Effects of Industrial Action on:

- **Firms**
  - Higher costs, less output, less revenue and lower profits
  - Lose customers to rival firms
  - Damages the firm's reputation
- **Union Members**
  - Employees will lose pay and may even lose their jobs due to a decrease in demand for their product caused by losing customers
- **Consumers**
  - Unable to obtain goods and services they need
  - Pay higher prices if firms pass on their increased costs

Union Influence the Supply of Labour

- Unions can restrict the entry of new workers by insisting that new workers have high qualifications or skills
- Closed Shop – all workers in a place of work must belong to a trade union. This is outlawed in a number of countries.
- Open Shop – where firms are able to employ workers that are or are not involved in a trade union.
- Single-union Agreement – where a firm agrees a single union can represent all its workers. Because this will give considerable bargaining power to a union, a firm will only agree to this in return for commitments by the union on pay, productivity improvements and not to strike.

Consumers

Spending – the purchase of goods and services to satisfy wants and needs and to improve standards of living. It is influenced by:

- **Disposable Income –** when consumers have higher incomes, they are likely to spend more.
- **Wealth –** the more wealthy a person is, the higher their spending will be.
- **Consumer Confidence –** if consumers are confident about their jobs and future income, they are encouraged to spend more now. It can change over an economic cycle.
- **Interest Rates –** when interest rates are high, consumers are more likely to save than spend
- **Taste, Age, Gender, Family Circumstances, Religion**

Savings – a reduction in the use of disposable income now to use at a later time. People save because of:

- **Consumption –** people may save now to make big purchases in the future
- **Interest Rates –** when interest rates are high, people earn more interest from saving so people will save more
- **Consumer Confidence –** if people believe circumstances will change they will save more now
- **Availability of saving schemes –** the more ways to save, the more likely people are to do so

Borrowing – the lending of money or items to someone else and paying them back later. People unable to repay their debts are declared bankrupt or insolvent. Their personal assets may get repossessed by the lenders or creditors.

Why do people borrow?

- **To finance necessities or luxuries**
- **To purchase houses –** when people buy houses, they typically take out a mortgage to do so. However, property is an asset so it can be considered a form of saving.
- **To start a business –** entrepreneurs will borrow money to start their business and will repay the loan with future revenue
- **To fund education and training schemes –** people will borrow for these and repay the loan with a higher income job in the future, which they get from their new skills.

Factors that influence borrowing

- **Interest Rates –** when interest rates are high, the cost of borrowing is high and loans will take longer to pay. People are therefore less likely to borrow.
- **Wealth –** wealthy people may be more likely to borrow for certain purchases as they are confident in their ability to repay the debt – they can sell off assets if needed. A bank is also more willing to lend to wealthy individuals as they are less likely to default on the loan.
- **Consumer Confidence –** confidence in a person’s future financial situation will influence their decision to borrow.
- **Availability of Credit –** the more available credit is the more likely people are able to borrow. These days, people can organise overdrafts and loans over the internet and can also buy goons on hire purchase in easy monthly instalments.