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A-Level · Economics

ECO.MIC2 Specialisation, Division of Labour and the Functions of Money

AQA 7136 · Calculators not allowed · about 45 minutes

Total Marks

Name: ________________________________ Date: ____ / ____ / ______

Answer all questions. Full sentences are required for the extended 12-mark question only. Allocation: 45 minutes. Short-answer questions require brief, focused responses.

1 Define specialisation as it is used in microeconomics, referring to individuals or firms and giving context of production.

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(Total for Question 1 is 2 marks)

2 Explain two advantages of the division of labour for firms in a manufacturing context, for example a small workshop expanding production into a larger factory.

(Total for Question 2 is 3 marks)

3 State three disadvantages of specialisation for individual workers, referring to both skills and job satisfaction in a workplace context.

(Total for Question 3 is 3 marks)

4 Define the function of money as a medium of exchange, explaining why this role reduces transaction costs in a market context where barter was previously used.

(Total for Question 4 is 2 marks)

5 State three other standard functions of money besides being a medium of exchange, naming each function and giving a short note on its meaning.

(Total for Question 5 is 3 marks)

6 State three characteristics that make for a good form of money in an economy, for example when assessing coin and banknote currency suitability.

(Total for Question 6 is 3 marks)

7 Explain one disadvantage of specialisation for countries that concentrate on producing a narrow range of exports, with reference to vulnerability to external shocks.

(Total for Question 7 is 3 marks)

8 State two ways in which the division of labour can increase productivity for workers, giving brief explanation for each way in a factory context.

(Total for Question 8 is 2 marks)

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9 Explain briefly how money acting as a unit of account assists firms in making production and pricing decisions in a market economy.

(Total for Question 9 is 3 marks)

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10 State two reasons why a form of money that rapidly loses value due to hyperinflation fails as a store of value, with brief explanation of consequences for savers and lenders.

(Total for Question 10 is 2 marks)

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11 Explain briefly, in the context of production, why increasing specialisation among workers may lead to economies of scale for a firm, without invoking cost curves explicitly.

(Total for Question 11 is 3 marks)

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12 State two possible social or welfare costs of rigid specialisation within an industry in a regional economy, such as a town dominated by one employer.

(Total for Question 12 is 2 marks)

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13 Scenario: Priya runs a small artisanal bakery that currently makes whole loaves from start to finish each day. She is considering reorganising production so one team mixes dough, another shapes loaves, and a final team handles glazing and packaging to supply supermarkets. Explain, using productivity concepts, how this move to division of labour could raise the bakery's output and per-worker productivity.

(Total for Question 13 is 4 marks)

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14 Evaluate the view that specialisation is always beneficial for an economy, considering micro and macro effects, distributional consequences, and potential limits to the benefits. Base your answer on economic theory and reasonable real world examples where relevant.

Evaluate the view that specialisation is always beneficial for an economy, considering micro and macro effects, distributional consequences, and potential limits to the benefits. Base your answer on economic theory and reasonable real world examples where relevant.

(Total for Question 14 is 12 marks)

Mark scheme · ECO.MIC2 Specialisation, Division of Labour and the Functions of Money

Question 1

- **B1** focus on producing a narrow range of tasks or goods rather than many different tasks
- **B1** applies to an individual worker or to a firm concentrating on a limited set of activities to gain expertise/efficiency
- **Answer: Concentrating production on a limited range of tasks or goods so a worker or firm becomes more skilled or efficient at those tasks.**

Question 2

- **B1** increased productivity from workers specialising in a small number of tasks, allowing faster output per worker
- **B1** reduced time wasted switching tasks, so higher output per hour
- **B1** easier training and the possibility of introducing simple machinery specific to repeated tasks
- **Answer: Examples: workers specialising raises productivity; less time lost switching tasks; simpler, quicker training and suitable machinery for repeated tasks.**

Question 3

- **B1** increased monotony or boredom leading to lower job satisfaction
- **B1** risk of deskilling, making workers less adaptable and more vulnerable to unemployment
- **B1** greater dependency on one particular task, increasing risk if demand for that task falls
- **Answer: Monotony and lower job satisfaction; risk of deskilling and reduced adaptability; greater vulnerability if demand for the specialised task falls.**

Question 4

- **B1** medium of exchange: money is accepted in exchange for goods and services instead of barter
- **B1** reduces transaction costs by removing the need for a double coincidence of wants and simplifying pricing and trade
- **Answer: Money accepted in exchange for goods and services instead of barter; it reduces transaction costs by removing the need for a double coincidence of wants and simplifying trading.**

Question 5

- **B1** store of value
- **B1** unit of account
- **B1** standard for deferred payment
- **Answer: Store of value; unit of account; standard for deferred payment.**

Question 6

- **B1** widely accepted/accepted as legal tender
- **B1** stable value, i.e. low and predictable inflation so it stores value reasonably well
- **B1** divisible, durable and portable (easy to split into units, long lasting and easy to move)
- **Answer: Widely accepted; reasonably stable in value; divisible, durable and portable.**

Question 7

- **B1** identifies vulnerability to external demand shocks or price falls for the specialised export
- **B1** explains how this can cause large swings in national income and employment when world prices or demand change
- **B1** may mention lack of diversification, difficulty of switching industries, or dependency on a single trading partner
- **Answer: Specialisation in a narrow range of exports makes a country vulnerable to external shocks such as falls in world demand or commodity prices, causing large swings in national income and employment and difficulty in rapid adjustment.**

Question 8

- **B1** repetition leads to faster performance and skill improvement
- **B1** specialised tools or simple machinery can be used where tasks are repetitive, increasing output per worker
- **Answer: Repetition improves speed and skill; specialised tools or simple machinery can be used for repeated tasks, raising output per worker.**

Question 9

- **B1** unit of account: money provides a common measure to compare the value of different goods and services
- **B1** enables firms to price products, calculate costs and revenues, and compare profitability across products
- **B1** facilitates accounting, budgeting and financial planning because values are expressed in a single, consistent unit
- **Answer: As a unit of account money gives a common measure for comparing values, so firms can set prices, calculate costs and revenues and assess profitability across different products, aiding budgeting and planning.**

Question 10

- **B1** money that loses value cannot preserve purchasing power, so holders lose real wealth
- **B1** consequences: savers see real value of savings erode, lenders lose in real terms unless interest rates fully compensate
- **Answer: If money rapidly loses value it cannot preserve purchasing power, so savers lose real wealth and lenders lose real repayments unless interest compensates, undermining saving and credit markets.**

Question 11

- **B1** specialisation improves worker skill and speed, raising labour productivity
- **B1** higher productivity allows the firm to increase output using existing facilities more effectively, spreading fixed administrative overheads or capital across more units
- **B1** use of specialised machinery and streamlined processes becomes feasible, raising average output per unit of input
- **Answer: Specialisation raises worker productivity and makes specialised machinery and streamlined processes feasible, so the firm can produce more output per unit of fixed resources and spread overheads across more units, achieving economies of scale.**

Question 12

- **B1** local unemployment if the dominant industry declines
- **B1** loss of community skills diversity, making local recovery slower
- **Answer: Local unemployment risk if the industry declines; loss of skills diversity slowing recovery.**

Question 13

- **B1** identifies that dividing tasks allows workers to specialise on a small set of duties
- **B1** explains that repetition increases speed and skill, reducing time per unit
- **B1** explains that simpler tasks make training faster and allow use of small specialised equipment, raising throughput
- **B1** links these changes to higher total output and higher output per worker, giving context to supplying supermarkets
- **Answer: By dividing tasks workers specialise, repetitive tasks raise speed and skill, training becomes quicker and small specialised equipment can be used. These effects increase throughput so the bakery can produce more loaves overall and raise output per worker, enabling reliable supply to supermarkets.**

Question 14

- **Level 1** (1-4): Simple statements about benefits or costs of specialisation with limited development and little or no application or evaluation.
- **Level 2** (5-8): Clear explanation of benefits and drawbacks, with application or examples and some analysis of conditions under which specialisation may be beneficial or harmful.
- **Level 3** (9-12): Well-developed balanced evaluation that analyses both sides, uses appropriate examples, considers magnitude, time scales and distributional effects, and reaches a supported conclusion.
- **Indicative content:**
  - Benefits: higher productivity due to repetition and skill improvement, potential economies of scale at the firm level, lower training costs per specific task, and gains from trade for countries allowing more output and consumption possibilities.
  - Micro advantages: firms can increase throughput and lower unit labour time; workers may gain from higher wages if productivity is rewarded.
  - Macro advantages: national specialisation can increase export earnings and overall economic output through comparative advantage.
  - Costs: worker monotony, risk of deskilling, higher structural unemployment risk if demand shifts, and greater vulnerability for countries reliant on narrow export bases to external shocks or price volatility.
  - Distributional impacts: gains may be unequally distributed with capital owners or highly skilled workers capturing most benefits while lower skilled workers face stagnation.
  - Limits and caveats: diminishing returns to further specialisation if tasks become too narrow, coordination costs, need for effective markets and institutions, and transition costs when switching industries.
  - Contextual factors: time horizon matters, size of market, mobility of labour and capital, and presence of institutions for retraining and social safety nets.
  - Evaluation approaches: weigh the likely net effect in different scenarios, e.g. developing country specialising in a commodity versus advanced economy diversifying into high value-added services, and reach a judgement that specialisation is conditionally beneficial rather than always beneficial.