1.1.5 Specialisation and the division of labour

a) *Specialisation and the division of labour: reference to Adam Smith*
b) *The advantages and disadvantages of specialisation and the division of labour in organising production*
c) *The advantages and disadvantages of specialising in the production of goods and services to trade*
d) *The functions of money (as a medium of exchange, a measure of value, a store of value, a method of deferred payment)*

- Specialisation is when an individual, firm or country produces a narrow range of goods or services and over time develops a comparative cost advantage in producing these goods and services.
- Countries specialise depending on their availability of the factors of production
- Factors of production: land, labour, capital, enterprise
- Specialisation means trade becomes absolutely vital as firms and people need to obtain the things they're no longer making for themselves. Therefore, there must be a way of exchanging goods
- The division of labour occurs where production is broken down into many separate tasks. Division of labour raises output per person as people become proficient through constant repetition of a task – "learning by doing". This gain in productivity helps to lower cost per unit and ought to lead to lower prices for consumers.
- Adam Smith (1723-1790) was a pioneering economist who wrote the Wealth of nations in 1776. He said that one worker completing all the tasks to make a pin may be able to produce 20 pins a day, but, ten workers together specialising in individual tasks could, he estimated, make 48,000 pins. Adam Smith believed the division of labour is more efficient than workers completing individual tasks
- The advantages of specialisation in organising production:
    1. Each worker specialises in tasks for which they are best suited
    2. Workers only have to be trained in one task
    3. Less time is wasted moving from tasks
    4. Production line methods can be used which allows an increased use of machinery and economies of scale
    5. This helps increase productivity and to reduce average costs
    6. More efficient production which tackles scarcity because more output is produced per unit of input
- The disadvantages of specialisation in organising production
    1. Monotony and boredom for workers which could decrease productivity
    2. Workers have limited skills so could have no job if made redundant
    3. A strike could cripple the entire production facility
    4. Lack of variety of goods as on a production line they are identical
- The advantages of specialisation in the production of goods and trade:
    - If a country specialises it can trade these in exchange for goods and services that it does not need so increased output means there is a greater choice and lower prices

- The disadvantages of specialisation in the production of goods and trade:
    - If a country is dependent on other countries for imported goods and their goods and services are uncompetitive then unemployment could result and the country's value of imports may persistently exceed the value of its exports
- Over specialisation within countries can lead to dependence on other countries for trade and on particular commodities such as the weather for farmers
- Specialisation can be done with individuals and firms but whole regions and even countries can specialise such as Silicon Valley in California
- Factors limiting the division of labour:
    1. The size of the market as it is difficult to specialise if there is only a small market
    2. The type of product, for example, unique products are not suitable for the division of labour
    3. Transport costs as if these are high then large-scale production may not be possible
- Production is the total output produced wile productivity is the output per hour (rate of output) or by output per person employed and it is a measure of efficiency
- An increase in production doesn’t necessarily mean an increase in productivity- it depends on how many factor inputs have been employed to supply the extra output
- Benefits of specialisation and the division of labour to the firm:
    - Products can be made faster and cheaper
    - Productivity increased means reduced average costs which leads to increase profits
    - Less time is wasted switching between tasks
    - Product quality is increased
- Benefits of specialisation and the division of labour to the employees:
    - As workers keep doing a task they become experts in that task
    - Less training is needed
- Drawbacks of specialisation and the division of labour to the firm:
    - One person could bring specialisation to a halt
    - Lack of variety and personalisation of products
    - More absences and breaks
- Drawbacks of specialisation and the division of labour to the employees:
    - Workers’ boredom which could lead to falling productivity
    - Few transferable skills increasing difficulty in obtaining a new job
- First introduced by David Ricardo in 1817 comparative advantage exists when a country has a ‘margin of superiority’ in the supply of a product i.e. the cost of production is lower
- Countries usually specialise and export products, which use intensively the factors inputs, which they are most abundantly endowed.
- In this example country B has an absolute advantage in both products

- Absolute advantage occurs when a country or region can create more of a product with the same factor inputs
- Country A has a comparative advantage in producing good X as it is 9/10th as efficient at producing X but only 3/5th as efficient at producing Y
- Comparative advantage exist when a country has lower opportunity cost, i.e. it gives up less of one product to obtain more of another product. For country A every good Y involves sacrificing 2 units of X while for B, an additional unit of good Y involves a sacrifice of only 4.3 units of X so country A has a comparative advantage in producing good X
- There are gain to be had from A specialising in the supply of good X and country B allocating more resources into the production of good Y
- By trading we can consume beyond our PPF by trading with other countries who can produce beyond our PPF
- Methods of exchanging goods:
    1. Swapping: this is a barter system and is very inefficient as it takes a lot of time and effort to find traders to barter with
    2. Money: is something buyers and sellers values so countries can buy goods even if sellers don't want what the buying country produces
- Markets are ways of allocating resources which don't have to be a place, or involve the exchange of physical objects
- Characteristics of money:
    - Durability
    - Portable, convenient to use
    - Divisible: can be broken down into smaller denominations
    - Hard to counterfeit
    - Generally accepted and trusted by the population
    - Valuable: generally holds value over time
- Functions of money:
    - **Medium of exchange:** money allows goods and services to be traded without the need for a barter system. Barter systems rely on there being a double coincidence of wants between the two people involved in an exchange
    - **Store of value:** this can refer to any asset whose "value" can be used now or used in the future i.e. its value can be retrieved at a later date. This means that people can save now to fund spending at a later date.
    - **Unit of account**: this refers to anything that allows the value of something to be expressed in an understandable way, and in a way that allows the value of items to be compared.
    - **Standard of deferred payment:** this refers to the expressing of the value of a debt i.e. if people borrow today, then they can pay back their loan in the future in a way that is acceptable to the person who made the loan.
- The three types of money are: currency, bank accounts and central bank reserves
- Advantages of cash:
    - People trust the value of cash
    - It can be used to measure value
    - Technology can be expensive
- Advantages of cashless payments:

- Reduced security issues by not carrying cash around or having large stores of money
- Faster/ efficient electronic payment available
- Avoids criminal activity and paying for services in cash to avoid taxes