

Specialisation, Division of Labour, and Money

Key definitions

Specialisation is when an individual, firm, or country focuses on producing a narrower range of goods or services. This usually happens because concentrating on fewer tasks can improve efficiency.

Division of labour is a type of specialisation where a production process is split into separate tasks, with different workers completing different stages. The aim is to increase output from the same resources.

Why specialisation increases output

Specialisation raises productivity because repeating the same task helps workers become quicker and more accurate over time (learning by doing). It also allows firms to organise production more efficiently, since each stage can be planned and coordinated more clearly.

A key exam link is that higher productivity often leads to a lower cost per unit of output, which can increase profits or allow firms to reduce prices.

Example: Adam Smith and the pin factory

Adam Smith explained division of labour using a pin factory. When pin-making was broken into many small steps and each worker focused on one stage, total output rose sharply compared with workers trying to complete the whole process alone.

For exams, the point is simple: splitting production into specialised tasks can increase productivity and reduce average costs.

Division of labour: advantages and disadvantages

Advantages of division of labour

- **Higher productivity:** workers become more efficient at a single task over time.
- **Lower average costs:** more output from the same inputs means the cost per unit falls.
- **Quicker training:** it is easier to train workers for one task than the whole process.
- **Improved quality:** repetition can reduce mistakes and make output more consistent.

Disadvantages of division of labour

- **Boredom and lower motivation:** repetitive work can reduce effort and productivity.
- **Interdependence risk:** if one stage fails, the whole production line can slow or stop.
- **Narrow skills:** workers develop fewer transferable skills, making job switching harder.
- **Structural unemployment:** automation or falling demand can leave specialised workers without suitable jobs.
- **Less variety:** mass production may reduce choice and tailoring to consumer needs.

Specialisation between countries and trade

Why countries specialise

Countries often specialise in industries where they are relatively more efficient, then trade to obtain other goods and services. This can increase total world output and expand what consumers can access.

Benefits of specialisation in trade

- **Higher productivity and output** in specialised industries.
- **Economies of scale:** firms may grow and lower long-run average costs.
- **Greater consumer choice** through imports.
- **Higher exports** can increase aggregate demand and raise real GDP.

Costs of specialisation in trade

- **Dependence on global markets:** countries become exposed to world price changes (e.g., commodities).
- **Trade disruption risk:** conflict or supply shocks can reduce access to key imports or export markets.
- **Leakages from the circular flow:** higher imports can reduce aggregate demand.
- **Structural unemployment:** if a dominant industry declines, workers may struggle to switch sectors.

- **Sustainability issues:** relying on non-renewable resources can be risky in the long run.

Money and its functions

Why money matters for specialisation

Money supports specialisation because it makes buying and selling easier than barter. People can specialise in producing one good or service, earn money, and then use it to buy other goods they need.

Functions of money

- **Medium of exchange:** used to buy and sell goods and services, avoiding the double coincidence of wants.
- **Measure of value:** provides a common unit to compare prices and value.
- **Store of value:** allows saving for future spending, although inflation can reduce purchasing power.
- **Method of deferred payment:** enables borrowing and lending, allowing people to pay over time.