

# Edexcel (B) Economics A-level

## Theme 2.3: Productive Efficiency

### Flashcards

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# Define productivity



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The output per unit of input per unit of time



What are the implications of higher productivity for firms and the overall economy?



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Lower average costs of production → lower prices → increase in demand → lower unemployment → higher GDP growth



How can a firm's credit history determine how productive it can be?



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Good credit scores increase the loans given to firms, which they can invest in R&D and become more productive through technological advancements



# What is capital-intensive production?





## What is capital-intensive production?

This occurs when firms have access to cheap credit, whereby capital is cheaper to purchase than labour



Give the formula for capacity utilisation



Give the formula for capacity utilisation

$$\left( \frac{\text{Actual level of output}}{\text{Maximum possible output}} \right) \times 100$$



Why would a firm possibly be operating under maximum capacity?



Why would a firm possibly be operating under maximum capacity?

A reduction in demand from consumers means there is no need to be producing extra units of output



How could operating at full capacity affect the quality of goods produced?



How could operating at full capacity affect the quality of goods produced?

Operating at full capacity implies a rushed process where employees are demotivated, thereby diminishing the quality of goods



Give one benefit of under-utilised capacity





Give one benefit of under-utilised capacity

Firms have the flexibility to change its level of output according to changes in the economic cycle (e.g. an economic boom means firms are able to produce extra units of output without exhausting its capital)



If a firm entered a new market, how would it affect its capacity utilisation?



If a firm entered a new market, how would it affect its capacity utilisation?

It would improve capacity utilisation, as more labour and capital is required to produce the extra output now that the firm has entered a new market



# What is lean production?



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The process of minimising waste during the different stages of production



Describe the difference between quality control and quality assurance



Describe the difference between quality control and quality assurance

Quality control ensures the products meet the minimum standards, whereas quality assurance encourages collaboration between design, production and marketing



How can small, continuous improvements (kaizen) reduce average costs of production?





How can small, continuous improvements (kaizen) reduce average costs of production?

Constantly making small 'tweaks' in a firm reduces the need for major capital investments



# Describe JIT management of stock



## Describe JIT management of stock

Just In Time ensures stock arrives as and when it is needed, based on consumer demand, thereby reducing costs of storage



Give two disadvantages of JIT



## Give two disadvantages of JIT

1. The firm is dependent on the supplier for stock in a short timeframe
2. The firm won't be able to handle huge, unexpected surges in consumer demand



# What is lead time?



# What is lead time?

The time between a decision being made and then carried out

