

# THE FACTORS OF PRODUCTION

## 1.2.1

### ➤ Factors of production and their rewards

- The economic resources of land, labour, capital and enterprise are called as the factors of production.
- **Land:** It refers to all the natural resources used in the production such as oil, coal etc. In addition, the water, plants, animals etc are also included. Example: Farmland, minerals, sea
- **Labour:** Labour stands for the human effort (mental or physical) that is used in producing goods and services. Example: A teacher, workers.
- **Capital:** Capital refers to all the human made (man-made) goods used in production. Example: Machinery and equipments
- **Enterprise:** It refers to the risk bearing and the key decision-making function in a business. This is needed as some events cannot be anticipated beforehand and might not qualify for being insured. Example: An entrepreneur

### Some board [ 4 m ] questions

#### Define enterprise

Enterprise is a factor that takes the risk in bringing the other factors together or combining the other factors in order to produce goods and services to make profits. Enterprise involves the taking of decisions in terms of what to produce and how to produce. Enterprise is taken by entrepreneurs example shareholders who receive profit as reward

#### Using examples, define the factor of production capital

Capital can be defined as any human-made good that is used to produce other goods and services; that is they are aids to production. Examples of capital are factories, machinery, tools, equipments etc.

## 1.2.2

### ➤ **Mobility of factors of production:**

- **Mobility of land** refers to using land for a new purpose than before. Land used for farming can be used for selling clothes, or for constructing houses etc. So geographically land is immobile but it is occupationally mobile. Referring to wildlife, they can be transported and relocated to other areas such as sanctuaries. Even the course of rivers can be diverted. In recent times, large trees are also carefully uprooted and replanted in newer areas. So in this case, trees and rivers can now be said to be geographically mobile too.

#### **Reward for land is rent**

- **Mobility of capital:** Certain capital goods that can be transported from one place to another are classified as being geographically mobile; for example: School desks and chairs can be sold to another school / coaching class which may then start using for its own students. If these desks and chairs were used by a small hotel, then they could have been said to be geographically as well as occupationally mobile too.

On the other hand, certain capital goods are geographically as well as occupationally immobile. This means that they cannot change their location, neither can they be used for different purposes. Examples of these include: Coal mines, gold mines, docks

#### **Reward for capital is interest**

- **Mobility of labour:** Certain type of labour might be geographically immobile due to the difference in the cost of living, family ties that prevent the labour from migrating, poor infrastructure, lack of information of job opportunities elsewhere and also the unavailability of work permits might prevent geographical labour mobility. Labour might also become occupationally immobile at times too. For example; certain companies had made many labours redundant. This is because they had modernised their companies with new machineries and their then existing staff lacked the skills needed to operate the machines. On the other hand a computer programmer may change his online based job from one company to another. So although he is geographically immobile, he is occupationally mobile.

#### **Reward for labour is wages**

- **Mobility of enterprise:** Entrepreneurs are people who organise the factors of production and most importantly bear the uncertain risk of producing a product. In a public limited company, the role of entrepreneurs is divided into 2 categories, one types are the managers(The decision makers) and the second type are the shareholders who bear the risks. Entrepreneurs are mostly geographically and occupationally mobile.

#### **Reward for enterprise is profit**

## BOARD EXAM QUESTIONS

### Difference between land and labour [2 points-2 marks]

	Land	Labour
1	Land is a natural resource	Labour is a human resource or it refers to workers
2	The payment for land is rent	The payment for labour is wages
3	Most land is geographically immobile	There is some geographical mobility in the case of labour

### Difference between labour and enterprise-[2 points-2 marks]

	Labour	Enterprise
1	Labour is human effort or workers services	Enterprise is the ability and willingness to bear uncertain risks and organise other factors of production.
2	Reward of labour is wages	Reward for enterprise is profit
3	Labour tends to be less geographically and occupationally mobile than enterprise	Enterprise tends to be more geographically and occupationally mobile than labour

### 1.2.3

#### ➤ Quantity and quality of factors of production:

	Quantity	Quality
Land	<ul style="list-style-type: none"><li>• Physical existence of land does not change much over time.</li><li>• Agricultural land gets reduced due to soil erosion. Land reclamation on the contrary increases it.</li><li>• Rainforests are declining at a faster rate.</li><li>• Renewable natural resources like wind, water are replaced by nature.</li><li>• Non-renewable resources will be exhausted due to over-use.</li><li>• Over fishing may make species extinct</li></ul>	<ul style="list-style-type: none"><li>• Quality of land can be increased by use of fertilisers</li><li>• Stopping firms polluting environment can improve the quality of water bodies thereby improving the health of marine creatures</li></ul>
Labour	<ul style="list-style-type: none"><li>• Quantity of labours is affected by the number of workers available and also by the number of hours of availability of workers.</li><li>• The number of available workers depends on many factors such as: Size of population, the age structure of population, the retirement age, the school leaving age and the attitude towards working women.</li><li>• The number of hours of work depends upon: The length of the average working day or workers, duration of overtime, length of holidays taken by workers and the amount of</li></ul>	Quality of labour can be improved by training staff, providing them with better education, more experience and better healthcare. Such staff will operate complex machinery and projects and provide quality outputs in return. Healthier staff ensures less absenteeism on grounds of illness and can focus more on the job and deliver quality tasks.

	time lost through sickness and illness	
Capital	Investment increases the quantity of capital. Worn out and outdated goods are gradually replaced by good quality ones	Technological advancements has made it possible for better quality goods to be produced in a lesser amount of time. Example: Using robotics for car manufacturing.
Enterprise	<ul style="list-style-type: none"> <li>• Number of entrepreneurs will increase if there are good university courses offered to students in business studies and economics.</li> <li>• Lower corporate taxes and reduced govt regulations will motivate many to set up businesses</li> </ul>	Quality of enterprise can be improved by providing training to entrepreneurs, better training. Their quality will also increase with increase in their experience.