**Subject Area:** Economics

**Level:** CSEC

**Curriculum Topic:** Factors of Production

CSEC Economics Section 2 Objectives 1 & 2

**Key teaching points:**

* Explain the difference between production and productivity
* Describe the factors of production

**Section 1**

Note the following definitions of Production vs Productivity

Production refers to output. It is the total value of goods produced.

Productivity refers to how efficiently production takes place. It is the ratio of output to input. If output rises in a greater proportion than input then there is productivity.

**Section 2**

Economic resources required to produce goods are known as Factors of Production. These include:

**Section 3**

Returns to Factors of Production

Each factor of production has its own reward. The owner of a business has to pay rent for land used, wages and salaries for labour, interest on any capital borrowed and will receive profits since he/she is the business owner.

**Section 4**

Factor of Production – Land

|  |  |
| --- | --- |
| Definition | Land refers to all natural resources found above or below the earth. |
| Characteristics | Free gift of nature  Supply is fixed (limited to what is on planet Earth)  Can be fertile or infertile  Is immobile  Can be renewable (timber) or non-renewable (minerals, petroleum)  Everlasting and indestructible |
| Types | Farmland, petroleum, gold, forests, mountains, desert, soil, rivers, mines |
| Importance | Situates a business and its operations |
| Productivity | Depends on climate, accessibility |

Factor of Production – Labour

|  |  |
| --- | --- |
| Definition | Physical or mental effort performed by persons in exchange for remuneration |
| Characteristics | Must be over 18 years of age  Involves human effort  Cannot be stored for future use  Labour cannot be obtained without the labourer  Very mobile |
| Functions | The demand for labour is represented by the number of workers desired at a particular wage rate.  Employees provide unskilled, semi-skilled and skilled labour. |
| Types | Skilled/unskilled  Trained/untrained  Motivated/demotivated |
| Importance | Very important in labour intensive production. |
| Productivity | Output per worker. Output ÷ Number of employees  Depends on skills, training, experience and motivation of workers. |
| Efficiency | The time taken by employees to complete a task compared to the industry average |
| Supply | Supply of labour is dependent on population size. Includes those employed or actively seeking work. Does not include those in institutions. |

Division of Labour and Specialisation

Click on the following links.

<https://www.bing.com/videos/search?q=division+of+labour+and+specialisation+for+kids&&view=detail&mid=3E28880210BD1701299F3E28880210BD1701299F&&FORM=VRDGAR&ru=%2Fvideos%2Fsearch%3Fq%3Ddivision%2520of%2520labour%2520and%2520specialisation%2520for%2520kids%26qs%3Dn%26form%3DQBVR%26sp%3D-1%26pq%3D%26sc%3D0-0%26sk%3D%26cvid%3DEAD026F65EB6408189AC3ECB9B8397A2>

<https://www.bing.com/videos/search?q=division+of+labour+and+specialisation+for+kids&&view=detail&mid=57C949E140C707CD0AB057C949E140C707CD0AB0&&FORM=VRDGAR>

Factor of Production – Capital

|  |  |
| --- | --- |
| Definition | All man-made items that enable production |
| Characteristics | Since it is man-made, supply can be increased  Secondary factor of production  Supply is relatively elastic  Can be put to different uses  Durable but depreciates over time |
| Types | Machinery, equipment, tools, buildings |
| Importance | Most mobile of all factors of production  The move to capital intensive means of production makes this factor scarce |
| Productivity | Can be put to alternative uses  Technological advancements make capital goods very productive. |
| Accumulation | Increase in stock of capital goods less depreciation |
| Importance as a substitute for labour | Replacing workers with machines lowers unit costs and makes production cheaper.  Machines produce standardised products so quality can also improve.  Capital equipment does not need to be motivated and does not bargain for higher wages. |

Factor of Production –Entrepreneurial talent

|  |  |
| --- | --- |
| Definition | Starting a business by organising the factors of production and taking a risk. |
| Functions/Characteristics | Decision maker  Risk taker |
| Types | Intrapreneur, Entrepreneur, Social Entrepreneur |
| Importance | Return is not fixed. Profits can increase or decrease.  Organises all other factors of production.  Incorporates innovation and creativity |

**Activity 1**

Test your understanding by taking the following test. Answers are provided.

<https://www.bing.com/videos/search?q=factors+of+production&docid=608025673611478369&mid=AD89596FAD8BE1AD1B9AAD89596FAD8BE1AD1B9A&view=detail&FORM=VIRE>

**Activity 2**

Answer the following multiple choice questions by choosing the most suitable response.

1. Choose the correct statement from the following
   1. Land is a free gift of nature
   2. The reward for labour is interest
   3. Capital is a product of factors of production
   4. Entrepreneurial skills are part of labour
2. Capital goods are characterised by the ability to
   1. be consumed directly by the consumer
   2. have a short life span
   3. be used to produce other goods
   4. have increased unit costs compared to labour
3. Under which factor of production can diamond mines be classified?
   1. Land
   2. Labour
   3. Capital
   4. Enterprise
4. One disadvantage of specialisation is
   1. Less training of employees is needed
   2. Workers become bored
   3. Output increases
   4. Tasks are simplified

**Activity 3**

1. List three factors of production.
2. Choose one factor of production and complete the following table.

|  |  |
| --- | --- |
| Definition |  |
| Characteristics |  |
| Types |  |
| Importance |  |

**Answer Key**

Activity 2

1. A
2. C
3. A
4. B

Activity 3

1. Land, Labour, Capital, Entrepreneurial talents
2. Land

|  |  |
| --- | --- |
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