



Factors of Production

Choices concerning what goods and services to produce are choices about an economy's use of its factors of production, the resources available to it for the production of goods and services. The value, or satisfaction, that people derive from the goods and services they consume and the activities they pursue is called utility. Ultimately, then, an economy's factors of production create utility; they serve the interests of people.

The factors of production in an economy are its labor, capital, and natural resources. Labor is the human effort that can be applied to the production of goods and services. People who are employed or would like to be are considered part of the labor available to the economy. Capital is a factor of production that has been produced for use in the production of other goods and services. Office buildings, machinery, and tools are examples of capital. Natural resources are the resources of nature that can be used for the production of goods and services.

The three basic building blocks of labor, capital, and natural resources may be used in different ways to produce different goods and services, but they still lie at the core of production.

Labour

Labor is human effort that can be applied to production. People who work to repair tires, pilot airplanes, teach children, or enforce laws are all part of the economy's labor. People who would like to work but have not found employment – who are unemployed – are also considered part of the labor available to the economy.

In some contexts, it is useful to distinguish two forms of labor. The first is the human equivalent of a natural resource. It is the natural ability an untrained, uneducated person brings to a particular production process. But most workers bring far more. The skills a worker has as a result of education, training, or experience that can be used in production are called human capital. Students who are attending a college or university are acquiring human capital. Workers who are gaining skills through experience or through training are acquiring human capital. Children who are learning to read are acquiring human capital.

The amount of labor available to an economy can be increased in two ways. One is to increase the total quantity of labor, either by increasing the number of people available to work or by increasing the average number of hours of work per week. The other is to increase the amount of human capital possessed by workers.

Capital

Long ago, when the first human beings walked the earth, they produced food by picking leaves or fruit off a plant or by catching an animal and eating it. We know that very early on, however, they began shaping stones into tools, apparently for use in butchering animals. Those tools were the first capital because they were produced for use in producing other goods – food and clothing. Modern versions of the first stone tools include saws, meat cleavers, hooks, and grinders; all are used in butchering animals. Tools such as hammers, screwdrivers, and wrenches are also capital. Transportation equipment, such as cars and trucks, is capital. Facilities such as roads, bridges, ports, and airports are capital. Buildings, too, are capital; they help us to produce goods and services.

Capital does not consist solely of physical objects. The score for a new symphony is capital because it will be used to produce concerts. Computer software used by business firms or government agencies to produce goods and services is capital. Capital may thus include physical goods and intellectual discoveries. Any resource is capital if it satisfies two criteria:

1. The resource must have been produced.
2. The resource can be used to produce other goods and services.

One thing that is not considered capital is money. A firm cannot use money directly to produce other goods, so money does not satisfy the second criterion for capital. Firms can, however, use money to acquire capital. Money is a form of financial capital. Financial capital includes money and other —paper|| assets (such as stocks and bonds) that represent claims on future payments. These financial assets are not capital, but they can be used directly or indirectly to purchase factors of production or goods and services.

Natural Resources

There are two essential characteristics of natural resources. The first is that they are found in nature – that no human effort has been used to make or alter them. The second is that they can be used for the production of goods and services. That requires knowledge; we must know how to use the things we find in nature before they become resources.

❖ **Text based Activities**

1. Say if the sentences concerning Text are true or false :

- The value that people derive from the goods and services they consume and the activities they pursue is called worthlessness.
- Factors of production serve the interests of people.
- The factors of production in an economy are money, goods and real estate.
- Office buildings, machinery, and tools can be called capital.
- People who do not work are not considered part of the labor available to the economy.
- The skills a worker has as a result of education, training, or experience that can be used in production are called human capital.
- The first capital were the tools shaped from stones that people used in butchering animals.
- Buildings are not considered to be capital, as they do not take part in producing goods and services.
- Capital may include physical goods and intellectual discoveries.
- We do not need any special knowledge and understanding of how to use the things we find in nature before they become resources.

2. Match the words with their definitions:

Word	Definition
1. resource	a. things that you can get, buy or find; or a person who is free to see and talk to people.
2. labour	b. interested in smth.
3. capital	c. the knowledge and skill that you have gained through doing smth. for a period of time.
4. available	d. the practical use of smth., especially a theory, discovery, etc.
5. concerned	e. a supply of smth. that a country, an organization or a person has and can use, especially to increase their wealth.
6. application	f. a large amount of money that is invested or is used to start a business.
7. experience	g. the ability to do smth. well.
8. skill	h. work, especially physical work.

3. Fill in the blanks with the appropriate word(s) from the lecture:

- The three main factors of production are labor, _____, and natural resources.
- _____ capital includes tools and machinery, while financial capital includes _____ and other paper assets.
- Increasing _____ in an economy can involve improving workers' education or increasing their _____ per week.
- A resource is considered capital if it has been _____ and can be used to _____ goods and services.

4. Fill in the blanks using appropriate connectors (because, however, therefore, although, etc.):

- _____ capital is necessary for production, it is not sufficient on its own.
- Labor can be increased by adding more workers, _____ increasing productivity is a better option.
- Natural resources are critical to production _____ they must be transformed by labor and capital to be useful.
- Money is not considered capital, _____ it can be used to purchase capital

5. Paraphrase the following sentences from the lecture:

- “Capital does not consist solely of physical objects. The score for a new symphony is capital because it will be used to produce concerts.”
- “Labor is the human effort that can be applied to the production of goods and services.”
- “Natural resources are the resources of nature that can be used for the production of goods and services.”