

MIND MAP-Factors of Production

Economic theory- themes across the syllabus

4 Factors of Production

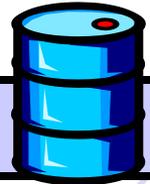


enterprise

capital



land



labour



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**Capital
(income = interest)**

Simple definition: Anything man made used in the production of goods and services

- Firms use capital
- Governments spend money on public capital
- E.g. infrastructure (roads, rail, Internet etc)

Depreciation (wear + tear) occurs over time

Important for Growth: Improved quality and/or additional quantity will shift PPC outwards

Long term Concept:

It can take a long time for a firm or a country to build up the stock of capital

Requires planning at macro (government) level in command and market economies

Firms need new stock of capital at Micro level if they are to be efficient

Webnote 007

Labour Income = wage

- **Specialisation**
= (division of labour)
- **Increased quantity + quality**
For firms. This then..
- **Shifts PPC outward**

- Economies of scale**
(size of firm):
(improves specialisation +
This results in:)
- **Higher productivity**
 - **Lower unit cost for firms**

- Division of labour**
(Adam Smith)
- **'Wealth of Nations'**
 - **18th C economist**

Trade unions

Conflict with employers

Trade unions: what do they want?

- **Higher wages**
- **Longer vacation**
- **More benefits**
- **Firms face higher costs**
- **Higher prices**

- **Conflict often occurs between firms and unions:**

- **The following factors improve the**
- **Output/productivity of labour**
- **Labour mobility**
- **Division of labour**
- **Education**
- **Wages**
- **Living conditions**
- **capital**

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Land
Income = rent

Fixed in supply

**Land has a zero
Cost of production**

Land is
•scarce

- Economic good**
- Commodity or raw
Material form**

Income = rent

**Includes all
Natural resources**

**Including those
in the sea
Air and dry land**

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**Enterprise:
This is central
To capitalism
Income = profit (or loss?)**

Risk taker

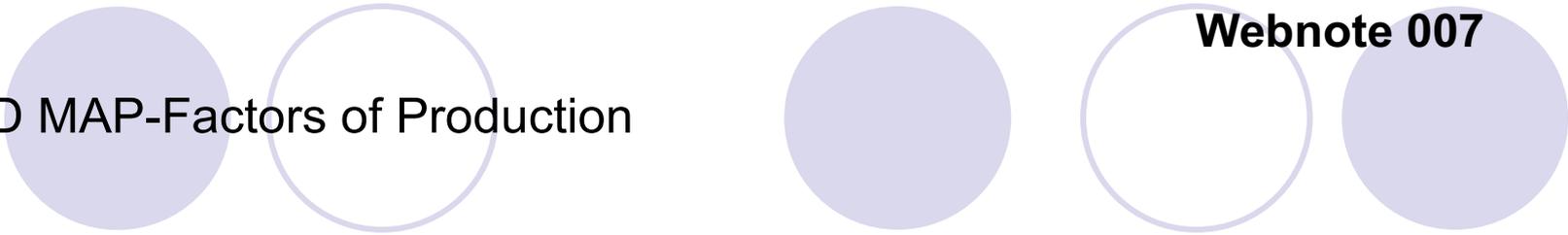
Profit or loss?

**(decides)
What to produce?**

**(decides)
How to produce?**

**Firm is a resource
allocator**

**Centre of capitalist or
Market
System
And central to this
Ownership of property
And the right of individual
to earn profits**



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- Bibliography
- Anderton, Economics a New Approach pp 274-288.

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