

Subject: Business studies

Topic: Factors of Production

Class: JSS 1

Week: 3

Learning objectives:

1. Define factors of production
2. Mention factors of production

Factors of Production

The term factor of production is defined as all the visible and invisible resources that are combined together for the purpose of production of goods and services. Factors of production are the basic requirements needed for production to be effectively carried out. They are also referred to as agents of production.

There are four factors of production.

- (a) **Land:** Land refers to gift of nature or all the natural resources available, applied and used for production. It includes the fixed natural land and other natural resources such as water, forest, mineral deposits etc. The reward for land is rent.

Features of land

- i. It is a free gift of nature
- ii. It is immobile meaning not movable
- iii. It does not lose value
- iv. It can generate money through rent and leases

Importance of land

1. it supports production
2. it creates employment opportunities
3. it provides raw materials
4. reward for land is rent

- (b) **Labour:** Labour means all human efforts physical or mental, skilled or unskilled directed toward the production of economic goods and services. The reward of labour is wages and salaries.

Features of labour

- i. It is human effort
- ii. It can diminish in value
- iii. It is movable

- iv. Labour cost money
- v. The reward of labour is wage/salary

Importance of labour

- 1. it aids or support production
- 2. it consumes other factors of production
- 3. quality of skill can be increased

(c) **Capital:** These are wealth used for the production of further wealth. Capital consists of machinery and equipment, buildings, motor vehicles, tools, raw materials and money. The reward for capital is interest.

Features of capital

- i. it is supplied by the producer
- ii. capital can depreciate or appreciate in value
- iii. it can be mobile or immobile
- iv. the reward of capital is interest

Importance of capital

- 1. it aids further production
- 2. it changes forms
- 3. it helps the stability of the company
- 4. it helps the company to survive harsh economic conditions

(d) **Entrepreneur:** This is a factor that organizes and coordinates the human and material resources in the production of goods and services. The entrepreneur is the initiator, innovator, risk-bearer, and decision-maker. These functions distinguish entrepreneurship from routine managerial activities. The entrepreneur gets profit as a reward for his services.

Features of an entrepreneur

- i. He is mobile in nature
- ii. He is an agent of production
- iii. He is the risk-bearer
- iv. He generates capital for production
- v. The reward of an entrepreneur is profit

Importance of entrepreneur

- 1. He provides capital for business
- 2. He pays for all others of production
- 3. He employs, promotes and dismisses staff when necessary
- 4. He takes decisions on how, where and what to produce.