

## Lesson 5

### The Factors of Production

**Vocabulary:** These words will help you understand this lesson.



Word/Term	Definition
<b>factors of production</b>	economic resources needed to produce goods and services
<b>land</b>	all of the natural resources found on or under the ground that are used to produce goods and services; water, oil, trees, minerals, etc.
<b>labor</b>	human time, effort, and talent that produce goods and services; human resources
<b>capital</b>	anything of material value or usefulness that is available for the production of goods or services; assets
<b>entrepreneur</b>	someone who starts a new business or introduces a new product
<b>underemployment</b>	occurs when a person is over-qualified for his/her present job or working less than full time when work is needed

You already learned that economists study how people use their scarce resources. You also learned the difference between wants and needs. Now we will define economics as the study of how we allocate (distribute according to a plan) the scarce means of production to satisfy human wants. The **scarce means** or **factors of production** are also known as the resources of land, labor, capital, and entrepreneurial ability. This lesson will explain the means of production and why they are scarce.

## Land

The first scarce factor of production is land. Land is so valuable that it is sometimes priced by the square foot. The value of land is based on three important factors: (1) location, (2) scarcity, and (3) natural resources.

Location and scarcity can make land very expensive. For example, land is limited near the busy Manhattan intersection of Fifth Avenue and 57th Street. Thousands of people walk or drive by this intersection each day. Therefore, land at this desirable location is very expensive.

Land can also be expensive if it contains natural resources such as oil, gold, or minerals, if it is forestland, or because it is rich farmland suitable for growing fruit or other crops. Since there is a limited amount of land in the world, the most desirable land is relatively scarce.



Farmland may be expensive if it has rich soil

## Labor

Labor is a scarce resource even though we hear about **unemployment** (people out of work), factories closing and laying off workers, and people who are **underemployed** (over-qualified for their job or working part-time when they need full-time work). Labor is scarce because a limited number of people possess the necessary skills, and are mentally, emotionally, and physically able to do the work that needs to be done. There are always shortages of certain skills in different parts of the country. For example, there are not enough science and bilingual teachers to fill the teaching positions available throughout the United States. More doctors are needed in many small towns and isolated rural areas. In some parts of the country, farmers can't harvest all their crops because there are not enough people who are willing to do this work for minimum wage in difficult outdoor conditions.

We can tell how scarce labor is by looking at how much we have to pay for it. Some kinds of labor, such as health or legal services, are very expensive. This is because only a few people have the skills and education to perform these jobs, yet many people need or want such services.

### **Capital**

Capital is anything of material value or usefulness that is available for the production of goods or services. These are also referred to as assets. Capital could be called the wealth used to produce more wealth. This includes office buildings, factories, shopping malls, farm machinery, computers, printers, and any other tools used for production. Some companies must invest a lot of money in capital. For example, consider how much more it would cost to open a plant that manufactured airplanes than it would to open a bagel shop.

### **Entrepreneurial Ability**

The last scarce means of production is entrepreneurial ability. Although it is sometimes called management ability, entrepreneurial ability means more than just managing a business. An **entrepreneur** is someone who starts a new business or introduces a new product. An entrepreneur knows how to recognize an opportunity to make a profit, raise money to open a business, and hire labor to run the business. The entrepreneur knows how to combine the other scarce means of production (land, labor, and capital) in order to make money.

It may seem like entrepreneurial ability isn't scarce because many people have ideas about starting their own businesses. However, few people have the knowledge and ability to succeed. In the United States, three out of five new businesses fail within the first two years of operation. Of the businesses that survive, most remain small companies. Only a few ever become large and highly successful.

## Analysis

**Part I:** Circle the letter of the word or words that best answers the question or completes the statement.

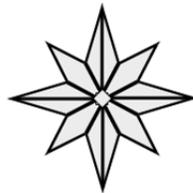
1. What is the value of land based on?
  - A. location
  - B. natural resources
  - C. scarcity
  - D. all of the above
  
2. \_\_\_?\_\_\_ can be defined as all paid work, or human resources.
  - A. unemployment
  - B. underemployment
  - C. labor
  - D. capital
  
3. Which term means people who are out of work?
  - A. underemployed
  - B. unemployed
  - C. scarcity
  - D. resources
  
4. Which term means people who are overqualified for their jobs?
  - A. underemployed
  - B. unemployed
  - C. scarcity
  - D. entrepreneurial ability
  
5. Labor is a \_\_\_?\_\_\_ resource.
  - A. plentiful
  - B. natural
  - C. scarce
  - D. new

6. What are the scarce factors of production?
  - A. land, capital, job opportunities, and entrepreneurial ability
  - B. location, job opportunities, and employment ability
  - C. natural resources, labor, factories, and capital
  - D. land, labor, capital, and entrepreneurial ability
  
7. In the United States, how many new businesses fail within the first two years?
  - A. one out of two
  - B. three out of five
  - C. six out of seven
  - D. one out of ten
  
8. Which of these is an example of a human resource?
  - A. lawyers
  - B. computer systems
  - C. gold
  - D. rich farmland
  
9. Which of these is an example of capital?
  - A. lawyers
  - B. computer systems
  - C. store managers
  - D. rich farmland
  
10. According to the lesson, which term means someone who starts a new business or introduces a new product?
  - A. manager
  - B. employee
  - C. entrepreneur
  - D. none of the above

**Part II:** Fill in the table below by giving at least one example for each factor of production.

The first row has been done for you.

	Land	Capital	Labor	Entrepreneurs
Wood products	Forests	Logging equipment Trucks	Loggers Truck drivers	Home improvement stores
Gasoline				
Fresh produce				
Jewelry				



**End of Lesson 5**