

Factors of Production — Student Handout

Adam Smith (born in 1723) was the first person to study the historical development of industry and trade. His work created the study of economics and developed the concepts of the factors of production. To learn more about the interesting life of Adam Smith, go to www.blupete.com/Literature/Biographies/Philosophy/Smith.htm. Let's take a look at these factors.

Factors of production: The factors of production are the resources that are necessary for production. They are usually classified into three different groups: capital, land and labor. Many experts also include a fourth factor, enterprise. A memory aid for the factors, descriptions of which follow, is C-E-L-L (capital, entrepreneur, land and labor).

1. **Capital** goods are human-made goods that are used to produce other goods. **Capital** includes the physical equipment used to produce goods such as machinery, equipment, new technology, factories and buildings. These are designed to increase productivity.
2. **Entrepreneurs** are people who organize other productive resources to make goods and services. It often is said that a business will succeed or fail relative to the ability of the person or entrepreneur involved in it. This individual assumes risk for the business. The person may or may not be paid for his or her efforts.
3. **Land** includes all natural resources (minerals and other raw materials). In other words, land consists of all "gifts of nature." This includes mineral deposits, water, arable land (land that can be cultivated), vegetation, natural forests, marine resources, other animal life and the atmosphere. There is not an infinite amount of these resources.
4. **Labor** is all human resources. Labor includes all human efforts done to obtain a reward, which is usually some form of income.

Now that you know these terms, let's see if we can use them to sort these factors. At the top of a piece of paper, make four headings: **Land**, **Labor**, **Capital** and **Does Not Apply**. Place these items under the correct heading.

- Delivery Truck
- Teacher
- Factory
- Tree
- ATM machine
- Bushel of corn
- River
- Hair stylist
- Gold
- Barrel of oil
- Doctor
- Bulldozer
- Tractor
- Farmer
- Factory worker

Do we all agree on the placement of these items? Let's consider some other questions about factors of production.

- Are the factors interdependent? (In other words, do the factors affect one another?)
- Land is considered a "passive" factor. Why?
- How do capital and labor differ from land?

Factors of Production — Answer Key

Land	Labor	Capital	Does Not Apply
Tree	Teacher	Delivery truck	
Bushel of corn	Hair stylist	Factory	
River	Doctor	ATM machine	
Gold	Farmer	Bulldozer	
Barrel of oil	Factory worker	Tractor	