

Factors of production

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Workers assemble cars at Ford's plant in Chicago, Illinois, June 24, 2019. Photo by: Jim Young/AFP/Getty Images

Factors of production is a term used by economists to denote the economic resources, both human and other, which, if properly utilized, will bring about a flow or output of goods and services.

Simply stated, factors of production are the **inputs** necessary to obtain an **output**. However, not all the inputs that must be applied are to be regarded as factors in the economic sense. Some of these inputs in a normal situation are free. Although atmospheric air, for example, or a substitute for it, must be at hand to enable production to go on, it is not counted among the factors since it is available in most circumstances in practically unlimited quantities. If it has to be piped into a deep mine or underwater, however, it would then have to be treated like the other "economic resources."

From the standpoint of the whole economy, a cost is involved in using a resource if, as a result of this particular use, the production of something else which depends upon the same kind of resource is hampered. Thus, if the input is scarce in relation to the need for it, it is regarded as a factor of production. The needed inputs may be scarce, and so constitute productive factors, either because they represent something which cannot be produced, such as land (in the strictly

economic sense), or because although their supply could be enlarged, such as factories, to do so would be costly in terms of resources.

The productive factors are commonly classified into three groups: land, labor and capital. The first, **land**, represents resources whose supply is low in relation to demand and cannot be increased as the result of production. The income derived from the ownership of this factor is known as **economic rent**.

The factor of **labor** represents all those productive resources that can be applied only at the cost of human effort. The wage or salary is the form of payment for the use of this factor. The effort which the economist regards as qualifying may be either manual or mental, although in earlier periods, and apparently under communism, manual labor alone was considered a productive factor.

The final category, **capital**, is a more complex one. In the simplest sense, it refers to all the produced instruments of production – the factories, their equipment, their stocks of raw materials and finished goods, houses, trade facilities and so on. The owners of capital receive their income in various possible forms; profits and interest are the usual ones.

It is generally assumed that the level of an economy's output depends directly, and indeed simply, upon the amount of its productive factors in use. It is also supposed that in some degree one kind of factor can be substituted for another in production. The study of the level of factor employment, of the specific direction of their employment, and of the rewards received for their use constitutes a great part of economics.