

INTRODUCTION TO ECONOMICS

[Unit 1] [Part 8]

Mind-Hub

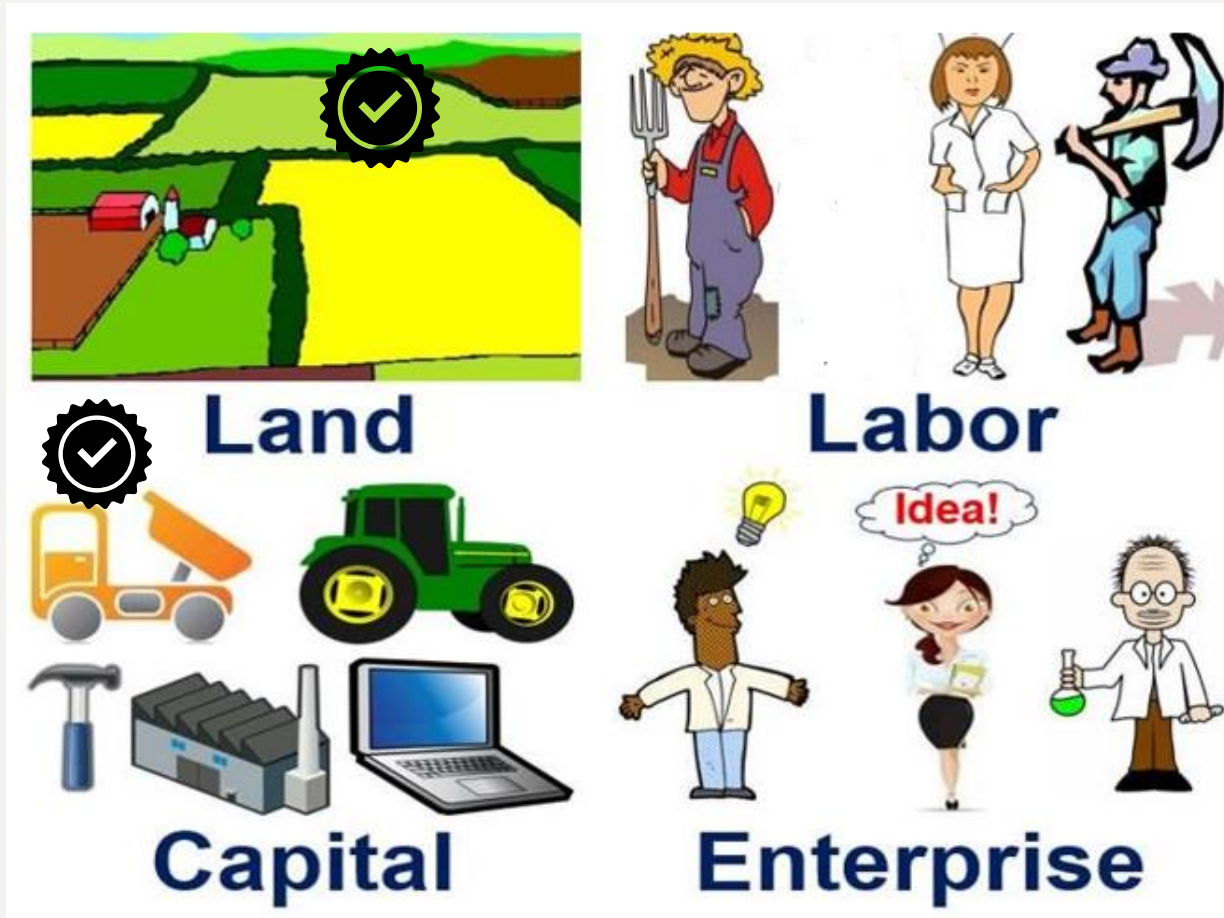
Econ-Hub

Theory

CONCEPT SUMMARY: RESOURCES (ECONOMIC RESOURCES)



Property
Resources



Land

Labor

Capital

Enterprise

Human
Resources

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[2] Capital

- Manmade production aids
- Capital 'directly' contribute to the process of producing goods and services.
- Capital as a production factor is considered as '**physical** (real) assets'
- The price /reward in economics is termed as 'interest' or 'interest rate'.
- Money which cannot directly contribute to the production process is a financial asset and is not capital in economics.

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EXAMPLES

- ✓ Plant and machinery
- ✓ Equipment, tools and vehicles
- ✓ Buildings and factories
- ✓ Weapons and defense systems
- ✓ Irrigation facilities and Livestock
- ✓ Transportation networks
- ✓ Research and Development, Computer's software



TYPES OF CAPITAL

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- Fixed Capital Goods Vs. Financial Capital
- Working Capital and Circulation Capital Goods
- Economic Overheads Vs. Social Overheads

- Human Capital Vs. Social Capital

INVESTMENT (CAPITAL FORMULATION) & SOURCES OF INVESTMENT

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[3] Labour [AKA: Human Resource]

- Mental and physical efforts of humans used in the process of producing goods and services.
- The level of labour or capacity is measured using labour hours.
- Payment for labour in economics is termed as 'Wages'

[3.1] Determinants: Level of Labour Resources of a country

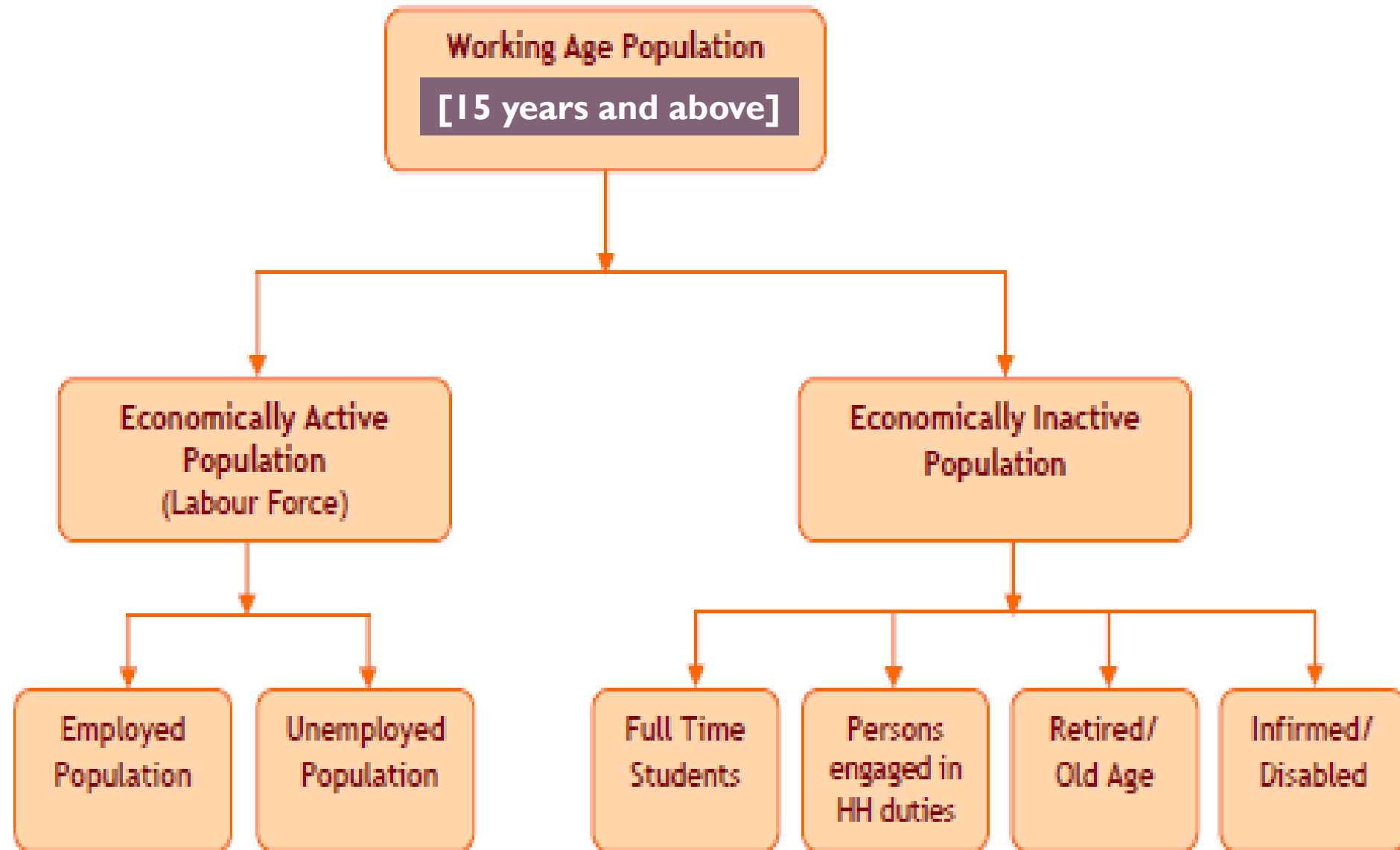
- Population Size
- Health standards and physicality of the population
- Education standard and skills level of the population

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[3.2] Characteristics (Features) of Labour Resources

- Labour is a live resources or factor
- Labour is a mobile resource (occupational and geographical)
- Labour is not person or the labourer, rather only the physical or mental efforts of the labour unit.
- Quality of labour is different from one person to another (non homogeneous).
- The productivity of labour, can be improved through education, training and technology.
- Demonstrates ability to make decisions and organize
- There is an interrelationship between time and labour (with time, labour is also foregone)

Diagram 1: Components of Economically Active and Economically Inactive Population



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[3.3] DIVISION OF LABOUR & SPECIALIZATION

Division of labour is the separation process into a number of tasks, with each task performed by a separate person or group of persons, instead of all tasks being performed by the same person or the same group.

It is generally applied in organizations engaging in mass or large scale production, specially using assembly line and automated modern production.

When a person is dedicated to a job for a considerable period of time, he or she becomes competent in the given task and it is known as specialization

Specialization can be defined as specialized skill or knowledge gathered by focusing on an individual effort of a single task. Thus specialization is generally a result of division of labour

[Source: P.Perera, 2020; p 33]

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ADVANTAGES OF DIVISION OF LABOUR

[Source: P.Perera, 2020; p 33]

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DISADVANTAGES OF DIVISION OF LABOUR

[Source: P.Perera, 2020; p 33 - 34]

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[4] ENTREPRENEURSHIP

[4.1] Characteristics (Features) of Entrepreneurship

- A human resource (a special kind of human resource)
- Ability to identify, exploit and initiate new businesses
- Ability to successfully face and overcome challenges
- Leadership qualities and self confidence
- Visionary thinking (futuristic thinking)

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[4.2] Functions (Roles) of an Entrepreneur

- The entrepreneur shall mobilize production factors and initially organizing and engaging in the process of producing goods and services.
- The entrepreneur shall introduce innovation from a business perspective, i.e. he or she shall introduce new goods, new equipment, new production methodology, and business organizations.
- The entrepreneur provides risk capital, i.e. he or she shall combine resources and engage in producing an innovative good or service which may or may not be successful in the market place.

The entrepreneur shall receive profits if the product is successful and also faces the risk of incurring **losses**.

- The entrepreneur is expected to make basic strategic business decisions and formulate policies upon which business activities shall be conducted.

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PRODUCTIVITY OF FACTORS OR PRODUCTION

- The amount of output that can be produced with a given quantity of resources or the output per unit of input, under a normal rate of use.
- Productivity can be measured in real terms, by estimating the average output of a unit of input [Output divided by inputs].
- As a concept productivity can be seen as the ability or potential of a factor of production to produce an output.
- Productivity can be separately estimated for each production factor: labour, land and capital productivity.

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MEASURING FACTOR PRODUCTIVITY

General Formula:

Labour Productivity [Labour Hours]:

Productivity of Capital [Machine Hours]:

Productivity of Land [Land Acres]:

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FACTORS DECIDING FACTOR PRODUCTIVITY:

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FACTOR DECIDING 'LABOUR' PRODUCTIVITY

- Physical Capital
- **Human Capital**
- Natural Capital
- Social Capital
- Technological knowledge
- Division of Labour
- **Attitudes and incentives**

LABOUR PRODUCTIVITY IMPROVEMENT STRATEGIES

- Re-train workers to become more skilled
- Use new and more efficient machinery
- Introduce incentive schemes to encourage people to work hard
- Introduce new working practices
- Offer attractive bonuses and salary revisions
- Share company profits among workers

LEARNING KEY [4]

TEST YOUR KNOWLEDGE [TYK] QUESTIONS

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**“IF YOU CAN BELIEVE,
YOU CAN ACHIEVE”**