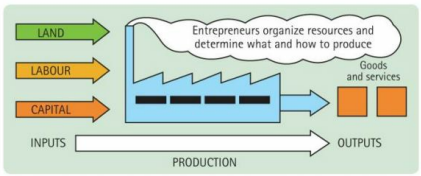
Production

Production	making Gs or providing Ss to in order to satisfy people's needs and wants
Producers	those who make/provide Gs&Ss
Inputs	factors of production - land, labour and capital
Outputs	Gs & Ss produced

Production process is not complete ***until the Gs & Ss actually reach the consumers***. Parts of the process are also the wareho-uses, transportation, insurance, etc.

Production process



Production adds value to resources

Value added	the difference between the market price paid for a product by a consumer and the cost of the natural and man-made materials, components and resources used to make it
	the increase in the value of the resources and the market price paid for the final product or service

Value added = profit + wages

Valuation of nonmarket housework

Calculation of the value of Gs & Ss produced in a country by economists	some can't be calculates (washing dishes, cleaning your room, housework, since we can't put price on them)
	how much will people pay for Gs & Ss

Valuation of nonmarket housework (cont)

Gender disparity	housework is still usually provided by women

The aims/objectives of firms

Aims	most private sector firms aim to maximize their profit
	there are also different types of organizations such as charities, not-for-profit organizations or public sector organizations
Profit	surplus of revenue over costs
	reward for enterprise and risk taking, usually the main motivation for the producers

Maximizing profits

Profit maximi zation	involves choosing factor inputs, production methid, outputs and prices that will earn a firm the greatest amount of profit possible
	maximizing the difference between its total costs and total revenues

Selling Gs & Ss earn **revenue** for the firm. **Profit** is what is left from revenue after all costs are deducted.

Profit in economics

pure profit for economist	***revenue - (all costs + OC)***
profit for an entrepreneur	***value of sales - costs***
	costs are wages, materials and other costs

In economics is also included the **opport-unity cost of production or the cost of the next best alternative use** in costs.

Other objectives

Social entrep-reneurs	people who organize resources and activities to hepl adress social and environmental issues over maximizing their profit
	they usually reinvest any profit or surplus of the revenue left into reaching their social or environmental goals
Social enterp-rises	firms created by social entrep-reneurs
	examples in health and social care, retailing, renewable energy, recycling, education, also it could be a charity, etc.
Examples of social enterp-rises	***Providing a public service*** - education or healthcare, etc.
	****Providing a charity*** - the Britsh Heart Foundation, theRSPCA, etc.
	Non-profit organizations - buldings societies or local clubs helping people, etc.

The stages of production

Industrial sectors	group of firms specializing in similar Gs & Ss, or using similar production process
***Primary industry*/extr active sector**	produce natural resources by growing plants, digging for mineral, or breeding animals, etc.

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The stages of production (cont)

	primary means it is the first stage of production
	examples: crop and animal productioin, forestry, fishing, mining, oil and gas extractioon, etc.
Secondary industry	uses raw materials from PS for production of Gs - **manufacturing**
	examples: food processing, textiles, paper, chemicals, oils and gas refining, pharmaceuticals, water treatment and supply, electric power generation, transmission and distribution, construction
Tertiary industry	these are firms selling Gs, transporting them or providing financial services (banks, insurance companies, building societies, etc.), schools, health servise and many other personal services.
	they provide the final link in the chain of production by selling to the consumers

The stages of production (cont)

examples: wholesailing, retailing, transportation and storage, accommodation services, publishing and broadcasting, telecommunication, education, etc.

Organizing production

Individual production	one person produces the product alone (craftsman), it is a slow process
Specalized production	organizing the labour into tasks, quicker method of production, each person specializes in something different and does only that particular operation
Self-sufficient	you can produce everything you need yourself - our ancestors

The division of labour

Division of labour	the dividing up of the production process into a number of tasks, with each one completed by a different worker or group of employees
Advantages of the DoL	***more Gs & Ss can be produced*** as the produciton process is quicker
	full use is made of abilities of employees as firms choose which employee will perfor which task and they are increasing their skills

The division of labour (cont)

	it allows the use of machinery as it allows further saving of time and effort
Disadvantages of DoL	***work may become boring*** due to a constatnt repetition of tasks
	workers may feel alienated as workers may feel undervalued since they no longer see the final resut of their efforts
	people become too dependent upon each other since they only perform one task they are forced to wait for the worker before them to finish their part
	products are all the same as the same actions are performed over and over again with no alternation only on special ocassions
Factor substitution	when labour is replaced with capital equipment and industrial robots with higher efficiency

With specialization people need to trade to obtaing everything they need.

Worldwide specialization

Worldwide specialization	different countries specialize in different industries
	Cuba in cigars, Japan in electronic, Swiss in watches, Scotch in whisky, etc.

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Not published yet.
Last updated 13th November, 2022.

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Production and time

Increase in production	if firm wishes to increase the production usually they enforce the labour with more people employed or ask their labour to work overtime
	obtaining resources such as land, capital goods, oil or coal can take long time
Time periods	***Momentary run*** is the period of time during which firm can't increase production (no longer than a day)
	Short run is the period of time during which firm can increase the production only by increasing the labour (labour is vairable factor while land and capital stay fixed)
	Long run is the period of time when firm employs more of all factors of production

Changes in inputs and outputs in the short run

Total product	refers to the entire amount of output produced by all the employers together
Average product	the amount of products produced by one worker
	AV = total product/number of workers
Marginal product	the amount of output produced by one extra unit of labour added

Changes in inputs and outputs in the short run (cont)

	MP = change in TP/change in number of workers
The law of diminishing returns	if one/two factors of prouction are fixed in supply (land and capital) and extra units of another factor (labour) are added, the extra products produced from each extra unit will fall over time
Diminishing returns in economics	the decrease in the marginal output of a production process as the amount of a single factor of production is increased, while the amounts of all other factors of production stay constant
Increasing returns	employing two worker instead of one will result in double output at first but if we continue to add new workers constantly we will find ourselves with **diminishing returns**

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