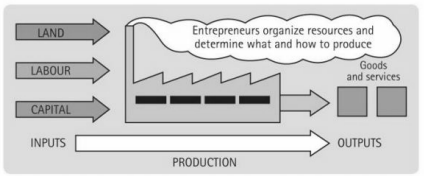
## Production

| | |
|---|---|
| **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 warehouses, 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 maximization** | 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 **opportunity cost of production or the cost of the next best alternative use** in costs.

## Other objectives

| | |
|---|---|
| **Social entrepreneurs** | 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 enterprises** | firms created by social entrepreneurs |
| | examples in health and social care, retailing, renewable energy, recycling, education, also it could be a charity, etc. |
| **Examples of social enterprises** | ***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*/extractive 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. |

By **nelaorav**
cheatography.com/nelaorav/

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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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