

Production

Production making Gs or providing Ss to in order to satisfy people's needs and wants

Producers those who make/provide Gs&Ss

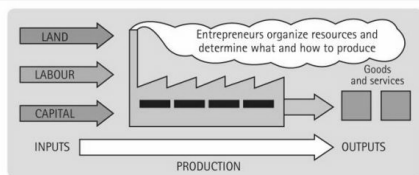
Inputs factors of production - land, labour and capital

Outputs Gs & Ss produced

Production process is not complete **until the Gs & Ss actually reach the consumers.**

Parts of the process are also the warehous, 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

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Maximizing profits

Profit maximization involves choosing factor inputs, production method, 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 help address 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 British Heart Foundation, the RSPCA, etc.

Non-profit organizations - buildings 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.

primary means it is the first stage of production

examples: crop and animal production, forestry, fishing, mining, oil and gas extraction, 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 services and many other personal services.

The stages of production (cont)

they provide the final link in the chain of production by selling to the consumers

examples: wholesaling, 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

Specialized 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 production process is quicker

The division of labour (cont)

full use is made of abilities of employees as firms choose which employee will perform which task and they are increasing their skills

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 constant repetition of tasks

workers may feel alienated as workers may feel undervalued since they no longer see the final result 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 occasions

Factor substitution when labour is replaced with capital equipment and industrial robots with higher efficiency

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

Worldwide specialization

Worldwide specialization different countries specialize in different industries

Worldwide specialization (cont)

Cuba in cigars, Japan in electronic, Swiss in watches, Scotch in whisky, etc.

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

$AV = \text{total product} / \text{number of workers}$

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

Marginal product the amount of output produced by one extra unit of labour added

$MP = \text{change in TP} / \text{change in number of workers}$

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**