

Factors of production

The factors of production are the inputs to the production process. Peter Smith summarises their key characteristics

Enterprise

Entrepreneurs organise production and identify potentially profitable projects, bearing the risk. Enterprise provides dynamism and innovation in an economy.



Capital

This involves physical (produced) resources such as machinery and transport equipment. It can be less flexible than labour as it may take time to get new machinery or buildings into operation.



Land

This factor involves natural resources used as inputs to production. Land itself is highly inelastic in supply, and commands rent as payment for the services it provides.



Energy

This is another input that is key to the production process, and highly contentious given that so many sources of energy are non-renewable resources.



Environment

This is perhaps not a factor of production in the normal sense, but can be regarded as an input used in production, especially with the use of non-renewable resources.



OUTPUT

The factors of production combine to produce output in the form of finished goods and services.



Bottled sunflower oil

Labour

This factor involves human resources as inputs to the production process, encompassing different skills. It is relatively flexible as it can be varied in the short run.

