**Factors of Production**

**SSEF1 The student will explain why limited productive resources and unlimited wants result in scarcity, opportunity costs, and tradeoffs for individuals, businesses, and governments.**

**b. Define and give examples of productive resources (factors of production) (e.g., land (natural),**

**labor (human), capital (capital goods), entrepreneurship).**



**Directions: Read the following passage about the *factors of production* to help you answer the questions at the end of the packet.**

**The factors of production are resources that are the building blocks of the economy; they are what people use to produce goods and services. Economists divide the factors of production into four categories: land, labor, capital, and entrepreneurship.**

1. The first factor of production is ***land***, but this includes any natural resource used to produce goods and services. This includes not just land, but anything that comes from the land. Some common land or natural resources are water, oil, copper, natural gas, coal, and forests. Land resources are the raw materials in the production process. These resources can be renewable, such as forests, or nonrenewable such as oil or natural gas. The income that resource owners earn in return for land resources is called rent.
2. The second factor of production is ***labor***. Labor is the effort that people contribute to the production of goods and services. Labor resources include the work done by the waiter who brings your food at a local restaurant as well as the engineer who designed the bus that transports you to school. It includes an artist’s creation of a painting as well as the work of the pilot flying the airplane overhead. If you have ever been paid for a job, you have contributed labor resources to the production of goods or services. The income earned by labor resources is called wages and is the largest source of income for most people.
3. The third factor of production is ***capital***. Think of capital as the machinery, tools and buildings humans use to produce goods and services. Some common examples of capital include hammers, forklifts, conveyer belts, computers, and delivery vans. Capital differs based on the worker and the type of work being done. For example, a doctor may use a stethoscope and an examination room to provide medical services. Your teacher may use textbooks, desks, and a whiteboard to produce education services. The income earned by owners of capital resources is interest.
4. The fourth factor of production is ***entrepreneurship***. An entrepreneur is a person who combines the other factors of production – land, labor, and capital – to earn a profit. The most successful entrepreneurs are innovators who find new ways produce goods and services or who develop new goods and services to bring to market. Without the entrepreneur combining land, labor, and capital in new ways, many of the innovations we see around us would not exist. Think of the entrepreneurship of Henry Ford or Bill Gates. Entrepreneurs are a vital engine of economic growth helping to build some of the largest firms in the world as well as some of the small businesses in your neighborhood. Entrepreneurs thrive in economies where they have the freedom to start businesses and buy resources freely. The payment to entrepreneurship is profit.

**Videos:**

1. Resources
* <http://www.youtube.com/watch?v=0PgP0dXAGAE>

**Questions**

1. Based on the video and the reading passage, create your own definition for the factors of production. (How you would define it in your own words)
2. What is “mental work”? How is it a type of labor?
3. Provide at least four examples for each of the following factors of production:

Land:

Labor:

Capital:

Entrepreneurs:

1. How does an entrepreneur tie all the other factors together?