

MORAINÉ PARK TECHNICAL COLLEGE  
Fond du Lac, Wisconsin

**THE FACTORS OF PRODUCTION**

Practice Work Activity

( Learning Objective 10 )

**DIRECTIONS:** Read the introduction and respond to the questions that follow. Check your responses using the answer key found on page 5.

INTRODUCTION

The factors of production are resources. So, why don't economists just use the word resources? The reason is because most people think of resources as natural resources like coal, bauxite, iron, and oil, but much more is included in the term "resources" as it is used by economists. To avoid misunderstanding and confusion, economists use the substitute phrase, "factors of production." There are four factors of production: labor, capital, land, and entrepreneurship. The factors of production are broad categories of resources that give us a convenient way to classify all the resources we need and have available to us to produce all the "stuff" that we want.

Labor refers to human physical and mental energies that we expend while producing goods and services. It is influenced by skills, education, and natural talent.

Capital refers to anything manmade that is produced and used for further production, thus increasing present and future output of goods and services. Machines, tools, equipment, and buildings are examples of capital. Inventories of unsold goods are also considered to be capital. When categorizing resources as capital, a bit of caution is needed to avoid confusion. There are some productive ingredients that, at first glance, we might want to classify as natural resources when, in fact, they are capital. Some examples are land that has been cleared or drained, irrigated, or fertilized, planted with trees, or paved over with concrete. Other examples include minerals or fuels that have been taken from the ground and shipped far from their original (natural) places of deposit, "land" reclaimed from the sea, and animals that have been domesticated and specially bred. These items are no longer "gifts of nature" in their natural state." They have been transformed by people in terms of form, location, and availability. Crude oil in the ground is not the same as crude oil located at a refinery. Finally, we must not confuse financial capital (money, stocks, bonds, deeds) with real capital (machines, tools, buildings). Financial capital is not directly productive. For example, a stock certificate merely indicates who owns the natural resource or capital resource to which the piece of paper refers. Stock certificates, bonds, and money are simply pieces of paper from which we can produce nothing. We could increase the amount of such "paper" massively, but if there is no accompanying increase in real capital resources, labor, or land, we could not produce more goods and services.

Entrepreneurship refers to the activities of people (entrepreneurs) who are behaving as innovators, organizers, and risk takers. Entrepreneurs focus their creativity and imagination on responding to human wants through developing new products, services, and processes for production. They are able to organize the factors of production to produce efficiently the things we want and enjoy. They are willing to assume the emotional, psychological, physical, and financial risks associated with organizing for production and operating a business.

READ THE QUESTIONS THAT FOLLOW. CIRCLE THE NUMBER OF THE ITEM THAT YOU BELIEVE IS CORRECT. WHEN YOU HAVE COMPLETED THE ACTIVITY, CHECK YOUR RESPONSES USING THE ANSWER KEY ON PAGE 5.

1. A new office building is an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship
  
2. A deposit of coal is an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship
  
3. A trained auto mechanic is an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship
  
4. An automated computer system is an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship
  
5. Ray Kroc, founder of MacDonaldis, is an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship
  
6. An unimproved prairie is an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship
  
7. The physical and mental talents of people are an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship

8. A factory is an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship
  
9. Irrigated farmland in California is an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship
  
10. The person who invented the computer is an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship
  
11. A computer operator is an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship
  
12. A TV camera used to fight shoplifting is an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship
  
13. The water in Lake Winnebago is an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship
  
14. A soft-drink dispenser at a fast-food restaurant is an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship
  
15. A risk taker is an example of which factor of production?
  - a. land
  - b. labor
  - c. capital
  - d. entrepreneurship

16. Land reclaimed from the sea in Holland is an example of which factor of production?
- land
  - labor
  - capital
  - entrepreneurship
17. Bill Gates, founder of Microsoft, is an example of which factor of production?
- land
  - labor
  - capital
  - entrepreneurship
18. A robot is an example of which factor of production?
- land
  - labor
  - capital
  - entrepreneurship
19. A deposit of iron ore is an example of which factor of production?
- land
  - labor
  - capital
  - entrepreneurship
20. A lifeguard is an example of which factor of production?
- land
  - labor
  - capital
  - entrepreneurship

## ANSWER KEY

1. c
2. a
3. b
4. c
5. d
6. a
7. b
8. c
9. c
10. d
11. b
12. c
13. a
14. c
15. d
16. c
17. d
18. c
19. a
20. b