

Answer the following questions.

1. What problems do people confront?
2. Why are those problems so important?
3. What questions must economy decide?
4. What problems are decided by these questions?
5. What is the importance of inputs for the economy?
6. What are outputs?

Define the following words and expressions.

confront	household
dawn	various
triad	useful
generate	

1.8. LAND, LABOR, CAPITAL, ENTREPRENEURSHIP

We classify inputs, also called **factors of production**, into four broad categories: land, labor, capital and entrepreneurship.

LAND – or more generally natural resources – represents the gift of nature to our productive processes. It consists of the land used for farming or for **underpinning** houses, factories and roads; energy resources to fuel our cars or heat our homes; and non – energy resources like copper and iron ore and sand. We should also view our physical environment – the air we breathe and the water we drink – as natural resources.

LABOR – consists of the human time spent in production – working in automobile factories, **tilling** the land, teaching at school, or cooking in the kitchen. Thousands of **occupations** and tasks, at all skill levels, are **performed** by labor. It is at once the most familiar and the most **crucial** input for an advanced industrial economy.

CAPITAL resources form the **durable** goods of an economy, produced in order to produce yet other goods. Capital goods include machines, roads, computers, hammers, trucks, still mills, washing machines, automobiles, and buildings. The **accumulation** of specialized capital goods is **essential** to the task of economic development.

Relating the three economic problems in terms of inputs and outputs, a society must decide:

1. What outputs to produce, and in what quantity;
2. How to produce them – that is, by what techniques inputs should be combined to produce the desired outputs.
3. For whom the outputs should be produced and distributed.

ENTREPRENEURSHIP. People who are involved in this kind of business shouldn't be confused with managers. These are people who have the vision, originality, and daring to introduce new ideas in business.

CLASSIFYING THE FACTORS OF PRODUCTION

Resource or factor of production	<i>Description</i>	<i>Payment</i>
LAND	Natural resources (e.g. land itself including minerals, water, timber)	RENT
CAPITAL	Produced resources (e.g. tools, factories, machines)	INTEREST
LABOUR	Physical and mental efforts (e.g. hired workers and professionals)	WAGES
ENTREPRENEURSHIP	Ownership function (e.g. organizing financial risk taking)	PROFIT
<i>ANNUAL TOTAL</i>		<i>NATIONAL INCOME</i>

Answer the following questions.

1. What are the four factors of production?
2. What does land represent?
3. What does land consist of?
4. What does labor present?
5. What do capital resources form?
6. What are the entrepreneurs?
7. Classify the factors of production.

Define the following words and expressions.

factors of production underpinning house till the land occupation perform	crucial durable goods accumulation essential
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