

# CIE Economics AS-level

## Topic 1: Basic Economic Ideas and Resource Allocation c) Factors of production

Notes



- Economic resources are the factors of production. These are land, labour, capital and enterprise.
- The factors of production (CELL):

Factor	Description	Reward/Incentive
Capital	Physical: goods which can be used in the production process Fixed: Machines; buildings Working: finished or semi-finished consumer goods	Interest from the investment
Entrepreneurship	Managerial ability. The entrepreneur is someone who takes risks, innovates, and uses the factors of production. Resources are drawn together into the production process.	Profit- an incentive to take risks
Land	Natural resources such as oil, coal, wheat, water. It can also be the physical space for fixed capital.	Rent
Labour	Human capital, which is the workforce of the economy.	Wages

### Specialisation and division of labour

- Specialisation occurs when each worker completes a specific task in a production process. The concept was famously stated by Adam Smith, who showed how, through the division of labour, worker productivity can increase. Firms can then take advantage of increased efficiency and lower average costs of production.

 An extract from *The Wealth of Nations*, Adam Smith:

- "To take an example, therefore, from a very trifling manufacture; but one in which the division of labour has been very often taken notice of, the trade of the pin-maker; a workman not educated to this business ... could scarce, perhaps, with his utmost industry, make one pin in a day, and certainly could not make twenty. But in the way,



in which this business is now carried on, not only the whole work is a peculiar trade, but it is divided into a number of branches, of which the greater part are likewise peculiar trades. One man draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on, is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, in this manner, divided into about eighteen distinct operations, which, in some manufactories, are all performed by distinct hands, though in others the same man will sometimes perform two or three of them... But though they were very poor, and therefore but indifferently accommodated with the necessary machinery, they could, when they exerted themselves, make among them about twelve pounds of pins in a day. There are in a pound upwards of four thousand pins of a middling size. Those ten persons, therefore, could make among them upwards of forty-eight thousand pins in a day."

-  **Smith essentially said that by dividing the production of pins into 18 different tasks, the output of pins could increase significantly. Each worker specialises and output increases.**
  
-  **Specialisation can be achieved by individuals, businesses, regions of countries or countries themselves.**
  
-  **Advantages:**
  - Higher output and potentially higher quality, since production focusses on what people and businesses are best at.
  - There could be a greater variety of goods and services produced.
  - There are more opportunities for economies of scale, so the size of the market increases.
  - There is more competition and this gives an incentive for firms to lower their costs, which helps to keep prices down.
  
-  **Disadvantages:**
  - Work becomes repetitive, which could lower the motivation of workers, potentially affecting quality and productivity. Workers could become dissatisfied.
  - There could be more structural unemployment, since skills might not be transferable, especially because workers have focussed on one task for so long.
  - By producing a lot of one type of good through specialisation, variety could in fact decrease for consumers.
  - There could be higher worker turnover for firms, which means employees become dissatisfied with their jobs and leave regularly.

