**The Factors of Production**

**MAIN IDEA:** Four factors of production: land, capital, labor, and entrepreneurs- must be present to produce goods and services.

People cannot satisfy all of their wants and needs because productive resources are scarce. The factors of production, or resources required to produce the things we would like to have are land, capital, labor, and entrepreneurs.

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LAND

Land refers to the “gifts of nature,” or natural resources not created by people. Land includes deserts, fertile fields, forests, mineral deposits, livestock, sunshine, and the climate necessary to grow crops.

Because a finite amount of natural resources are available at any given time, economists tend to think of land as being fixes, *or in limited supply.*

CAPITAL

…sometimes called capital goods. Capital is the tools, equipment, machinery, and factories used in the production of goods and services.

Capital is unique because it is the result of production. A bulldozer, for example, is a capital good used in construction. When it was built in a factory, it was the result of production involving other capital goods. The computers in your school that are used to produce the service of education are also capital goods.

LABOR

Labor consists of people with all their efforts, abilities, and skills. This includes all people except a unique group of individuals called entrepreneurs, whom we single out because of their special role in the economy. Historically, factors such as birthrates, immigration, famine, war, and disease have a dramatic impact on the quantity and quality of labor.

ENTREPRENEURS

Some people are singled out because they are the innovators responsible for much of the change in our economy. Such an individual is an entrepreneur, a risk taker in search of profits who does something new with existing resources. Entrepreneurs are often thought of as being the driving force in an economy because they are the people who start new businesses or bring new products to markets.

In Summary,

Everything we make requires the four factors of production. The desks and lab equipment used in schools are capital goods. Teachers and other employees provide the labor. Land includes the property where the school is located as well as the iron ore and timber used to make the building. Finally, entrepreneurs are needed to organize the other three factors and make sure that everything gets done. (Mr. Tipsord?)

PREDICT

1. What percentage of Americans start a new business each year?
2. What three countries have the highest percentage of adults starting new businesses?

ACTIVITY

1. Discuss the land, labor, capital, and entrepreneurship that are needed to establish a business that designs and sells T-shirts.

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| LAND | LABOR |
| CAPITAL | ENTREPRENEURSHIP |

1. What would happen if one of these factors was no longer available?