



## Unit -1

# Production



### Learning Objectives

- ❖ To know the meaning of production
- ❖ To understand the types of production
- ❖ To know the factors of production
- ❖ To understand the characteristics of factors of production





One day Yazhini and Josphine were sitting in a park near their house and eating sugarcane. At that time yazhini's uncle Raja came there and started talking with them.

**Uncle :** “Dear children, do you know what are the products produced from the sugarcane?.

Both of them thought for a while and said, ‘uncle , they make sugar’.

**Uncle :** You are right. Do you know how they produce sugar for our consumption?.

**Yazhini :** No uncle. But if you tell us we will know about it uncle.

**Uncle :** Ok. I shall tell you and you in turn must tell your friends about it.

**Yazhini**

**& Josphine :** Ok uncle, He began saying.

Sugarcane is cultivated in agricultural fields. This is the primary production. To get sugar, we take sugarcane to the sugar factories, by using the machine we produce sugar. This is the secondary production. So like sugar industries many other industries are known as secondary sectors and generally described as manufacturing sectors.

The tertiary sectors provide all those services, which enable the finished goods to reach in the hands of consumer. These industries include traders, banking, insurance, etc.

Production is the process of changing the raw materials into finished product. Here the factors of production is the input like, sugarcane, machinery, labours, etc. and sugar is the output. Now, let us learn about production and the various factors included in production like land, labour, capital and entrepreneur and its characteristics in detail.

**Yazhini and Josphine :** Ok uncle.

There are two main activities in an economy such as production and consumption. Similarly there are two kinds in economy, producers and consumers. Well-being is made possible by efficient production and by the interaction between producers and consumers. In the interaction, consumers can be identified in two roles both of which generate well-being. Consumers can be both customers of the producers and suppliers to the producers. The customer's well-being arises from the commodities when they buy and consume. The supplier's well being is related to the income they receive when they sell the commodities and services. In an economy all are consumers but all are not producers or sellers.

## Meaning of Production

Production is a process of combining various material inputs and immaterial inputs in order to make something for consumption (the output). It is the act of creating an output, a good or service which has value and contributes to the utility of individuals.

Production in economics refers to the creation of those goods and services which have exchange value. It means the creation of utilities. Utility means want satisfying power of a product. According to the nature of utilities they are classified into form utility, time utility and place utility.



## Types of Utility

### Form utility

If the physical form of a commodity is changed, its utility may increase.

Eg. The demand and uses of cotton increases, if it is converted into clothes.

### Place utility

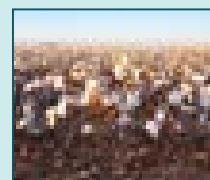
If a commodity is transported from one place to another, its utility may increase.

Eg. If rice is transported from Tamilnadu to Kerala, its utility will be more.

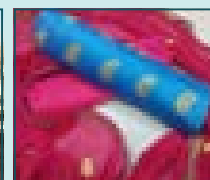
### Time utility

If the commodity is stored for future usage, its utility may increase.

Eg. If agricultural commodities which are used by the consumers throughout the year like Paddy, Wheat, etc. are stored for future use its utility increases.



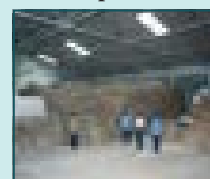
Cotton



Cloth



Transportation



Warehouse



Indian Economy is a Mixed Economy. Private and Public Sectors co-exist.

Agriculture, forestry, fishing, mining and oil extraction are examples to primary sector.

## 2. Secondary Production

The process of manufacturing products by using primary products as raw materials is known as secondary level production. Since industries are given prime importance, it is also referred as industrial sector production.

## Types of Production

There are three types of production. They are

1. Primary production
2. Secondary Production
3. Tertiary Production

### 1. Primary Production

Primary production refers to the state of activity in which natural resources are directly used. Since agricultural is given prime importance, it is also referred as agricultural sector production.

Primary sector and Secondary sector Production

**Cotton** (Primary sector) – Cotton Industry  
(Secondary Sector) = Cloth Production

**Iron ore** (Primary sector) – Iron Industry  
(Secondary sector) = Material Production



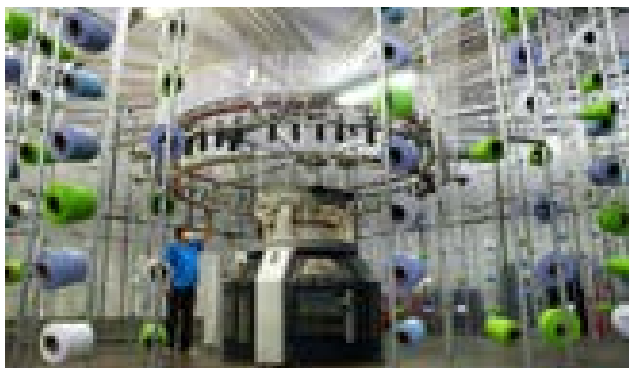
Agriculture



Forestry



Mining

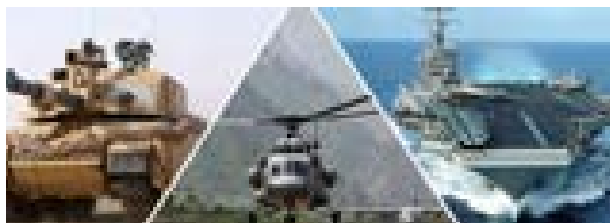


Cotton Industry

Manufacturing of cars, clothing, chemicals, engineering and building etc.. are examples to secondary sector.

### 3. Tertiary Production

Tertiary production is known as the services which are not visible rendered by the teachers, doctors etc., are to the economy. Banking, insurance, education, health and defence etc.. are examples to service sector.



Defence



Banking



Education



Engineering &amp; Building



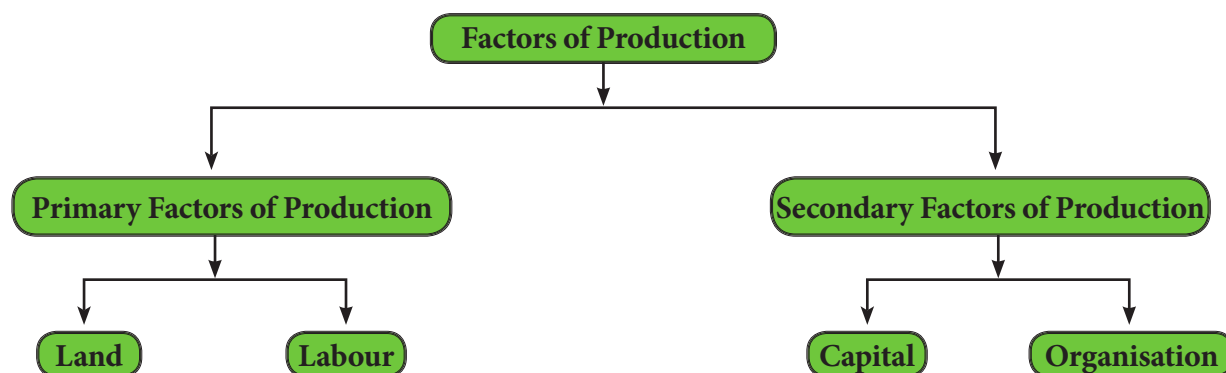
The most to the Gross Domestic Product of our country is contributed by the tertiary sector.

### Factors of Production

Factors of production are known as inputs of production which are transformed into output or products. There are two main divisions of factors of production. They are (i) Primary factors of production and (ii) Derived factors of production or Modern factors of production or secondary factors of production.

Primary factors of production are Land and Labour. Derived factors of production are capital and organisation.

Capital is known as investment and the organisation is known as organising Land, Labour and Capital for producing products. Organisation is also known as Entrepreneurship.





## Land

Land as a factor of production refers to all those natural resources or gifts of nature which is provided freely to man. It includes within itself several things such as land surface, air, water, minerals, forests, rivers, lakes, seas, mountains, climate, and weather. Thus, land includes all things that are not made by man.



**Land**

Land can take on various forms, on the basis of resources available from a particular piece of Land. For example agricultural land when it is cultivated. Commercial land when it is sold.

## Characteristics of Land

### 1. Land is a Free Gift of Nature

Man has to make efforts in order to acquire other factors of production. But to acquire land no human efforts are needed. Land is not the outcome of human labour. Rather, it existed even long before the evolution of man.

### 2. Land is fixed in supply

The total quantity of land does not undergo any change. It is limited and cannot be increased or decreased with human efforts. No alteration can be made in the surface area of land.

### 3. Land is imperishable

All man-made things are perishable and these may even go out of existence. But land is imperishable. Thus it cannot go out of existence.

### 4. Land is a Primary Factor of Production

In any kind of production process, we have to start with land. For example, it helps to provide raw materials for industries and to produce crops.

### 5. Land is Immovable

It cannot be transported from one place to another. For instance, no portion of India's surface can be transported to some other country.

### 6. Land has some Original Indestructible Powers

There are some original and indestructible powers of land, which a man cannot destroy. Its fertility may be varied but it cannot be destroyed completely.

### 7. Land Differs in Fertility

Fertility of land differs on different pieces of land. One piece of land may produce more and the other may be less.

As a gift of nature, the initial supply price of land is zero. However, when used in production, it becomes scarce. Therefore, it fetches a price accordingly.

## Labour

Labour is the human input into the production process. Alfred Marshall defines labour as, 'the use of body or mind, partly or



Adamsmith is known as Father of Economics and his Economics is based on wealth. He wrote two classic works, "*The Theory of Moral sentiments*(1759)", and "*An Inquiry into the Nature and Causes of the Wealth of Nations* (1776)".



**Machinery Work**



**Physical Work**



**Mind Work**

wholly, with a view to secure an income apart from the pleasure derived from the work'

### Characteristics of Labour

- Labour is more perishable than other factors of production. It means labour cannot be stored. The labour of an unemployed worker is lost forever for that day when he does not work. Labour can neither be postponed nor accumulated for the next day. It will perish. Once it is lost, it is lost forever.
- Labour is an active factor of production. Neither land nor capital can yield much without labour.
- Labour is not homogeneous. Skill and dexterity vary from person to person.
- Labour cannot be separated from the labourer.
- Labour is mobile. Man moves from one place to another from a low paid occupation to a high paid occupation.
- Individual labour has limited bargaining

power. He cannot fight with his employer for a rise in wages or improvement in work-place conditions. However, when workers combine to form trade unions, the bargaining power of labour increases.

### Division of Labour

The concept 'Division of Labour' was introduced by Adam Smith in his book '*An Inquiry into the Nature and Causes of the Wealth of Nations*'.

Division of labour means dividing the process of production into distinct and several component processes and assigning each component in the hands of a labour or a set of labourers, who are specialists in that particular process.

**Example :** A Tailor stitches a shirt in full. In the case of Garments exporters, cutting of cloth, stitching of hands, body, collars, holes for buttons, stitching of buttons etc., are done



**Car Manufacturing Unit**



**Bike Manufacturing Unit**







independently by different workers. Therefore, they are combining the parts into a whole shirt.



**Garments Export Unit**

### Merits of division of labour

- It improves efficiency of labour when labour repeats doing the same tasks.
- It leads to the use of modern machinery in production, resulting in inventions. Ex. More's Telegraphic Codes.
- Time and raw materials are used very efficiently.

### Demerits of division of labour

- Repetition of the same task makes labourer to feel that the work is monotonous and stale. It kills the humanity in him.
- Narrow specialization reduces the possibility of labourer to find alternative avenues of employment. This results in unemployment.

Students are asked to visit the nearest private tailoring shop and Garments Export Industry.

Teacher and students are asked to discuss about the process of making dresses in the tailoring shop and Garments Export Industry.

- Reduce the growth of handicrafts and the worker loses the satisfaction of having made a commodity in full.

### Capital

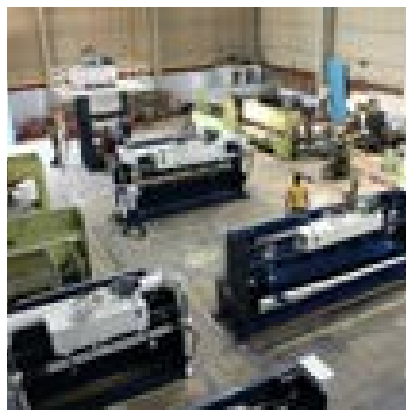
Capital is man made physical goods used to produce other goods and services. In the ordinary language, capital means money. In economics, capital refers to that part of man-made wealth which is used for the further production of wealth. All wealth is not capital but all capital is wealth. According to Marshall, 'Capital consists of those kinds of wealth other than free gifts of nature, which yield income'.

### Forms of capital

1. Physical Capital or Material Resources  
Ex. Machinery, tools, buildings, etc.
2. Money capital or Monetary resources  
Ex. Bank deposits, shares and securities, etc.



**Office**



**Machinery**



**Factory**



3. Human capital or Human Resources  
Ex. Investments in education, training and health

### Characteristics of Capital

- Capital is a passive factor of production
- Capital is man-made
- Capital is not an indispensable factor of production
- Capital has the highest mobility
- Capital is more flexibility
- Capital is productive
- Capital Lasts Long
- Capital involves present sacrifice to get future benefits

### Entrepreneur or Organisation

An entrepreneur is a person who combines the different factors of production (land, labour and capital), in the right proportion and initiates the process of production and also bears the risk involved in it.

The entrepreneur is also called 'Organizer'. In, modern times, an entrepreneur is called 'the changing agent of the society'. He is not only

responsible for producing the socially desirable output but also to increase the social welfare.



### Characteristics of Entrepreneur

- Identifying profitable investible opportunities
- Deciding the location of the production unit
- Making innovations
- Deciding the reward payment
- Taking risks and facing uncertainties

Students are asked to visit some entrepreneurs in their nearest home town and collect the information of his businesses.

Teacher and students discuss about the entrepreneurs.

### Summary

- ❖ Production is a process of combining various material inputs and immaterial inputs in order to make something for consumption
- ❖ Utility means want satisfying power of a product.
- ❖ Utilities are classified according to the nature as form utility, time utility and place utility.
- ❖ There are three types of production viz, Primary production, Secondary Production, Tertiary or Service Production
- ❖ Factors of Production Land, Labour, Capital, Organization
- ❖ The concept 'Division of Labour' was introduced by the Father of Economics Adam Smith in his book '*An Inquiry into the Nature and Causes of the Wealth of Nations*'
- ❖ An Entrepreneur is a person who combines the different factors of production. (Land, Labour and Capital)





## Glossary

Production	Manufacture	உற்பத்தி
Utility	Usefulness	பயன்பாடு
Organization	Firm	நிறுவனம்
Entrepreneur	Businessman	தொழில் முனைவோர்
Factors	Component	காரணிகள்
Division	Dividing	பகுப்பு
Resources	Assets	வளங்கள்



## Evaluation

### I. Choose the correct answer

1. Production refers to

- a) destruction of utility
- b) creation of utilities
- c) exchange value
- d) none of these



2. Utilities are in the nature of

- a) form utility
- b) time utility
- c) place utility
- d) all of these

3. Primary factors are

- a) land, capital
- b) capital, labour
- c) land, labour
- d) none of these

4. The entrepreneur is also called

- a) exchanger
- b) Agent
- c) organizer
- d) communicator

### II. Fill in the blanks

- \_\_\_\_\_ means want satisfying power of a product.
- Derived factors are \_\_\_\_\_ and \_\_\_\_\_.
- \_\_\_\_\_ is a fixed in supply.

4. \_\_\_\_\_ is the human input into the production process.

5. \_\_\_\_\_ is the man made physical goods used to produce other goods and services.

### III. Match the following

- |                       |   |                   |
|-----------------------|---|-------------------|
| 1. Primary production | - | Adamsmith         |
| 2. Time utility       | - | fishing, mining   |
| 3. Wealth of nation   | - | entrepreneur      |
| 4. Human capital      | - | stored for future |
| 5. Innovator          | - | education, health |

### IV. Give short answer

- What is production?
- What is utility?
- Name the types of utility.
- What are the factors of production?
- Define Labour.
- Define Division of labour.
- Write the forms of capital.
- Write the three characteristics of entrepreneur.

### V. Give brief answer

- Explain the types of production.
- What is land ? What are the characteristics of land?
- Explain the merits and demerits of division of labour.
- Describe the characteristics of capital.



## VI. Activity and Project

1. Students are asked to prepare a chart containing dummy images of primary, secondary and tertiary sectors images.
2. Students are asked to visit local farmers and to discuss about the land and its characteristics. Collect some photographs of land and make an album.

## VII. Life skills

1. Students to know about the characteristics of entrepreneur, Set up your classroom like a industry. Some Students are asked to act like a businessman, Do the industries activities. Teacher and students together discuss about the entrepreneur and their important of development of society.

## Reference Books

1. H.L.Ahuja-*Principles of Micro Economics*
2. K.P.M.Sundharam-*Business Economics*
3. K.K.Dewett-*Modern Economic Theory*