THEORY OF PRODUCTION

What is production? Production may be defined as the transformation of raw materials into finished goods and distribution, provision of goods and services in order to satisfy human wants.

TYPES OF GOODS

- **Consumer Goods**: - These are goods and services that can satisfy consumer's immediate wants. These goods do not need further process of production.
- **Capital Goods**: - These are goods and services meant for the production of all other goods and services for instance. E.g. Cars, Lorries, used in carrying out production activities.

TYPES OF PRODUCTION

Production is grouped into 2 major categories. They are:

1. **Direct Production**: this is type of production that takes place when a family unit produces goods and service. Mainly to satisfy all his need and not for sale.

2. **Indirect Production**: - It involves the production of goods and services for exchange of money in order to use the money realized to satisfy other want. This type of production is possible because it is not possible in the modern society for anybody to satisfy all his need directly with his own good and services everyone is interdependent because people satisfy their want indirectly by exchanging their surplus output with other producers or selling their goods and services and using the money realized in satisfying their numerous want.

STAGES OF PRODUCTION

1. **PRIMARY PRODUCTION: -** This is a stage in production which involves the extraction of raw materials from the soil or sea. The goods and services produced at this stage of production are known as raw materials e.g Fishing, Mining e.t.c.

2. **SECONDARY PRODUCTION: -** This is a stage in production when the raw materials are extracted from soil and sea are processed into finished goods that is utility is

added to raw materials of the primary production. The manufacturing and constructive industries are involved in the same stage of production.

3. **TERTIARY PRODUCTION: -** This is the stage of production where the goods and services produce during primary and secondary productions are taken to those who needs them. This stage completes the production since production is not complete until it goes to the final consumer.

FACTORS/AGENTS OF PRODUCTION

These are referred to as the resources needed to aid the production of goods and services. They are; Materials input needed for production of goods and services. They are factors/Agent of Production;

1. Land
2. Labour
3. Capital
4. Entrepreneur

1. **LAND: -** Land as a factor of production is a free gift of nature used in production and it is fixed. Land in Economics does not include only hard surface on the earth but all other free gift of nature.

Water
Forest
Mineral resources

Unlike other factors of production, the supply of land is limit. The reward of land is **rent.**

CHARACTERISTICS OF LAND

1. Land is a free gift of nature
2. It is fix in supply
3. Land has no cost of production, No cost was involved in bringing life into production, geographically land is immobile
4. Land is relatively indestructible.
5. Land is subjected to law of diminishing returns.

LABOUR

Labour is defined as both physical and mental effort of man directed. It is one of the variable factors of production. Labour as a factor of production involves human being who works on other factor of production like land and Capital in order to produce goods. The reward for labour is **salaries and wages**.

CHARACTERISTICS OF LABOUR

1. Labour is human effort. It directs other factors of production.
2. It can improve education and training
3. Labour cannot be stored.
4. It is geographically and occupationally mobile.
5. Owners and use of labour are inseparable I.e., a human being cannot be separated from his labour ability.
6. Labour is not fixed its quantity and quality can be increased although procreation and acquisition of skills and expertise.

TYPES OF LABOUR

- **UNSKILLED LABOUR: -** This type of labour involves little or no education and require the use of physical energy in production. It is the physical effort of man directed to production e.g Cleaner, Carpenter, Security Man, Messenger.
- **SEMI-SKILLED LABOUR: -** This type of labour involves the combination of both physically and mental effort in carrying out production and mental effort in production activities. Semi-Skilled Labour include people with little education up to school certificate or **G.C.E** and **SSCE** such people include Tailor, Receptionist, Clerical workers and other low-level workers.
- **SKILLED LABOUR: -** This involve the use of mental effort in carry out production skill labour comprises of workers with high education up to University level and other professional courses who hold administrative and managerial position in an organization. Skilled Labour include Doctor, Lawyer, Teacher, Accountant, Engineers, Economist, Chemist e.t.c

CAPITAL

Capital may be defined as manmade assets used in production. In other words, capital refers to man-made wealth or goods used to produce other goods and services.

Capital when properly combined with other factors produces goods and services e.g. physical cash, cutlass, hoe, machines, buildings, motor vehicles, raw materials. The reward for capital is **interest**

CHARACTERISTICS OR FEATURES OF CAPITAL

1. **Capital is man-made:** capital in all forms is made by man before it can be used for production of goods and services.
2. **Capital is durable:** capital generally is durable assets, which can be used for production.
3. **Capital exists in different forms**: capital can be physical like building, motor vehicles, plants and other machinery or liquid like cash or money.
4. **Capital is subject to depreciation**: capital in most cases is subject to depreciation, especially physical assets like motor vehicles, plants and other machinery or liquid like cash or money.
5. **It ensures large scale production**: The existence of enough capital assists firms to embark on large scale production of goods and services.
6. **It promotes division of labour**: the availability of enough capital helps to promote the practice of division of labour in many companies.

TYPES OF CAPITAL

1. **Fixed Capital**: These are assets which are not used up in the course of production. They do not change their form in the process of production e.g. land, building, and motor vehicles.
2. **Circulatory or Working Capital**: these are assets that are used up in the course of production. These consist of capital goods which either change their form or are used up in the process of production. E.g. raw material, water and fuel
3. **Current or Liquid Capital**: they are required for day to day running of productive activities. They also change from one form to another .e.g. finished goods and money
4. **Social Capital**: this is a form of capital or assets provided by the government that aid production. These are amenities provided by the government which are roads, electricity, water and telephones.

IMPORTANCE OF CAPITAL

- Capital facilitates production
- Capital boost efficiency
- It assists in the location of industry
- It increases the standard of living
- Production of quality goods

ENTREPRENEUR: - An Entrepreneur is a factor of production which Co-ordinate controls and organizes other factor of production for more productive activities with a view of making profit. Entrepreneurs are also known as risk bearers and their reward is **profit or loses.**

IMPORTANCE OF ENTREPRENEUR

1. **Provision of capital**: - The Entrepreneur provides the initial capital used in formation of the business and carry out productive activities from this capital provided, other factors of production are employed.
2. **Decision making:** The entrepreneur takes decisions during production process. He may take decision on what to produce, quantity to produce, what to supply and at what price to sell.
3. **Risk Bearer:** the entrepreneur bears all the risks associated with the business.
4. **Efficient management:** he ensures efficient management of the business by combining the factors of production in order to maximize production and profit.
5. **Effective organization:** The ensures effective organization in the business

DIVISION OF LABOUR AND SPECIALIZATION

DIVISION OF LABOUR

This is the breaking down of production process into a number of separate operations whereby each operation is undertaken or performed by one person or a group of persons.

SPECIALIZATION

Is defined as the concentration of the productive efforts of an individual, a firm or a country in a given aspect of economic activity or on a particular line of production in which it has greatest advantage over others.

Division of labour is one aspect of specialization. Specialization is a result of division of labour.

TYPES OF DIVISION OF LABOUR AND SPECIALIZATION

1. **Specialization by Process**: it's a process in which production is divided into different operations or stages and each worker, or firm or country now concentrates on only one operations or stage. E.g. printing company on concentrate on the printing stage.

2. **Specialization by sex**: it's a type of specialization in which certain occupations are exclusively either for males or females as dictated by custom, tradition or by law.
3. **Specialization by product**: this is the type of specialization in which a producer concentrates on the production of a particular commodity. E.g. a firm can concentrate on the production of malt drink.
4. **Geographical or territorial specialization**: this is the type of specialization in which certain geographical region or territory specializes in the production of a particular commodity. E.g. the presence of petroleum in Niger delta region enables the area to specialize in the drilling of petroleum.

ADVANTAGES OF DIVISION OF LABOUR AND SPECIALIZATION

1. **Increase in production**: Division of labour and specialization lead to increase in production because the various experts along the production process work together to boost greater production.
2. **Time saving**: division of labour helps to save time that would have been wasted in moving from one operation to another.
3. **Development of greater skill**: division of labour enables each worker to develop greater skill through repetition of the same process.
4. **Large scale production**: division of labour and specialization lead to large production of goods or products.
5. **Lower unit cost**: since division of labour leads to greater productivity, the unit cost of product will be less.
6. **Creation of employment opportunities**: division of labour helps in the employment of people who are experts to handle the various stages of production in a firm.

DISADVANTAGES OF DIVISION OF LABOUR AND SPECIALIZATION

1. **Monotony or repetition**: in division of labour, a worker performs the same job on daily basis, the job therefore becomes monotonous and boring which may lead to loss of interest.
2. **Decline in craftsmanship**: as a result of the use of machines in division of labour, people no longer make use of their skills in the production of goods; rather, they become machine-minders.
3. **Reduction in employment opportunity**: in division of labour, machines are usually used with few workers. This tends to reduce the level of employment among the workers.

4. **Problem of mobility of labour**: under division of labour, a worker stays on a single job for a long time and this makes it difficult for him to move to other jobs.
5. **Problems from increased inter-dependence**: division of labour has meant that workers and industries may have to depend on one another before production can take place. Absence of such a worker or industry may result in the closure of the entire production.

SCALE OF PRODUCTION

Scale of production or economies of scale means the growth of a firm or an industry resulting from expansion of the volume of productive capacity which leads to increase in output and decrease in its costs of production per unit of output.

TYPES OF ECONOMIES OF SCALE

- **Internal Economies and Internal Diseconomies**
- **External Economies and External Diseconomies**

INTERNAL ECONOMIES

Internal economies or economies of large-scale production are the advantages a firm derives from the expansion of its scale of production as a result of its own efforts. In this case, as the size of the firm increase, it will result in greater efficiency by reducing cost per unit output.

INTERNAL DIS-ECONOMICS

Internal dis-economics is when a firm expansion leads to less efficiency resulting to increased in the lost per unit output due to internal difficulties or Organization constraint.

ADVANTAGES OF SCALE OF PRODUCTION

1. **Technology**: - a firm increased its output by using advance machines, employ many workers and apply division of labour etc. which lowers the cost per unit.
2. **Marketing Economics**: - A large firm can afford to buy its raw materials in bulk which lower the price and attract discounts.
   A large firm advertises in a large scale and at cheaper rate more than small firm.
3. **Research Economics**: - The large firm with huge capital can afford to make a labouratory research and also employ competent research to man it.

4. **Financial Economics**: - A large firm has the opportunity to obtain loans from banks into shares and debentures to members of the public in order to raise capitals than a small-scale business unit.
5. **Managerial Economics**: - With its financial states and large size, a large business unit employs managerial experts in different fields more than a small business unit.
6. **Welfare Economics**: - A large firm provides welfare services to its workers the medical services, housing scheme, and canteen etc. than a small firm.
7. **Training Economics**: - A large firm with large financial status can afford to organize in house training or send its workers on training course more than a small-scale unit.
8. **Risk Bearing Economics**: - A large firm is in a better position of wading off competition and bearing business risk than a small firm.

DISADVANTAGES OF INTERNAL ECONOMICS

1. The relationship between employers and employee of a large firm is more impersonal than a small-scale firm.
2. It is easier for a small-scale business to adjust to business changes than large scale business.
3. Large firm are slow in decision making and policy due to administrate complexity than small firms.
4. Large firm spends more money in maintaining its complex organization than small scale firm.
5. Large firm requires large capitals for its establishment than a small-scale business.

6. It there is economic depression or economic meltdown, large firm tend to retrench workers than small scale business there by causing unemployment.
7. It is difficult to control and supervise workers in the large-scale firm because of their numbers.

EXTERNAL ECONOMIC AND EXTERNAL DIS-ECONOMICS

EXTERNAL ECONOMICS: - External economics are benefits a firm receives from increase in its output and decrease in cost of production due to help the firm **receives** from other firms especially in the use of their products. They are attributing a firm enjoys as a result of being located close to others.

EXTERNAL DIS - ECONOMICS: - External dis economics are the increase in cost a firm will experience as a result of increase in output resulting from external effect.

ASSIGNMENT

1. Classification of internal economies of large-scale production
2. Limitations to the scale of production