

Chapter 7: Factors of Production

Question: 1

Fill in the blank with appropriate alternative given below

Land is subject to _____ returns.

Options

- increasing
- constant
- diminishing
- negative

Solution

Land is subject to **diminishing** returns.

Explanation:

Land is a fixed factor of production. When more and more units of labour and capital are applied to land, the total output increase but only at a decreasing rate.

Thus, we can say that land is subject to diminishing returns.

Question: 2

Fill in the blank with appropriate alternative given below

_____ is regarded as primary factor of production.

Options

- Land
- Labour
- Capital
- Entrepreneur

Solution

Land is regarded as primary factor of production.

Explanation:

Land is regarded as a primary factor of production as it is used in every kind

of production. It facilitates production and does not change itself in the process. Thus, it acts as a base in the production process.

Question: 3

Fill in the blank with appropriate alternative given below

Capital is a _____ factor of production.

Options

- real
- artificial
- natural
- free

Solution

Capital is a **artificial** factor of production.

Explanation:

Capital includes all the capital goods or assets used in production. Since capital is not a gift of nature, and is a man made factor of production, it is regarded as an artificial factor of production.

Question: 4

Fill in the blank with appropriate alternative given below

Land is a free gift of _____.

Options

- nature
- human
- foreign
- nation

Solution

Land is a free gift of **nature**.

Explanation:

Land is not created by Man. It is available to human beings without any effort. That is, all natural resources, flora and fauna, earth, buildings, avenues, air, water, minerals etc. are available to human beings as free gifts of nature.

Question: 5

Fill in the blank with appropriate alternative given below

_____ is a leader of organisation.

Options

- A capitalist
- A consumer
- A seller
- An organizer

Solution

A **capitalist** is a leader of organisation.

Explanation:

A capitalist is a person who invests his money in an organisation with the sole objective of making profits. He/she is a firm believer of capitalism. Also, he organises the production process, by hiring services of various factors of production to produce output, and sells the output in the market. In this way, we can say that a capitalist is the leader of an organisation.

Question: 6

Match the following:

Group A	Group B
1. Production	a. Profit
2. Land	b. Captain of industry
3. Labour	c. Creating utility
4. Reward of capital	d. Rent
5. Reward of entrepreneur	e. Interest
	f. Wages

Solution

The above columns can be correctly matched as:

Group A	Group B
6. Production	c. Creating utility
7. Land	d. Rent
8. Labour	f. Wages

9. Reward of capital	e. Interest
10. Reward of entrepreneur	a. Profit

Explanations:

1. Production is the process of converting inputs (raw materials) into outputs. Since in the production process, goods and services are created to satisfy human wants, it can be regarded as the process of creating utilities.
2. Land is a primary factor of production and rent is the factor payment. That is, rent is the income received by the land owner in return for the services provided by him/her in the production process.
3. Wages are the income received by the labour (factor of production) in return for the services provided by them in the production process. Thus, wages are the returns to the labourer.
4. Interest is the reward of capital. A moneylender or a capital owner receives interest on the amount of capital contributed by him in the production.
5. An entrepreneur organises the production process by hiring all the services of all the factors to produce the output. He sells this in the market and remunerates the factor. For his dare in undertaking the risk of production, he receives profits in return.

Question: 7

State whether the following statement is TRUE and FALSE.

Demand for labour is direct demand.

Options

- True
- False

Solution

Demand for labour is direct demand. **False**

Explanation:

No, it is not correct. Demand for labour is not direct demand, rather, it is a derived demand. This is because, labour is demanded in the production process to produce goods and services which are further sold in the market. In this way demand for labour is dependent on the demand for the goods and services in the production of which it will be used.

Question: 8

State whether the following statement is TRUE and FALSE.

Labour and labourer are inseparable.

Options

- True
- False

Solution

Labour and labourer are inseparable. – **True**

Explanation:

The above statement is correct. The physical or mental effort exerted by the human body and mind, with the sole objective of earning a living, is known as labour. On the other hand, the person who exerts the physical or mental effort is referred to as the labourer. In this regard, labourer contains labour. Thus, we can say that both the labour and the labourer are inseparable from each other.

Question: 9

State whether the following statement is TRUE and FALSE.

Labour cannot be stored.

Options

- True
- False

Solution

Labour cannot be stored. - **True**

Explanation:

Labour includes all the physical and mental efforts of workers. In other words, it is the exertion by the human body and mind with the objective of earning a living. Since we cannot store the mental and physical efforts of workers, we can conclude that labour cannot be stored and used in the future.

Question: 10

State whether the following statement is TRUE and FALSE.

Capital is a natural factor of production.

Options

- True
- False

Solution

Capital is a natural factor of production. – **False**

Explanation:

The above statement is incorrect. Capital includes money invested in the business, machinery and tools which are produced and invested in by the human beings. Unlike land, capital is not a natural factor of production. It is not a gift of nature. Rather, it is a man-made factor of production. Thus, capital is regarded as an artificial factor of production.

Question: 11

State whether the following statement is TRUE and FALSE.

Land is a free gift of nature.

Options

- True
- False

Solution

Land is a free gift of nature. – **True**

Explanation:

The above statement is true. Land is a free gift of nature as it is not created by mankind. All the natural resources, flora and fauna, earth, buildings, avenues, air, water, minerals etc. are available to human beings as free gifts of nature.

Question: 12

Define or explain the following concept:

Entrepreneur

Solution

Entrepreneur is the person who undertakes the task of production. He organises the various activities, controls the activities related to production and distribution, and also bears the risk of failure of the business. He sells the output in the market and remunerates the factors. For his dare in undertaking the risk of production, he receives profits in return.

Question: 13

Define or explain the following concept:

Variable capital

Solution

Variable capital refers to the capital whose demand changes over time. In other words, it refers to the capital that is used in the process of production only once. For instance, raw material, fuel, power, wages etc.

Question: 14

Define or explain the following concept:

Labour

Solution

Labour refers to the people who actually use the land and capital to produce goods. It includes all physical and mental efforts of workers, employees, managers etc. In other words, the exertion by the human body and mind, with the objective of earning a living, is known as labour.

Question: 15

Define or explain the following concept:

Land

Solution

In economics, land does not merely imply soil. In fact, it broadly refers to all natural resources, flora and fauna, earth, buildings, avenues, air, water, minerals etc. The owner of the land (the landlord) receives rent in exchange for his contribution to the production process.

Question: 16

Define or explain the following concept:

Capital

Solution

Capital includes money invested in the business, machinery and tools. A moneylender or a capital owner receives interest on the amount of capital contributed by him in the production. It is regarded as an artificial factor of production. This is because it cannot produce goods on its own.

Question: 17

Give reason or explain:

The entrepreneur is called a leader of the organization.

Solution

An entrepreneur is a person who undertakes the task of production. He organises tasks, controls the activities related to production and distribution, and also bears the risk of failure of the business. Thus, an entrepreneur is regarded as a leader of the organisation.

Question: 18

Give reason or explain:

Labour cannot be stored.

Solution

Labour refers to the people who actually use the land and capital to produce goods. It is the exertion by the human body and mind, with the objective of earning a living. Since we cannot store the mental and physical efforts, we can conclude that labour cannot be stored and used in the future.

Question: 19

Give reason or explain:

The supply of land is inelastic.

Solution

The supply of land is inelastic which means that it is less responsive to the changes in its price. This is because of its limited availability. Thus, even when the price of the land increases, its supply cannot be increased.

Question: 20

Give reason or explain:

Raw material is considered as a variable capital.

Solution

Variable capital refers to the capital whose demand changes over time. In other words, it refers to the capital that is used in the process of production only once. Since the demand for raw materials changes overtime, and it is used in the process of production only once, it can be considered as a variable capital.

Question: 21

Distinguish between the following:

Land and capital

Solution

Land	Capital
Land broadly refers to all the natural resources, flora and fauna, earth, buildings, avenues, air, water, minerals etc.	Capital includes money invested in the business, machinery and tools.
It has inelastic supply.	It has elastic supply.
The factor payment received on land is rent.	The factor payment received on capital is interest.

Question: 22

Distinguish between the following:

Fixed capital and variable capital

Solution

Fixed capital	Variable capital
It refers to the capital that can be used in the process of production repeatedly.	It refers to the capital that varies throughout the process of production.
It includes machinery, factory, furniture etc.	It includes raw materials, fuel, power etc.
It is durable.	It is not durable.

Question: 23

Distinguish between the following:

Insurable risk and non-insurable risk

Solution

Insurable risk	Non-insurable risk
It refers to the risk that is insured by various insurance companies.	It refers to the risk that is not insured by any insurance company.
This includes risks against fire, risks against sea perils etc.	This includes risks arising out of changes in government policies, changes in the demand for a product etc.

Question: 24

Distinguish between the following:

Labour and entrepreneur

Solution

Labour	Entrepreneur
It refers to the exertion by the human body and mind, with the objective of earning a living.	It refers to the person who undertakes the task of production. He organises the activities, controls the activities related to production and distribution, and bears the risk of failure of the business.
They receive wages in return for their services.	They receive profits in return for their services.

Question: 25

Write short note on the following:

Qualities of an entrepreneur

Solution

The following are some of the qualities of an entrepreneur:

- i. An entrepreneur should be efficient.
- ii. He/she should be organised.
- iii. He/she should have good leadership qualities.
- iv. An entrepreneur should be bold and courageous.
- v. He/she should have vision and foresight.

Question: 26

Write short note on the following:

Types of capital

Solution

Capital can be classified into the following categories:

- i. On the basis of ownership:
 - a. **Private capital** - It is owned by private individuals or institutes.
 - b. **Public capital** - It is owned by the government or a society.
- ii. On the basis of mobility:
 - a. **Sunk capital** - It is the capital which is used only for a specific purpose. For instance, washing machines, which are used only for the specific purpose

of washing clothes.

b. **Floating capital** - It is the capital which is used for a variety of purposes. For example - electricity.

iii. On the basis of nature:

a. **Real capital** - It is the capital which is used in the production of other goods. For example, capital assets like buildings, machinery, raw materials etc.

b. **Money capital** - It is the capital which is in the form of money. This capital is used to purchase real capital.

iv. On the basis of durability:

a. **Fixed capital** - It refers to the capital which is used in the process of production repeatedly.

b. **Working capital** - It refers to the capital which is used in the process of production only once.

Question: 27

Answer the following question.

What are the peculiarities of land?

Solution

Land refers to the earth's surface. According to Dr. Alfred Marshall, land also includes water, air, heat, light, coal, gold etc.

The following are some of the features of land:

i. **Free gift of nature** - All the resources which form a part of land are given to mankind as free gifts of nature.

ii. **Inelastic supply** - The endowment or supply of land is fixed and cannot be increased by human efforts.

iii. **Derived demand** - Land is used in the production of goods meant for final consumption. Since it cannot be directly consumed for the satisfaction of human wants, it is said to have a derived demand.

iv. **Zero mobility** - Land is fixed. It cannot be moved from one place to the other. Thus, land is said to be immobile.

v. **Homogenous** - Land is homogenous in the sense that it differs in terms of its quality. Accordingly, the rent differs from one land to another.

vi. **Derived demand** - The demand for land is derived demand because it depends on the demand for the goods and services in the production of which it will be used.

Question: 28

Answer the following question.

What are the features of labour?

Solution

Labour refers to the people who actually use the land and capital to produce goods. In other words, it is the exertion by the human body and mind, with the objective of earning a living.

The following are some of the features of labour:

- i. **Inseparable from the labourer** - Labour cannot be separated from the labourer. For labour to occur, a labourer is required. This labourer is the individual who will do the work and get remunerated in return.
- ii. **Perishable in nature** - Labour is considered perishable in nature because, if the labourer (worker) is absent for a day, that day's labour (exertion) is gone forever and cannot be brought back.
- iii. **Inelastic supply** - The working population of a country consists of individuals between the age group of 15-59. Therefore, at least in the short run, this pool of working people cannot be increased. As a result, supply of labour becomes inelastic.
- iv. **Restricted mobility** - Certain factors like family problems, the geographical location, climatic conditions etc. often restrict the free flow of labour from one place to another.
- v. **Active factor of production** - Unlike other factors, labour has feelings. It is the labour that makes the other factors productive. In this regard labour is said to be the active factor of production.

Question: 29

Answer the following question.

What are the features of capital?

Solution

Capital includes all the capital goods or assets used in production. These assets are used by the labour to produce goods.

The following are some of the features of capital:

- i. **Artificial factor** - Capital cannot produce goods on its own and therefore, is regarded as an artificial factor of production.
- ii. **Derived demand** - Capital is used in the production of goods meant for final consumption. It cannot be consumed directly. Therefore, it is said to have a derived demand.
- iii. **Highly mobile** - Capital includes machinery, raw materials etc. which can be easily transferred from one place to the other and from one occupation to the other.

- iv. **Elastic supply** - The amount of capital can be increased at any time as per the requirement and availability of funds.
- v. **Durable**- Capital is durable in nature in the sense that it can be used again and again in the production process.

Question: 30

State with reason whether you agree or disagree with the following statement.
Profit is a reward for bearing risk only.

Solution

No, the above statement is only partially correct. This is because profits act as a reward for the entrepreneur for performing tasks such as production activities, organising, controlling the activities related to production and distribution, as well as bearing the risk of failure of the business.

Question: 31

State with reason whether you agree or disagree with the following statement.
Labour is a perishable factor of production.

Solution

Yes, the statement given above is correct. This is because labour refers to the people who actually use the land and capital to produce goods. It refers to the exertion by the human body and mind with the objective of earning a living. It is considered to be perishable in nature because, if the labourer (worker) is absent for a day, that day's labour (exertion) is gone forever and cannot be brought back.

Question: 32

State with reason whether you agree or disagree with the following statement.
All risks are insurable.

Solution

No, the above statement is not true. This is because insurable risk refers to the risks which are insured by insurance companies. For instance, risks against fire, risks against sea perils etc. While, there are some risks which cannot be insured. These include risks arising out of a change in government policies, changes in the demand for a product etc. Hence, all risks are not insurable.

Question: 33

State with reason whether you agree or disagree with the following statement.
Supply of land is fixed.

Solution

Yes, the above statement is correct. Land refers to the earth's surface. According to Dr. Alfred Marshall, land also includes water, air, heat, light, coal, gold etc. All these resources are given to mankind as free gifts of nature. Since the endowment or supply of land is fixed, and cannot be increased by human effort, we can conclude that supply of land is fixed.

Question: 33

Answer in detail

Entrepreneur is the 'captain of an industry', explain.

Solution

An entrepreneur is a person who undertakes the task of production, organises tasks, controls the activities related to production, undertakes the distribution activities as well and also bears the risk of failure of the business. He is often regarded as the captain of an industry as, like a captain, the entrepreneur co-ordinates all the tasks related to production and distribution. Moreover, like a captain, an entrepreneur possesses the following characteristics.

- i. **Efficient** - An entrepreneur is an intelligent individual. He is efficient in handling the day to day problems arising in business. An entrepreneur is a problem solver. He has the most efficient solution to any problem and does not let the problem come in the way of achieving a goal.
- ii. **Organiser** - An entrepreneur has the ability to combine all the factors of production in an organised manner. Also, he is good in co-ordinating activities.
- iii. **Leadership** - He can be regarded as a good leader as he has the skills to give directions to different factors of production. He also aims at finding the right people for the right job.
- iv. **Bold and courageous** - An entrepreneur is bold and courageous as he faces difficulties with courage. He works with full confidence. He is aware of his strengths and weaknesses.
- v. **Vision and foresight** - He has the vision and foresight and knows how to lead a team. With his vision, he can foresee the future and accordingly take the action required.
- vi. **Innovator** - An entrepreneur is an innovator in the sense that he introduces a new combination of the means of production. This combination of the means of production can be done by introducing new products, new techniques, a new market, new sources of raw materials etc.

Question: 34

Answer in detail

Explain in detail the functions of an entrepreneur.

Solution

An entrepreneur basically performs three important functions. These functions are:

- i. Organising Function
- ii. Bearing risks and uncertainty
- iii. Innovative function

i. **Organising** - An entrepreneur aligns the activities in a certain order. That is, he designs the roles and directs the people towards accomplishment of organisational goals. Also, under this function, human efforts (labour), along with the resources (land and capital), are brought together and co-ordinated. Besides this, it also includes making payment to the factors of production, supervising the activities of the factors of production; and making decisions about what to produce, how to produce etc.

ii. **Bearing risks and uncertainty** - An entrepreneur performs the function of bearing the risks in the business. Every business is subject to variety of risks, such as the risk of failure of the business, risk of loss due to uncertain events etc. Some of these risks are insurable, while some are non-insurable. The insurable risks include the risk of death, risk of burglary, risk of fire etc. On the other hand, risks arising out of a change in government policies, changes in the demand for a product etc. are a part of the non-insurable risks.

iii. **Innovative functions** - An entrepreneur, in addition to performing the organising and risk bearing functions, also undertakes activities related to innovation. He is an innovator in the sense that he introduces a new combination of the means of production. This combination of the means of production can be done by introducing new products, new techniques, a new market, new sources of raw materials etc.