Standard: SS6E7 a, b, c, d Essential Question: How do the 4 factors of production affect how companies produce goods and services?

Four Factors of Production

Background Reading: Let's remember the three basic economic questions that all economic systems must answer:

- What to produce?
- How to produce?
- For whom to produce?

After a business decides what to make, they have to decide how to make it. They have to consider all of the things that they will need to produce the product and these are called the factors of production. There are four major factors of production in an economy: natural resources,human capital, capital goods, and entrepreneurship.

Natural resources are the raw materials from nature that a company may use to produce its goods and services such as oil, iron ore, timber, and water. **Human capital** refers to the resources of the workers who produce a good or service. It includes people's health, strength, education, motivation, and skills. **Capital goods** are the man-made things used in production: buildings, equipment, roads, dams, tools, and machinery are examples. Finally, **entrepreneurship** is a special kind of human capital that represents the characteristics of people who assume the risk of developing new ideas and starting new businesses to produce goods and provide services. Businesses must decide how much money they can spend on each factor of production in order to produce their products because they probably can't afford unlimited amounts of all four factors.

Background Reading Questions:

1. What are the 3 basic economic questions? Which economic question do the four factors of production answer?

2. Write your own definitions for the four factors of production:

    1) Natural Resources:
    2) Human Capital:
    3) Capital Goods:
    4) Entrepreneurship:

3. Why can't businesses afford all of the factors of production all of the time?

"Factors of Production" Sorting:

The factors of production refer to any resources needed to provide a good or service to consumers in an economy. Below you will find some of the factors of production that go into providing the service of education in our county. Read each item and decide which of the four factors of production it would be classified as:

NR = Natural Resources
HC = Human Capital
CG = Capital Goods
E= Entrepreneurship

1. School ________
2. Tax Money ________
3. Books _________
4. Cafeteria food ________
5. Media Center ________
6. Teachers __________
7. Principal __________
8. Paper _____________
9. Winner of the science fair __________
10. Athletic Fields ___________
11. Desks ________
12. Dry Erase Boards _________
13. Buses _________
14. Lake where the rowing team practices _________
15. Gas __________
16. Custodians __________
17. Students ____________
18. Superintendent _________
19. Computers __________
20. Asst. Principals _____

"Factors of Production" Multiple Choice Practice:

Choose the multiple choice answer that is correct.

1. A new office building would be an example of which factor of production?
a. Entrepreneurship
b. Capital Goods
c. Natural Resources
d. Human Capital

2. A trained automobile mechanic would be an example of:
a. Capital Goods
b. Entrepreneurship
c. Human Capital
d. Natural Resources

3. Ray Kroc, the founder of the fast-food chain McDonald's, would be an example of this factor of production:
a. Capital Goods
b. Human Capital
c. Entrepreneurship
d. Natural Resources

4. A deposit of coal is an example of which factor of production?
a. Human Capital
b. Entrepreneurship
c. Capital Goods
d. Natural Resources

5. A loaf of bread used to make bread pudding at a restaurant is an example of:
a. Human Capital
b. Natural Resources
c. Capital Goods
d. Entrepreneurship

"Factors of Production" Fairy Tales:

For this activity, you will be assigned a fairy tale to read that has something to do with the factors of production. You will answer the questions for your fairy tale and fill out the Factors of Production chart. You will then teach about your fairy tale to another student.

The Three Little Pigs

1. What was the product being produced by the pigs?

2. Was there a difference in how the product was produced for each pig? If so, what?

Production Resource Chart

	Product?	Natural Resources	Human Capital	Capital Goods	Entrepreneurship
Pig #1					
Pig #2					
Pig #3					
Big Bad Wolf					

Jack and the Beanstalk

1. What was the product that Jack had at the beginning of the tale? What factor of production did he receive after his trade?

2. Why was Jack able to become so rich by the end of the tale?

Production Resource Chart

	Product?	Natural Resources	Human Capital	Capital Goods	Entrepreneurship
Mother					
Jack					
Giant					
Giant's Wife					