

Factors Of Production

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What are 'Factors Of Production'

Factors of production is an economic term that describes the inputs that are used in the production of goods or services in order to make an economic profit. The factors of production include land, labor, capital and entrepreneurship. These production factors are also known as management, machines, materials and labor, and knowledge has recently been talked about as a potential new factor of production.

Loading the player...

BREAKING DOWN 'Factors Of Production'

Factors of production include any resource needed for the creation of a good or service. At the core, land, labor, capital and entrepreneurship encompass all of the inputs needed to produce a good or service. Land represents all natural resources, such as timber and gold, used in the production of a good. Labor includes all of the work that laborers and workers perform at all levels of an organization, except for the entrepreneur. The **entrepreneur** is the individual who takes an idea and attempts to make an **economic profit** from it by combining all other factors of production. The entrepreneur also takes on all of the risks and rewards of the business. Capital is made up of all of the tools and machinery used to produce a good or service.

An Encompassing Example of the Four Factors of Production



Often times, a good or service uses each one of the four factors of production in the generation of its output. If, for example, a young technology developer senses the need to create a new social media tool, in this case, Facebook. He becomes an entrepreneur when he assumes the risk of the idea's success or failure. Mark Zuckerberg allocates his hour toward this new venture, and by coding the minimum viable product himself, he is the only factor of production.

The product begins to take shape, and the young entrepreneur soon realizes that he needs help building the product, and along with co-founder Eduardo Saverin, goes out to recruit additional employees. He hires two people, an engineer (Dustin Moskovitz) and a spokesperson (Chris Hughes), who both allocate hours to the project, meaning that each one of the hours they invest becomes a factor of production. Zuckerberg also decides that they'll need to rent server space to continue developing the product, and charges 10,000 users \$85 a month, and the cash that's invested also becomes a factor of production.

At first, there is no need for land. However, as the business continues to grow, the product becomes very reliant on server space, which is needed to make the product function. Zuckerberg decides to use his own money to increase the rented server space. Eventually, Facebook needs their own data center to meet growing demand, and since the servers are made from silicone and take up warehouse space, and they become the final factor of production.

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Entrepreneur

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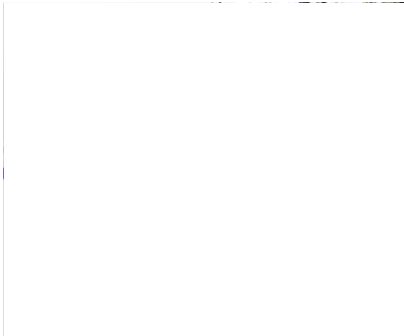
An entrepreneur is an individual who, rather than working as an employee, founds and runs a small business, assuming all the risks and rewards of the venture. The entrepreneur is commonly seen as an innovator, a source of new ideas, goods, services and business/or procedures.

Entrepreneurs play a key role in any economy. These are the people who have the skills and initiative necessary to anticipate current and future needs and bring good new ideas to market. Entrepreneurs who prove to be successful in taking on the risks of a startup are rewarded with profits, fame and continued growth opportunities. Those who fail suffer losses and become less prevalent in the markets.

BREAKING DOWN 'Entrepreneur'

Entrepreneurship is one of the resources economists categorize as integral to production, the other and capital. An entrepreneur combines the first three of

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