

Factors of production

Factors of production

The term factors of [production](#) relates to the key factors that go into making goods. It is common practice to break these down under a number of headings:

Land Refers to physical land and other natural resources, e.g. the land that a building is constructed on, oil that is extracted from under the sea, under the land, forests, and fish reserves. Providers of land receive rent.

Labour

Refers to physical and mental effort - e.g. stacking shelves in a supermarket, or calculating the final accounts of a company. Providers of labour receive wages.

Capital

Exists at two levels. First of all we have financial capital. But more importantly, this is used to purchase physical capital that goes into making other things. Physical capital consists of machinery, equipment, tools, etc. Providers of capital receive interest.

Enterprise

Is the skill of combining the other factors of production. Entrepreneurs are the risk takers that set up and run business enterprises. Entrepreneurs receive profit.

Common sense categorisation

A company like Polestar which is involved in modern printing:

- * has sites based on physical land
- * employs skilled production, sales and marketing labour
- * raises finance and uses this to purchase modern printing and packaging equipment - capital
- * the shareholders and directors take the risk of bringing the operation together, and employ directors and managers to ensure the success of the enterprise.

Although the factors of production are traditionally split up into land, labour, capital and enterprise, you can also use a common sense categorisation based on specific companies. For example, for a manufacturing company typical factors employed will be:

- * management and employees
- * raw materials
- * plant and equipment.