

# Factors of Production

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## Factors of Production

Production requires inputs. Economics classifies all the resources used in production into four categories called **factors of production**. Understanding what each factor does, how it is rewarded, and what affects its productivity is a core requirement of the CSEC syllabus.

## The Four Factors and Their Rewards

Factor	Definition	Reward
Land	All natural resources — not only the ground itself but minerals, water, forests, and the sea	Rent
Labour	Any human physical or mental effort used in production	Wages and salaries
Capital	Man-made resources used in production (machinery, buildings, tools)	Interest
Entrepreneurship	The human ability to organise the other three factors, take risks, and innovate	Profit

## Land

Land in economics means all gifts of nature — everything that exists without human effort. It includes the surface of the earth, mineral deposits, rivers, forests, fish stocks, and the sea. Its key characteristics are:

- **Fixed in total supply** — the total amount of land on earth cannot be increased (though reclamation, drainage, and fertilisation can improve its quality and usable area).
- **Geographically immobile** — land cannot be moved to where demand is greatest.
- **Heterogeneous** — different parcels differ in fertility, location, and resource endowment.

The **productivity of land** refers to the output it generates per unit — for example, tonnes of sugar cane per hectare. Productivity can be raised through irrigation, fertilisation, and drainage even though the quantity of land is fixed.

## Labour

Labour is the physical and mental effort supplied by workers. It is the only factor of production that can think and feel, which makes managing it different from managing any other input.

### Characteristics of labour:

- **Perishable** — unused labour time cannot be stored and sold later; an idle worker's time is lost forever.
- **Inseparable from the worker** — labour cannot be divorced from the person supplying it, unlike a tonne of steel.
- **Variable in quality** — education, training, experience, and motivation all affect how productive a worker is.
- **Mobile to varying degrees** — workers can change jobs (occupational mobility) and locations (geographical mobility), but family ties, housing costs, and skill mismatches create friction.

**Labour productivity** is output per unit of labour — for example, units produced per worker per day. It rises with better technology, improved skills, healthier workers, and more capital to work with.

The **supply of labour** to an industry is influenced by wage rates, working conditions, skill requirements, and the availability of workers with relevant training.

## Division of Labour and Specialisation

**Division of labour** means breaking down production into a series of separate tasks, with different workers performing each task. **Specialisation** is the concentration of workers, firms, or regions on a particular activity.

Adam Smith's pin factory example remains the classic illustration: one person drawing wire, another straightening it, another cutting, another sharpening, and so on. Each step is done by a specialist rather than every worker doing all stages.

### Advantages of division of labour:

- Workers become highly skilled at their specific task, raising output quality and speed.
- Time is saved by not switching between tasks.
- Machinery can be designed for a specific step, increasing efficiency.
- Total output rises — more goods are produced with the same number of workers.

### Disadvantages of division of labour:

- **Boredom and alienation** — repeating the same task constantly can demotivate workers and reduce quality.
- **Interdependence** — if one stage breaks down (e.g., a strike or machine failure), the whole production line halts.
- **Narrow skills** — workers become less flexible and harder to redeploy if the industry declines.
- **Loss of craftsmanship** — mass production can reduce the quality and individuality of goods.

#### Exam Tip

Questions often ask you to distinguish "division of labour" from "specialisation." Division of labour refers to breaking production into tasks; specialisation is the broader concept of concentrating on what you do best. In practice the two go together.

## Capital

Capital is any man-made resource used in the production of other goods and services. It is crucial to distinguish capital in the economic sense from money — money is not capital in itself; it becomes capital when used to purchase physical productive assets.

### Types of capital:

- **Fixed capital:** long-lasting assets used repeatedly in production — factories, machinery, vehicles, tools.
- **Working (circulating) capital:** inputs consumed in a single production cycle — raw materials, fuel, semi-finished goods.

**Capital accumulation** (investment) occurs when a firm or nation sets aside some current output instead of consuming it, and uses those resources to build up the stock of capital. The more a country invests, the greater its future productive capacity.

Capital is an important **substitute for labour**: when wages rise, firms have an incentive to replace workers with machines. Conversely, when capital becomes expensive, firms may hire more labour instead.

## Entrepreneurship

An entrepreneur is the person who combines the other three factors, makes production decisions, bears the financial risk of the business, and innovates — introducing new products, processes, or markets.

### Functions of an entrepreneur:

- Organising land, labour, and capital into a productive unit
- Making decisions about what, how, and for whom to produce
- Bearing risk — if the venture fails, the entrepreneur loses their investment
- Innovating — identifying new opportunities and finding better ways to produce

**Public vs private enterprise:** Entrepreneurs operate primarily in the **private sector**, motivated by profit. In the **public sector**, government-owned enterprises are run by managers on behalf of the state; the "entrepreneur" role is played by government, and the objective may include social welfare rather than profit alone.

## Production and Productivity

**Production** is the process of converting inputs (factors of production) into outputs (goods and services). It includes physical manufacturing, extraction, and the provision of services.

**Productivity** is output per unit of input. Labour productivity =  $\text{output} \div \text{number of workers}$ . A firm or economy is more productive if it generates more output from the same quantity of factors — this is the key to rising living standards.

## The Three Sectors of Economic Activity

All productive activity falls into one of three sectors:

Sector	Description	Caribbean examples
Primary	Extraction and harvesting of natural resources	Agriculture, fishing, mining, quarrying, forestry
Secondary	Processing and manufacturing of raw materials into finished goods	Sugar refining, rum production, garment manufacturing, construction
Tertiary	Provision of services	Tourism, banking, education, health care, retail, transport

In most Caribbean economies, the tertiary sector — especially tourism and financial services — dominates GDP, while the primary sector remains significant for employment.