PRODUCTION.

This refers to the process of transforming raw materials into finished goods to satisfy human wants.

AIMS OF PRODUCTION.

- To earn a living
- To exchange and get what others produce.
- To improve peoples welfare which in turn improve the general standards of living.
- To create utility for goods and services.

TYPES OF PRODUCTION.

Direct Production:

This refers to the type of production which involves the creation of goods and services to satisfy the producers own wants e.ggrowing crops for home consumption.

INDIRECT PRODUCTION:

This is the type of production which involves the creation of goods and services for exchange e.g. growing crops for sale.

LEVELS/STAGES OF PRODUCTION:

(i) Primary Production.

This refers to the extraction of basic raw materials in their natural form to be used for the production of goods and services;

It involves activities like mining;

Fishing

Farming

Lumbering etc.

(ii) Secondary Production.

This involves the transformation of the extracted raw materials into finished / semi finished products e.g. food processing, furniture working, construction etc.

(iii) Tertiary Production.

This refers to the level of production which deals with the creation distribution of services to final consumers. These services may be direct

e.g. services from doctors, lawyers, teachers etc and could be commercial services e.g Banking, insurance, transportation etc.

FACTORS OF PRODUCTION (AGENTS)

These refer to the resources used to facilitate the production of goods and services.

They include;

Land (Rent)

Labour (Salary) (Wage)

Capital (Interest)

Entrepreneurship (Profit).

(i) LAND.

This refers to all gifts of nature found above, below and on the surface that facilitate production to take place e.g. minerals, water, air, soils etc.

The reward / factor price for land is rent.

CHARACTERISTICS OF LAND.

- It is a free gift of nature
- It is geographically immobile and occupationally mobile.
- Its supply is fixed.
- The supply price is taken to be constant.
- Land is not homogeneous/similar i.e. it varies in terms of fertility, and value from one place to another.
- It has no opportunity cost.

IMPORTANCE OF LAND.

- It is a source of raw materials e.g stones, minerals etc.
- It facilitates the growing of crops and rearing of animals.
- Land with a title is used as a collateral security to acquire loans from financial institutions.
- It is a source of energy e.g. H.E.P from water.
- It acts as a dumping ground for waste products.

(ii) LABOUR.

The refers to any human physical or mental effort directed towards the production of goods and services. The reward for labour is wage/salary.

CHARACTERISTICS OF LABOUR.

- It is human i.e. only provided by humans.
- It is occupationally and geographically mobile.
- It has opportunity cost.
- It is costly when undergoing training.
- The reward for use of labour is wage/salary.
- Labour makes independent decisions.
- Labour effort cannot be stored for future use and it can wasted if not put in immediate use.

TYPES OF LABOUR.

- **Skilled labour.**
  This is the kind of labour which has acquired some specific skills from education and training e.g. doctors, teachers, engineers etc.

- **Unskilled labour.**
  This is the labour which is not specialized to handle specific tasks. It has not undergone any specific training and education.

- **Semi-skilled labour.**
  This is the labour that has not acquired any specific skills through education and training but has acquired some elementally education e.g. S.4 and S.6 leavers.

- **Productive labour.**
  This is human effort engaged in the production of goods and services with exchange value and its paid a wage.

- **Unproductive labour.**
  This is human effort engaged in the production of goods and services with no market value and its not paid a wage.

- **Hired labour.**
  This is the labour employed to perform a certain task in the production on certain terms.

- **Self owned labour.**
  This is labour engaged in production activities for its sake.

CONCEPTS USED IN RELATION TO LABOUR.

(i) Efficiency on labour:
This refers to the measure of quality and quantity of output that a unit of labour can produce in a given period of time.

(ii) Productivity of Labour:
The term productive means output per unit of labour increase therefore; Productivity of labour refers to the output per unit input of labour employed.

$$\text{Productivity of labour} = \frac{\text{total output}}{\text{Total number of labour}}$$

Given that 10 employees produce 150kg of sugar per month, calculate the productivity of labour.

$$\text{P.O.L} = \frac{\text{Total output}}{\text{Total number of labour}}$$

$$= \frac{150}{10} = 15 \text{ per month}$$

FACTORS THAT AFFECT THE EFFICIENCY AND PRODUCTIVITY OF LABOUR.

- The level of education and training: The higher the level of education and training the higher the efficiency and productivity and the lower the level of education and training the lower the efficiency and productivity of labour.

- The level of wages: High wages and non-military benefits such as accommodation, transport and medical care increases the productivity and efficiency of labour while low wages and lack of non military benefits reduces the efficiency and productivity of labour.
- The working conditions of labour; At a place of work, good working conditions e.g. good relations with employers increases the efficiency and productivity of labour while poor working conditions reduces the efficiency and productivity of labour.
- Health conditions of labour; labour which is physically strong and health tends to more efficient and productive than labour which is physically weak and unhealthy.
- Opportunities of promote: labour with high hopes of being promoted tends to be more efficient and productive than labour with limited hopes of promotion.
- The level of technology; labour that employs advanced and modern technology tends to be more qualitative than labour that employs poor and elementally technology.
- The working experience; labour with more skills due to long working experience tends to be more efficient and productive than labour with limited skills or no experience at all.
- The attitudes of workers towards management and work; workers with a positive attitude towards work and management tend to be more efficient and productive than workers with negative attitude towards work.
- The degree of specialization and division of labour; The higher the degree of specialization and division of labour, the higher the efficiency and productivity of labour and vice versa.
- Availability of corporate factors; in production that work hand in hand with labour where some factors like capital, entrepreneur are available labour is more efficient and productive and where corporate factors are limited labour tends to be inefficient.
- Political climate; A stable climate makes labour more efficient and productive while unstable climate makes labour less efficient and unproductive.
- The level of inventions and innovations; High levels of inventions and innovations increase effiency and productivity of labour coz it leads to new technique of production while low levels of inventions and innovation reduce the quality of labour co2 it doesnot enable the discovery of new techniques of labour.

LABOUR SUPPLY AND SUPPLY OF LABOUR.

Labour supply refers to the number of labourers / workers within a given labour force who are willing and able to provide labour at a given wage rate and at a given period of time.

Supply of labour refers to the no of hours that a given worker is willing to offer at a given wage rate and at a given period of time e.g 3 hours per day.

Labour force refers to the economically active persons of the total population between ages 16-65 who are able to supply labour excluding full time house, wives, full time students and economically inactive groups of people physically.

DETERMINATS OF LABOUR SUPPLY (LABOUR FORCE)

- Size of the population, ceteris paribus, a high population size leads to a high labour force and supply while a low population size leads to a low labour force and supply.
- Population structure in terms of age and six; the population that comprises mostly of the young and old people leads to low labour force and low labour supply while population which mainly comprises of men and energetic youth leads to high labour supply.
- Period of education and training; A long period of education and training reduces labourforce while a short period of education and training increases the labourforce.
- Working conditions; Good working conditions attract more labourers than poor working conditions.
- Wage rate: High wages attract more labour supply and no wages
- Attitude of labour towards a particular job; positive attitude increases labour supply while a negative attitude towards a particular job e.g. toilet cleaning, reduces labour supply.
- Mobility of labour; High mobility of labour leads to high labour supply while low mobility of labour leads to low labour supply.
- Political climate, A stable political climate increases labour supply while unstable political climate reduces the labour supply.
- Government policy of retirement age; High retirement age increases labour supply while low retirement age reduces labour supply.

- Nature of the job; unpleasant and risky jobs such as mining donot attract more labour supply unlike pleasant and non risky jobs that attract labour supply.

DEMAND FOR LABOUR.

This refers to the number of labourers that an employer is willing to employ and retain in employment at a given wage rate and in a given period of time.

DETERMINANTS OF DEMAND FOR LABOUR.

- Productivity of labour: The higher the productivity of labour, the higher the demand for labour and the lower the productivity of labour, the lower the demand for labour.
- Demand for products produced by labour; Demand for labour is derived demand hence it is demanded to produce a given product therefore if the demand for the product produced for labour is high the demand for labour is also high and vice versa.
- The degree of substitution of labour; if labour can be easily substituted by other factors of production like capital its demand lowers and if labour cannot be easily substituted by other factors its demand increases.
- Level of wages paid to labour.
  The higher the wages paid to labour the lower the demand for labour and the lower the wages the higher the demand for labour and vice versa.
- The scale of production: The higher the scale of production the higher the demand for labour since production is on a large scale and more workers are needed and where the scale of production is small then few workers are needed leading to low demand for labour.
- Availability of coperant factors of production where the other factors such as land a readily available the demand for labour increases since it is needed to combine the existing factors of production to produce goods and services and when they are not available the demand for labour is low.
- The proportion of labour costs to total costs of production where the proportion of labour costs to total costs is high demand for labour reduces and where it is low the demand for labour increases.
- The degree of specialization and division of labour: Specialisation increases the demand for specialists while division of labour increases the demand for different workers at different stages therefore the higher the degree of

specialization and division of labour, the higher the demand for labour and vice versa.

SPECIALISATION AND DEVISION OF LABOUR.

Specialization:

This refers to the situation where an individual, firm or country concentrate on the production of what it can do best leave the rest to others and get what it cannot produce through exchange. On the other hand division of labour refers to the breaking down of the production process into different stages of activities such that each stage of activity is performed as an individual or group of individuals according to their abilities/talents.

TYPES OF SPECIALISATION.

(i) Specialization by craft.

This is where each group of people family concentrates on the production of a particular craft/activity on which they can do best e.g. farming, hunting etc.

(ii) Specialization by process.

This is where each and every stage is carried out by different individuals in the production process.

(iii) Regional Specialization.

This is where each region concentrates on what can produce best and exchange on what it cannot produce.

(iv) International Specialization.

This is where each country concentrates on production of a commodity what it can do best and get the rest through exchange in international trade.

FACTORS THAT DETERMINE SPECIALISATION AND DIVISION OF LABOUR.

- **Size of the Market:** A narrow size of the market requires commodities to be produced in smaller quantities hence lowering specialization while large size of the market requires commodities to be produced in large quantities hence increasing specialization.

- **Size of raw materials.** Limited raw materials discourage increased production of some commodities which limits specialization while adequate raw materials encourage increased production there by encouraging specialization.
- **The size of the labour force and capital.** A narrow size of labour force and capital makes it difficult to carryout specialization co2 it doesnot encourage production on large scale while wide size of labour force and capital make it easy to carryout specialization coz it encourage production on large scale.
- **The nature of some commodities.** There are some commodities which by nature do not require specialization during their production especially when produced by the subsistence sector e.g. beans grown for own consumption and there other commodities which by nature requires specialization during their production especially when produced on a large scale.
- **The nature of some commodities.** There are some commodities which by nature do not require specialization during their production especially when produced by the subsistence sector e.g. beans grown for own consumption and there other commodities which by nature requires specialization during their production especially when produced on a large scale.

LIMITATIONS:

- A narrow market size.
- A narrow labour force.
- Large subsistence sector.
- Inadequate raw materials.

FACTORS THAT FAVOUR SPECIALISATION.

- Adequate raw materials.
- Wide market size
- Small subsistence sector
- A wide labour force.

ADVANTAGES OF SPECIALISATION.

- It saves time since an individual does not need to more from one stage to another.
- It increases the efficiency of labour which leads to the production of more goods and services.

- It improves on the skills of workers coz of repeating the same task over and over hence gain more skills.
- It encourages production on a large scale which in turn makes the firm to enjoy the economies of scale (advantage of large scale production).
- It improves on the working relations between different groups of people coz it is associated with interdependence amongst workers.
- It reduces fatigue and physical strain on the part of the workers. This is coz each individual is allocated a particular task to perform.
- It increases job opportunities coz it involves different people to carryout different tasks hence reducing unemployment.
- Regional and international specialization allows countries to engage in international trade which encourages exploitation of idle resources and the associated advantage of international trade.
- It minimizes the costs of supervision of labour. This allows the employer to easily estimate the cost of production.
- It leads to increased innovations and inventions leading to discovery of new production techniques. This is coz labour concentrates on doing the same task over and over which may lead to discovery of new production techniques and new improved methods of production.

DISADVANTAGES/DEMERITS:

- It leads to monotony of work repeating the same task over and over becomes boarding and monotonous which may under develop one's intelligence and my lead to gossiping.
- It creates economy of collective responsibility. There is no particular worker/individual to be blamed in the production process.
- There is a possibility of unemployment. This is so if labour is highly specialized and if there is a change in demand and the production process is stopped making it difficult for this labour to secure another goal.
- It leads to over production of goods and services since it encourages production on a large scale which may lead to wastage of resources.
- It creates a problem of interdependence such that if a certain group of workers goes on strike/is absent the whole production process comes to a stand still.
- International specialization leads to over exploitation of natural resources in order to meet the demands of international market which in turn results into depletion/exhaustion of some resources.

- It leads to shortage of labour supply in certain fields of the economy since it hinders occupational mobility of labour.
- There is no flexibility in production since labour and capital are specialized in performing certain tasks.

ENTERPRENEUR/ORGANISATION.

This refers to a special factor of production whose duty is to initiate and finance the production process in line of organizing, controlling and directing. He is a risk bearer whose reward is profit.

FUNCTIONS OF AN ENTREPRENUER.

- He is the coordinator of the production process and therefore can be called a manager.
- He is the supervisor who under takes the organization of other F.O.P
- He is the decision maker during the production process.
- He employs and rewards other F.O.P e.g. Labour.
- He is an innovator i.e he is responsible for the economic progress of the business by discovering new and better techniques of production.
- He is also responsible for the marketing of products of the firm in modern economics.
- He is an intermidiator between the demands of the consumers and the available resources.
- He is a risk bearer who invests his funds/money into the business and earns profits.

ROLES OF AN ENTERPRENUER.

- To make decisions during the production process.
- To bear risks.
- To employ and reward other factors of production.
- To supervise other factors of production.
- To intermediate between the demands of the consumers of the products and the available resources.

FACTORS DETERMINING THE LEVEL OF ENTREPRENEURSHIP IN AN ECONOMY.

- Levels of education and training: Higher levels of education increase the level of skills leading to high entrepreneurship levels and vice versa.
- Government policy towards the development of skilled labour. When the government encourages the training of man power, the level of entrepreneurship increases and when the government policy towards. Training of man power, the level of entrepreneurship in low.
- Market size. A narrow Market size discourages investments leading to low supply of entrepreneurs while a big market size encourages investments leading to high supply of entrepreneurs.
- The level of development of social economics infrastructures; well developed social economic infrastructures like, good roads and communication network, steady power supply, encourage investment leading to high supply of entrepreneurs while poorly developed economic infrastructures discourage investment leading to low supply of entrepreneurs.
- The political climate: A stable political climate encourages investment leading to high supply of entrepreneurs while unstable political climate discourage investment leading to low supply of entrepreneurs.
- The level of social cultural factors where the cultural beliefs are beneficial and directed towards hard work the supply of entrepreneurs is high/ increases and where the social cultural beliefs are primitive and discourage hard work the supply of entrepreneurs is low.

1. (a) Define an entrepreneur?
   (b) Explain the functions of an entrepreneur in an economy.
   (c) Given any 2 roles of an entrepreneur.
   (d) Account for the low levels of entrepreneurs in your country.

CAPITAL.

This refers to any man made stock/physical assets accumulated by an individual for the production of other goods and services. Its reward is interest.

CHARACTERISTICS OF CAPITAL.

- It is man made
- It has got money value.
- It is accumulated over time.

- Sometimes it is geographically mobile.
- It depreciates over time.

TYPES OF CAPITAL.

1. **Human Capital.**
   This refers to the skills and knowledge that an individual possesses which can be acquired through education for further production of goods and services.

2. **Physical capital/fixed capital.**
   This refers to all fixed assets which are man-made and used in more production of goods and services e.g. machines, land etc.

3. **Normal / equity / money capital:**
   This refers to any money invested in business for further production of goods and services.

4. **Social / overhead capital.**
   This refers to the physical assets that are accumulated and collectively used by the society to provide more goods and services e.g community schools, hospital etc.

5. **Private capital.**
   This refers to the physical assets / stock owned and used by private individuals in the production of more goods and services e.g. private schools, hospitals etc.

6. **Foreign capital.**
   This refers to the capital that is owned by foreigners in an economy of a particular country e.g. capital owned by MTN, foreign commercial banks (Stanbic Bank), Orange, Airtel.

7. **Running / working / circulating capital.**
   This refers to the physical assets/cash balances that are used in day to day running of the business.

ROLE/IMPORTANCE OF CAPITAL IN ECONOMIC DEVELOPMENT.

- It leads to increased output. This is coz it simplifies and quickers the production process e.g. computer, machines etc.
- It increases the productivity of labour. A worker who employs capital in form of machines in more efficient and productive than one who doesn't.
- It promotes specialization with its associated advantages in its production process coz it encourages production on large scale which enables specialization to take place.
- It facilitates lending and borrowing. Capital inform of physical assets can be used as equilateral security to acquire loans for further production.
- It facilitates research. This is more so with money and liquid capital which is used to fund research. That is essential for economic development coz it leads to the discovery of new production techniques.
- It enables commercial transactions to take place which leads to economic development of the country e.g money capital facilitates payment of goods and services in international markets.
- It leads to improvement in the quality of products produced in the country because it facilitates research leading to the discovery of new and better techniques of production.
- It leads to the development of social economic infrastructures which are essential for economic development e.g. transport and communication network, water supply etc.
- It transforms the society from a backward and primitive society to a modern and commercialized economy coz it increases production.
- It facilitates the mobility of f.o.p as well as goods and services from one place to another e.g. the transfer of technology from one country to another is made passible coz of capital.
- It is used to reward other factors of production and also helps to measure the profitability of the business. This is more so with equity capital which is used to reward labour information of wages and salaries, land inform of rent and entrepreneurship inform of profits.
- It facilitates the industrialization process with its associated advantages to take place in a particular country.

CAPITAL ACCUMULATION / FORMATION.

This refers to a process of increasing / adding on the available stock of existing real capital in a given period of time.

WAYS OF CAPITAL ACCUMULATION.

- Through saving by individuals and cooperatives.
- Through taxation.
- Through borrowing internally and externally.
- Through capital inflow by private foreign investors.

FACTORS THAT DETERMINE CAPITAL ACCUMULATION IN AN ECONOMY.

Income level; High income levels lead to increased savings which lead to more investment and production hence more capital accumulation while low income levels limit savings which leads to low investments and production hence leading to low capital accumulation.

Size of the market: A narrow domestic and foreign market for produced commodities discourage investment and production leading to low capital accumulation a wide domestic and foreign market for produced commodities encourage investment and production leading to high capital accumulated.

Population growth rate: High population growth rate increases the dependence burden which reduces the level of savings and investments leading to low capital accumulated while low population growth rate reduces the dependence burden which increases savings and investment leading to increasing capital accumulation.

Existing capital stock: A small size of the existing capital stock reduces the amount of investment and production thus limiting capital account while a big size of existing capacity stock increases the amount of capital for investment and production and thus increasing capital account.

The level of capital in flow and out flow; high levels of capital out flow through profit repatriation by foreign investors and public debt servicing reduce the level of investment leading to low levels of capital account while high levels of capital inflow and low levels of out flow increase the amount of investment

funds and supplement on the savings leading to increased investments hence more output and capital account.

Time preference: This refers to the extent to which people prefer to consume their income now or save it for the future. A positive time preference implies that people prefer to consume their incomes now than saving it for the future. This reduces the level of savings and investments leading to low levels of capital account while a negative time preference is where people prefer to save their income for the future than consuming it now. This leads to increase in level of investment and production thus increase in capital account.

The investment climate; A poor investment climate characterized by high interest rates, price fluctuations, (instabilities) in the market, high taxes discourage investment thus limiting the level of capital account and vice versa.

The rate of inflation: High rates of inflation are a disincentive to savings and investment co2 people fear. Their money to lose value leading to low capital account while low rates of inflation are an incentive to savings and investments leading to more capital account.

The level of entrepreneurship where the level of entrepreneurship is low it leads to low organization of production and reduced investment leading to low capital account compared to where the level of entrepreneurship is high and helps to mobilize production leading to more capital account.

The cultural factors where cultural factors are rigid it lowers production and investment thus lowering the rate of capital account while well developed cultures that are modern favour savings and investments leading to increased production hence more capital account.

Political climate, unstable political climate discourages both domestic and foreign investment in the economy leading to low rates of production and low levels of capital account while a stable and conducive political climate encourages both savings and investments leading to high rates of capital account in an economy.

The level of accountability / rate of corruption where the rate of corruption is high in a country and low accountability, investment is discouraged leading to low capital account and where the rate of corruption is low and there is a high degree of accountability production and investment are encouraged leading to high rates of capital account.

The techniques of production/state of technology; Advanced techniques of production encourage production of more goods and services leading to high rates of capital account while poor state of technology / poor production techniques discourage production of more goods and services leading to low levels of capital account.

Level of savings: High levels of savings lead to increased investments and production thus high rates of capital account while low levels of savings lead to reduced investments and production thus low levels of capital account.

Level of interest rates on loans/savings: High interest rates on borrowed funds discourage production and investment leading to low capital account while low interest rates on loans encourage borrowing, production and investment leading to high rates of capital account.

The level of infrastructural development: High levels of infrastructural development e.g. well developed loads, good power supply etc encourage production and investment leading to high rates of capital account while low levels of infrastructural development discourage production and investment leading to low rates of capital account.

SPECIFICITY OF THE FACTORS OF PRODUCTION.

This refers to the extent to which a f.o.p can perform a particular duty during the production process. F.o.p can be categorized into two i.e.

a) **Specific factors of production:**
   These are f.o.p which are highly specialized and designed to perform a specific job during the production process and they cannot be changed from the intended function to another e.g. highly specialized labour.

b) Non specific factors of production.
   These are f.o.p that are not specialized and can be easily changed from one function to another during the production process e.g. unskilled labour.

FACTOR MOBILITY AND FACTOR IMMOBILITY.

Factor mobility refers to the ability of a f.o.p to move from one geographical place to another / from one occupation to another. Factor mobility can therefore be categorized into two i.e.

a) **Geographical factor mobility.**
   This refers to the ability of a f.o.p to move from one geographical place to another.

b) **Occupational factor mobility.**
   This refers to the ability of a f.o.p to move from one job to another.

Factor immobility refer to the inability of f.o.p to move from one occupation to another / from one geographical area to another.

It is categorized into two i.e:

a) **Occupational factor immobility.**
   This refers to the inability of f.o.p to move from one occupation to another.

b) **Geographical factor immobility.**
   This refers to the inability of f.o.p to move from one geographical area to another.

LABOUR MOBILITY.

This refers to the ability / extent to which labour can move from one geographical area to another/from one occupation to another.

It is categorized into two i.e.

a) **Geographical mobility of labour.**
   It refers to the ability of labour to more from one geographical area to another.

Factors influencing Geographical Mobility of Labour.

- Transport costs; how transport costs encourage and make it easier for labour to move from one place to another and vice versa.
- Climatic conditions: Unfavourable climatic conditions in a current geographical area encourage labour mobility to other places while favourable climatic conditions at a current geographical area discourage labour mobility.
- Level of wages: Labour in places with low wages tend to be geographically mobile while labour in areas with high wages tend to be geographically immobile.
- Government policy regarding labour mobility: When the government discourage movement of labour through restrictions such as migration, laws, enforcing work permits labour tends to be geographically immobile and where the government encourages the movement of labour, labour tends to be geographically mobile.
- Level of education: Labour with limited education tends to be geographically immobile while labour with high level of education tends to be geographically mobile.
- Knowledge about job opportunities elsewhere; labour with most knowledge of job opportunities elsewhere tends to be geographically mobile while labour with limited knowledge of job opportunities elsewhere tends to be geographically immobile.
- Age of labour. The older the age the lower the geographical mobility of labour and the young the age the higher the geographical mobility of labour.
- Labour attachment to the family: Labour with source attachment to the family and social values tends to be geographically immobile while labour with limited source attachment to the family and social values tends to be geographically mobile.

- Cost of living: High costs of living in the current geographical area encourage mobility of labour to other places to where the cost of living is low and vice versa.
- Language barrier: Labour that suffers front language barrier tends to be geographically mobile than labour that knows many languages.
- Love for adventure: Labour that has got more love for adventure tends to be geographically mobile while labour that has got limited love for adventure tends to be geographically immobile.
- Political climate, labour tends to be geographically mobile from place that are politically unstable than places that are politically stable.

FACTORS THAT ENCOURAGE GEOGRAPHICAL MOBILITY OF LABOUR.

- Low transport costs.
- Poor climatic conditions in the current place.
- More love for adventure.
- High costs of living in the current place of work.
- High knowledge of job opportunities elsewhere.
- Political instability in the current area.
- Lack of attachment to the family and society.
- Low wages in the current place.
- Favourable government policy on mobility of labour.

GEOGRAPHICAL IMMOBILITY OF LABOUR.

This refers to the inability of labour to move from one geographical area to another.

CAUSES OF GEOGRAPHICAL IMMOBILITY OF LABOUR/LIMITATIONS/ BARRIERS TO GEOGRAPHICAL IMMOBILITY OF LABOUR.

- High transport costs.
- Low costs of living in the current place of work
- Favourable climatic conditions.
- Low love for adventure.
- Low knowledge of job opportunities.
- Unfavourable government policy on mobility of labour.
- High wages in the current place.
- Political stability in the current place.
- More attachment to the family.

- Low levels of education.
- Old age of labour.

OCCUPATIONAL MOBILITY OF LABOUR.

This refers to the ability of labour to move from one occupation to another.
It takes two forms:

a) Vertical occupational mobility of labour.
   This is where labour moves from one job to another with a change in status e.g. from being a teacher to a member of parliament.

b) Horizontal occupational mobility of labour.
   This is where labour moves from one job to another without change in status.

FACTORS THAT DETERMINE OCCUPATIONAL MOBILITY OF LABOUR.

- Degree of specialization, labour which is highly specialized tends to be more specific hence it is occupationally immobile while labour that is not specialized tends to be occupationally mobile.

- Level of education: labour with limited skills tends to be occupationally immobile since it is not trained to perform different tasks while labour with more skills tends to be occupationally mobile.

- The period of training required for the new job: The longer the period of training, the lower the mobility of labour and the shorter the training, the mobility of labour and the shorter the training, the higher the mobility of labour.

- The working conditions at the current job. Poor working conditions at the current job encourage occupational mobility of labour while good working conditions characterized by allowances discourage occupational mobility of labour.

- The working conditions at the current job. Poor working conditions at the current job encourage occupational mobility of labour while good working conditions characterized by allowances discourage occupational mobility of labour.

- The level of attachment to social values: High levels to social values like social responsibilities may make labour occupationally immobile than when labour has low levels of attachment to social values.

- Level of restrictions by professional associations: A high degree of restrictions by entry certification required makes labour occur immobile while low levels of restrictions and entry certification makes labour occur mobile.

- Level of wage and other fring benefits: High wages in the current occupation and other fring benefits makes labour occur immobile while low wages in the current occupation and no fring benefits makes labour occur mobile.

- Social status/……..: High need for status in the current occupation makes labour occupationally immobile while low need for status in the current occupation encourages occupational mobility of labour.

FACTORS THAT ENCOURAGE OCCUPATIONAL MOBILITY OF LABOUR.

- Poor working conditions in the current job.
- High levels of education.
- Short period of training required for the new job.
- Wide knowledge abt job opportunities elsewhere.
- Low degree of specialization.
- Low levels of attachment to social values.
- Low levels of restrictions by professional associations.
- Low wages and no fringe benefits in the current job.
- Low needs of status.

OCCUPATIONAL IMMOBILITY OF LABOUR:

This is the inability of labour to move from one occupation to another.

CAUSES OF OCCUPATIONAL IMMOBILITY OF LABOUR (BORNERS).

- High degree of specialization.
- Low level of education.
- Long period of training required for the new job.
- Limited knowledge of job opportunities elsewhere.

- Good working conditions at the current job.
- High levels of attachment to social values.
- High levels of restrictions by professional associations.
- High wages and other fringe benefits at the current job.
- High need for status at the current occupation.
- High costs of training required for the new job.

WAYS OF REDUCING LABOUR IMMOBILITY.

- Provision of adequate information abt existing jobs.
- Fighting corruption in the labour market through anti-corruption rules.
- Education and training of labour to improve on the skills of labour.
- Creation of a stable political climate in the different parts of the country
- Adaptation of favourable government policies that encourage mobility of labour (Abolishing work permits).
- Reduction on transport costs to encourage geographical mobility of labour
- Minimizing the activities of professional associations and entry requirements to certain occupation.

ADVANTAGES OF LABOUR MOBILITY:

- It reduces on the level of unemployment and under employment.
- It enables labour to move from low paying jobs to high paying jobs hence enabling even distribution of income.
- It discourages over exploitation of workers e.g. under payment of labour. This is coz labour has got an opportunity to move to well paid jobs.
- It enables labour to acquire new skills in the new places/occupations.
- It overcomes the problem of shortages/surplus of labour in certain places/sectors.
- It permits competition in the labour market leading to high quality output.
- It promotes optimum resource utilization due to the availability of labour.
- It promotes balanced regional development by encouraging movement of labour from one geographical place to another.

DISADVANTAGES OF LABOUR MOBILITY.

- It encourages brain drain leading to loss of skilled labour.

N.B:

Brain drain is the movement of skilled labour from one country to another in search for better paying jobs.

- Frequent occupational mobility of labour doesn't allow labour to gain experience and skills in certain occupations.
- It becomes difficult for labour to organize, itself into a strong trade union or labour organization to bargain for better working conditions and higher wages.

N.B: Trade union is the labour organization which bargains for better working conditions, fights for unfair dismissal and bargains for higher wages for its members e.g. UNATU.

FACTOR PRICING.

This refers to the payments/rewards made to the f.o.p for the services they render during the production process.

Factor prices can be broken down according to the respective factor of production as explained below.

a) Profits refer to the reward for entrepreneurship for undertaking business/production.

FUNCTIONS/ROLES OF PROFITS.

- They encourage resource allocation as resources move from areas of low profits to areas of high profits.
- They encourage risks undertaken by the firms during the production process.
- They are used for innovations and invention by facilitating research. This leads to the discovery of new techniques of production leading to improvement in quality and quantity of production.
- They are given out inform of loans to other firms/individuals/nations
- Surplus profits are used for re-investment by firms/produces which increases on the production capacity in the economy. This is referred to as ploughing back of profits.
- They act as a source of government revenue when the government imposes a profit tax on the owner's of the business firms.
- They are used to reward other f.o.p e.g. wages/salaries for labour.
- They act as a measure of performance for a particular production firm in the economy.

b) Wages/salaries for labour.

A wage is the amount of money paid to labour at a time during which labour is at the employee's disposal e.g per week per hour, per day, normally it is pard depending on the price of work done and it is capable of changing.

Salary refers to a fixed periodic payment made to labour during a particular period of time.

Fee refers to payment for professional services rendered by labour e.g. school fees, medical etc.

A fine is a compulsory payment aimed at curbing a vice.

A tax is a compulsory non-qui-proquo payment made to the state by individuals or firms.

c) Interest for capital.

It refers to the payment / reward to capital as a f.o.p. It takes various forms i.e. gross interest and compound interest.

Gross interest refers to the payment which a borrower of capital makes to the lender including the principal loan i.e. gross interest – principal loan + interest.

WHY GROSS INTEREST IS PAID.

It is a reward for risks undertaking by the lender.
It is a reward for inconveniences to the lender for foregoing the use of his money for some time.
It is a reward for management coz the lender has to incur expenditure for keeping the records of the borrower.
Compound interest refers to the final amount paid by the borrower to the lender minus the principle loan i.e. compound interest = amount – principle loan.

NET/PRE INTEREST.

This is a payment for the use of capital only. In other wards it is a rewards the lender remains with after dedicating all his efforts into the business subtracting the inconveniences, risk undertakings from gross interest hence it is the true interest hence it is the true interest.

DETERMINANTS OF RATE OF INTEREST.

- The period of loan payment: the longer the period the higher the interest rate and the shorter the period of loan payment the lower the interest rate.
- The demand for loanable capital: the higher the demand for investment capital the higher the interest rate and the lower the demand the lower the interest rate.
- The economic climate: A stable economic climate with stable prices attracts low interest rates and promotes lending and borrowing while unstable – economic climate characterized by inflation attracts high interest rates and discourages lending in the economy.

- The amount of investment capital available: The higher the amount of loanable capital the lower the interest rates and the lower the amount of loanable capital available the higher the interest rates.
- The amount of capital borrowed: The higher the amount the higher the interest rate and the lower the amount the lower the interest rate.

DETERMINANTS OF THE SIZE OF ECONOMIC RENT.

- Level of supply of the f.o.p, where supply is high economic rent is low and where supply of a factor is low the economic rent is high.
- The level of demand of a f.o.p: High level of demand for a factor of production makes its economic rent to be high since potential users would be competing for such a factor and vice versa.
- Degree of specificity of the f.o.p: The higher the degree of specificity the higher the economic rent and the lower the degree of specificity the lower the economic rent.
- Degree of substitutability: Where the F.O.P can be easily substituted its economic rent is low and if it cannot be easily substituted then its economic rent is high.
- The degree of elasticity of supply of a f.o.p: Elastic supply of the factor means low level of economic rent while inelastic supply means high level of economic rent.
- Elasticity of demand for a f.o.p: inelastic demand of a factor means high level of economic rent while elastic demand of a f.o.p means low level of economic rent.

SUBSISTENCE PRODUCTION VERSUS COMMERCIAL PRODUCTION.

Subsistence production refers to the production of goods and services for the producer's own consumption.

CHARACTERISTICS OF SUBSISTANCE PRODUCTION.

- It mainly involves use of simple/elementally tools.
- There is mostly low productivity.
- There is mainly use of family labour.
- Exchange is usually limited i.e. Barter trade system.
- There is production of poor quality products.
- Production is dominated by self satisfaction motive but not profit.
- There is existence of law of diminishing returns.
- There is limited capital for investment.

ADVANTAGES OF SUBSISTANCE PRODUCTION.

- It provides food for home consumption.
- It is cheap i.e. requires limited capital base and usually use simple tools like panga, hoes etc.
- It is a source of employment to the lower people.
- It is flexible i.e. it can easily change from one activity to another.
- Management is simple and cheap because it usually employs family labour.
- It is not inflationally since there is no use of money as a medium of exchange.
- It contributes to national output / national income though it contributes a small percentage.

DISADVANTAGES OF SUBSISTANCE PRODUCTION.

- It results into production of poor quality products coz there is use of simple tools.
- It is associated with low output levels hence low level of income leading to low standards of living.
- It leads to under utilization of resources especially land and labour which leads to under development.
- It is associated with high levels of under employment and unemployment of labour and other resources.
- It retards the level of economic growth and development in an economy.
- It results into limited specialization and trade.
- It leads to limited innovation and invention due to limited resource leading to technological backwardness.

COMMERCIAL PRODUCTION.

It refers to the production of goods and services for exchange.

CHARACTERISTICS OF COMMERCIAL PRODUCTION.

- There is use of scientific modern techniques of production e.g. use of fertilizers.
- Money is used as a medium of exchange.
- Its profit oriented.
- Specialization and division of labour is common.
- Production is usually on large scale and aimed at satisfying the needs of the market.
- There is usually high capital investment.

- There is high level of productivity i.e. input output ratio is high.

ADVANTAGES OF COMMERCIAL PRODUCTION.

- It results into the production of high quality output.
- It promotes specialistation and exchange with all its associated advantages.
- It widens the tax base of the economy leading to more government revenue.
- It promotes research which lead to technological progress and development.
- It offers more employment opportunities to a large section of the population.
- It promotes optimum/full utilization of resources.
- It promotes the development of social economic infrastructures such as roads, network storage facilities, financial institutions etc.
- It is associated with high level of output and income for the people which lead to improved standards of living.
- It promotes production for export market leading to increased foreign exchange earnings hence improvement in Balance of payments position of the country.

DISADVANTAGES OF COMMERCIAL PRODUCTION.

- It is profit oriented and this results into over exploitation of resources.
- It is also costly or expensive because it requires a lot of capital.
- It emphasizes production for market at the expense of home consumption and eventually people may suffer from food shortages.
- It leads to resource wastage especially when output is not demanded.
- It requires a lot of skilled labour which is not readily available in developing countries.
- It is associated with inflationary problems because it involves the use of money as a medium of exchange.

LOCATION AND LOCALISATION OF FIRMS AND INDUSTRIES

LOCATION OF AN INDUSTRY/FIRM.

This refers to the establishment of an industry in an area.

FACTORS THAT INFLUENCE THE LOCATION OF AN INDUSTRY.

- Availability of raw materials; Business firms which particularly use bulky raw materials tend to be located near the source of raw materials while those

that use light raw materials tend to be located far away from the area of raw materials.

- Availability of market of market: Business enterprises dealing in perishable/fragile products tend to be located near the market for those products such that it provide direct service while business enterprises which deal in products which are light, durable tend to be located far away from the market.
- Availability of capital, entrepreneurs tend to establish / set up industries when they have accumulated enough capital inform of liquidity and other fixed assets.
- Availability of power like H.E.P: Some firms use too much power hence must be located in an area where there is abundant supply of power.
- Availability of good transport and communication system: This enables easy transport of goods from areas of production to where they are consumed. A poor transport and communication system hinders the smooth running of business firms.
- Political climate: Business firms tend to be located in areas that are politically stable while unstable political climate / instabilities hinder the location of firms in that area.
- Political climate: Business firms tend to be located in areas that are politically stable while unstable political climate/instabilities hinder the location of firms in that area.
- Availability of water: Some industries use water as a raw material hence must be located near the source of water e.g firms/industries which produce soft drinks must be located near a water source.
- The entrepreneur's choice: Entrepreneurs tend to set up firms in areas of their choice co2 of their own self motives.
- Availability of labour: Business firms tend to be loated in areas where there is availability of labour i.e. skilled and unskilled labour.
- Industrial inertia; This refers to the tendence of industries to be located or remain located in an area even when the original location advantages are nolonger sufficient/exist.
- Government policy on the location of firms: The government may influence the location of a firm and at the same time the government may discourage the allocation of industries therefore areas favoured by government policies may have high industries compare to those that it doesn't favour.

1.(a) Explain the factors that influence the location of a firm in an area.
(b) Under what conditions may the government influence the location of a firm increase.
2.(a) Explain the factors that hinder the location of a firm.
(b) Explain the determinants of the size of a firm.

1 (b)

- To reduce income inequality and their associated disadvantages between people.
- To create employment opportunities.
- To attain equitable distribution of resources so as to ensure balanced development of different regions of the country.
- To minimize the costs/disadvantages of localization of firms.
- To win the political support from a particular area.

LOCALISATION OF INDUSTRIES.

This refers to the concentration of many industries/firms in an area.

ADVANTATES OF LOCALIZATION

- It promotes specialization which brings about efficiency and increased output like some firms may specialize in production of intermediate products.
- It leads to easy provision of social capital: Localisation of industries make it easier and cheaper for the government to provide social infrastructures like roads, hospitals etc.
- It promotes competition among different firms leading to efficiency of production of better quality products.
- It becomes easy and cheap for different firms to carryout joint research calling for further development.
- It results into urbanization which help on breaking traditionalism hence modernizing the economy.
- It leads to low costs for establishing new firms within an area because most of the required facilities are in place.
- It results into provision of employment opportunities to the masses around.

- It enables firms to enjoy external economies of scale like information concerning the trend of demand and supply.
- It results into attraction of other commercial services like banks, insurance etc

DISADVANTAGES OF LOCALISATION OF FIRMS.

- It creates regional imbalances where by localized areas tend to develop at the expenses.
- It leads to rural – urban migration and its disadvantages e.g. development of slums.
- It causes unnecessary competition between firms or industries within the localized areas leading to resource wastage through duplication of resources and persuasive advertisement.
- It encourages production on a large scale hence firms experience diseconomies of scale.
- It increases the demand for goods and services leading to persistent increase in prices of goods and services in an area (Inflation)
- It results into great losses incase of any calamity like fire, floods.
- It creates social problems/costs to the community within the localized area e.g. pollution, traffic etc.

DE-LOCALISATION OF FIRMS OR INDUSTRIES.

This refers to the deliberate policy of establishing industries in areas which donot have many/few industries.

OR

This is the deliberate government policy of transferring industries from areas of industrialization to other areas.

ADVANTAGES:

- It promotes equitable industrial development in the whole economy hence reducing regional imbalances and its associated probs.
- It is a tool for fighting rural urban migration and its associated probs because it promotes even distribution of industries in the whole economy.
- It helps to reduce income inequality among citizens by providing job opportunities to different pupil in different areas.
- It helps the government in power to win the political support.
- It is used to check on social problems/costs of localization of industries like traffic jam, slums and others.

DISADVANTAGES OF DELOCALISATION OF FIRMS.

- It leads to high production costs when industries are scattered.
- It limits the economic benefits of localization of industries in a particular area.
- It is associated with high costs by the government to close down the industries where they have been located and transferring them to areas where they are few.
- It limits social interaction and among people from different regions.

GUIDING QUESTIONS:

1.(a) Define the term location of an industry.
(b) Explain the factors influencing location of an industry in an area.

2. Distinguish between the following;
(a) Location and delocalization of industries.
(b) Localisation of industries and delocalization of firms.
(c) What are the pros and cons of localized industries.

3. Explain the reasons that may influence the government to delocalize the industries in an area.

THE THEORY OF A FIRM.

A firm refers to the smallest business unit under unified management and control which employs factors of production to produce goods and services with an aim of making profits.

An industry refers to a group of firms engaged in the production of similar or related commodities.

There are different types of industries which derive their names from the products they produce or from the services they render.

TYPES OF INDUSTRIES:

i) Rooted Industries.

These are industries which must be located near the source of raw materials to reduce on the costs of production e.g cement industries at Hima and Tororo, sugar industries at Kakira and Lugazi etc.

ii) Tied industries.
These are industries tied/that must be located near the market for their finished products coz they need ready market e.g. diary industries in urban areas, etc.

iii) Foot loose industries.
These are industries which can be located any where without affecting the costs of production e.g.

iv) Weight gaining industries.
These are industries whose finished products become bulky after processing hence they tend to be located near the market for their products e.g ship building industries.

v) Weight reducing industries.
These are industries whole products because light after processing hence they tend to be located near the source of raw materials so as to reduce on transport costs.

N.B:

- A plant refers to an industry including its set of machinery that is used to produce goods and services e.g. coca cola plant in Mbarara, Coca cola plant in Namanvi.

AIMS OF THE FIRM.

- Profit maximization. This is normally the major aim of the firm which is attained when the firm is producing at equilibrium level of output i.e. where marginal cost is equal to marginal revenue.
- Sales maximization. Some firms aim at producing more output so as to maximize their sales.
- Market share. Some firms aim at increasing their market share so as to out compete others e.g. by restricting entry of other firms.

- Long run survival. Some firms aim at remaining in a particular business for a long period of time and to achieve this the firms tend to be sufficient to avoid being out competed.
- To provide essential commodities. This is mainly done by the government firms.
- To attain national interest and pride. Some firms aim at achieving public interests / prestige and catering for national interests like creating more job opportunities to people.

THE SIZE OF A FIRM.

The refers to the level of output of a firm. Firms may be small scale or large scale depending on the level of output.

FACTORS THAT DETERMINE THE SIZE OF THE FIRM.

- The market size; the bigger the size of the market, the larger the size and growth of the firm and vice versa.
- The level of output: The higher the level of output, the larger the size of a firm and vice versa.
- The location of the firm, firms which are located in places with limited room for expansion remains small in size coz their growth is limited while firms which are located in places with efficient room for expansion grow and become larger.
- Entrepreneur's motive, some business owners fear to employ other people hence they keep their firms on a small scale e.g sole traders prefer to have their firms small while those entrepreneurs who are willing to employ other people expand their firms and have them as large size firms.
- Management of the firm: Poor and inefficient management/fear of employing complicated management hinders the growth of firms and size and they remain small while good and efficient management of the firm lead to rapid expansion of the firm making it big.
- Level of availability of capital: Firms with large amounts of capital from investment do expand and become large in size while firms with small amounts of capital from investment do remain small in size.
- Availability of skilled labour: Presence of highly skilled labour employed by the firm leads to its growth and expansion while scarcity of skilled labour limits the growth and expansion of the firm.

- Nature of the commodity produced by the firm: Some firms by their nature can be run / operated efficient when they are small in size hence they do not expand e.g beauty saloons because they provide direct services and need personal contact between owners and clients.
- Government policy towards expansion of firms: When the government policy are against the growth of firms e.g when the government over taxes large scale firms through subsidization it discourages growth and expansion due to fear of heavy taxes. When the government offers subsidies to producers they are encouraged and become large in size.
- Possibility of production of new goods: Firms which have got higher possibilities of producing new goods do grow and become large in size compared to firms that have limited possibilities of producing new commodities.
- State of the available infrastructures: We developed social economic infrastructures e.g. well developed banking institutions, good roads etc encourage the growth of firms into large size compare to poorly developed infrastructures characterized by poor roads, poor banking institutions, etc discourage the growth and expansion of firms.
- Possibility of merging, where such possibilities exist firms tend to grow and become large in size that where merging is restricted.
- Amount of raw materials: Firms which have access to enough raw materials do expand and become large in size than firms which have limited access to raw materials.
- Age of the firm: Some firms are limited in their growth and remain small in size coz they are still infant firms while others lend to grow and become large due to having taken a long period of time in the production process.
- Political climate: A stable political climate encourage the growth of firms coz it encourages production of more goods and services while unstable political climate characterized by civil wars and political not hinders the growth and production of the firm making them remain small.

THE GROWTH PROCESS OF A FIRM.

Firms grow in size externally and internally through various ways as explained below:

Internal growth: Through selling of shares to raise more capital like for the case of limited companies.
Through borrowing from financial institutions hence raising more capital for investment.
Through ploughing back of profits i.e re-investing of profits in the business this is also referred to as natural growth of a firm.

Through takeover. This is where the firms expand by buying assets of other firms and making the firm whose assets are bought through losing its identity.

Through merging/integration: This is where firms expand in size by combining with other firms and creating a new firm.

NOTE:
CONGLO MARATE MERGING/INTERGRATION.
This refers to the merging of firms that produce commodities that are not related at all. It normally arises when the firm realizes that a market of its products they are about to decline hence it diversify with another field e.g. a tobacco firm changing to that of Ggarette.

LATERAL MERGING:
This is where 2 or more firms that produce related products which do not compete for the same market to intergrate e.g a firm which produce agricultural machinery intergrate with that producing tractors.

HORIZONIAL MERGING.
This refers to the merging of firms that are at the same stage of production in the same firm. The major aim is to enjoy the economies of scale.

VERTICAL MERGING.
Refers to the merging of firms at different stages of production but in the same industry. It takes different forms i.e.

1. Forward vertical margin.
   This is where firms at lower stage of production merge with one another at a higher stage but within a same industry with the aim of acquiring market for its products e.g. oil refineries can merge with patronizations.

2. Backward vertical merging.
   This is where a firm at a higher stage of production intergrate with another at a lower stage of production but within the same industry e.g. sugarcane producing firms merge with sugar cane growers.

REASONS FOR BACKWARD VERTICAL MERGING.

- To ensure steady supply of raw materials to facilitate quality and quantity of goods and services.
- To reduce unnecessary competition which may reduce resource wastage. This may be done by creating monopoly over control of raw materials.

LIMITATIONS OF MERGING.

- Fear of losing market potential: Films which operate or independent bodies can compete favourably which may lead to improvement on the quality of the products so as to capture a good market (Fine market) which is not possible when firms merge.
- Fear of unemployment problem: When firms merge, some members of management become unemployed hence the fear of unemployment makes it difficult for the firm to merge.
- Difference in aims objectives of the firm: Different firms have different objectives hence one firm may be aiming at profit maximization while other firms may be aiming at profit maximization while other firms may be aiming at sales maximization. This makes it difficult for such firms to merge.
- Difference in the field of specialization: Firms deal in unrelated fields (commodities) required different fields of specialization which makes it difficult for such firms to merge.
- Fear of employing highly skilled labour: When firms merge, they operate on large scale and this require highly skilled workers which may not be easily available hence limiting the merging of such firms.
- Fear of high taxes on a single firm: When firms merge they normally operate on large scale which attract high taxes from the government limiting merging of such firms to fore go heavy taxes.
- Fear of complications in Management: Some firms fear complemented management characterized by bureaucratic tendencies where many offices have to be consulted before a decision is made.

- Fear of failing to achieving the optimum level of production: The optimum level of production may not be achieved due to increased costs of production faced by large scale firms after merging hence the fear of not achieving the optimal level makes it difficult for the firms to merge.
- Fear of under taking high risks: Bexoz firms that have merged operate and produce on large scale in case of any calamity inform of fire, floods etc it cause huge losses hence limiting merging of the firms.
- Long distances between firm: This increases the costs of production and slows down the procedure of merging.
- Fear of losing independence enjoyed by small scale firms: firms may fail to merge coz they fear to lose independence in decision making after they have merged.
- Fear of government policy against merging (the margers policy) on (Integrated policy). This is a deliberate government policy to prevent firms from merging hence fear of such firms to merge.

REASONS FOR MERGING OF FIRMS.

- To promote efficiency in the production of goods and services through sharing technology.
- To attain monopoly power so as to set higher prices for better profits.
- To reduce the average costs of production by reducing competition between merging firms.
- To reduce unnecessary duplication of activities so as to minimize wastage of resources.
- To diversify production activities so as to attract more buyers.
- To enjoy the economies of sale by increasing output.
- To reduce costs of research and technological development by undertaking research jointly.
- To improve access to loan capital coz of the large volume of assets accumulated.

ADVANTAGES OF MERGING OF FIRMS.

- It promotes efficiency in production of goods and services through sharing technology.
- It reduces costs of production by reducing competition between merging firms.

- It reduces unnecessary duplication of activities which would have led to wastage of resources.
- It diversifies production activities attracting more buyers.
- It improves access to loan capital.
- It reduces the costs of research and technological development
- It enables the firm enjoy the economies of scale.
- There is sharing of risks among firms.

DISADVANTAGES OF MERGING OF FIRMS.

- It reduces independence of each firm.
- It creates unemployment in the short run.
- It creates monopoly powers and the associated dangers.
- It leads to over exploitation of resources.
- Weak and inefficient firms negatively affect other firms with inefficiency.
- The new large firms suffer from diseconomies of scale.
- It may lead to over production and wastage of resources.
- It attracts higher taxes from the government especially when the government over taxes large scale firms.

DECISSION MARKING PROCESS OF A FIRM.

A firm can take short term or long term decisions.

Short term decisions.

These are decisions which are meant to be implemented within a short period of time. They include;

(i) What to produce with limited resources.
(ii) How to produce i.e. methods and technology to be employed.
(iii) When to produce.
(iv) Where to produce i.e. location of the business.
(v) How much to produce depending on the demand of a commodity and costs of production.
(vi) For whom to produce either for foreign or internal market.

LONG TERM DECISION:

Refers to the decisions of a firm which are implemented within a relatively long period of the firm e.g.

- Decisions to expand the firm
- Decisions to replace worn out capital with new capital.

- Decisions to invest.

THE PRODUCTION PLANNING PERIODS OF A FIRM.

- The very short run period.
- This refers to the period which is very short for the firm to change its output of supply i.e. the production capacity cannot be adjusted and supply is perfectly inelastic. The firm can only increase supply by drawing from the previous stock.

- The short run period.
  This is the period in which a firm can only change its output by varying only valuable factors of production e.g. labour and raw materials. In this period some factors of production are fixed and therefore cannot be changed like land, capital etc hence supply is inelastic.

  The long run period.
  This is a period which is very long such that a firm is able to increase output by changing all f.o.p and basic technology. In this period the firm is able to carryout research and improve in the methods of production and therefore supply is perfectly elastic.

  <u>THE PRODUCTION.</u>
  Refers to the technique of firm term used in production to show the technical relationship between the firm's physical input and output at a given stage of technology.
  The production function is expressed as;
  d = f(l, k, lbr, En) etc

  Where;
  f = factors of production
  l = land
  k+ = Capital
  lbr = labour
  En = Entreprenuer
  a = output.

  FACTORS DETERMING THE PRODUCTION FUNCTION

- Size of the firm
- Size of the market
- Level of technology
- Costs of production
- Political climate
- The degree of the firm's organization

INPUT-OUPUT RELATIONSHIP/CONCEPTS OF A FIRM.

1. **TOTAL PRODUCT (TP).**
   This refers to the total output produced by a firm when all the factors of production are employed in a given period of time.

2. **AVERAGE PRODUCTION.**
   Refers to the total output per unit input of the variable f.o.p employed by the firm i.e. A.P = Total out put
   Total variable inputs employed.

3. **MARGINAL PRODUCT (MP)**
   This to the extra/additional output resulting from employing an extra additional units of a variable factor employing in a given period of time.

N.B:

- Fixed factor refers to the f.o.p that donot change with the level of output of the firm e.g. land and capital equipments in the short run.
- Variable factors are the f.o.p that change with the level of output of the firm e.g. labour, raw materials.

THE RELATIONSHIP BETWEEN AP, MP & TP.

Variable factor	TP	AP	MP	AP = TP / TV MP = D TP / D TV **MP** Refers to the extra output produced by a firm as a result of
1	8	8	8	
2	20	10	12	
3	36	12	16	
4	48	12	12	
5	55	11	7	
6	60	10	5	

7	60	86	0	employing extra units of variable F.O.P in a given period of time
8	59	7.4	-1	

From the above illustration the following relationships should be observed.

- When TP is increasing MP and AP are increasing at a low level of output and both are positive.
- When TP is at maximum MP is O.
- When AP is at maximum it equals to MP.
- When TP begins to decrease MP is negative
- When they begin to decrease they lead to the law of diminishing returns.

THE LAW OF DIMINISHING MARGINAL RETURNS.
(THE LAW OF VARIABLE PROPORTION).

It states that "As more and more units of variable factors are employed onto a given quantity of a fixed factor, the marginal product first increases reaches the maximum point beyond which it diminishes.

ASSUMPTIONS OF THE LAW OF DIMINISHING MARGINAL RETURNS.

- It assumes the existence of only the f.o.p i.e. the fixed factor and the variable factor
- It assumes that all units of variable factors are homogeneous (similar)
- It assumes that the level of technology is constant.
- It assumes that the payments to the f.o.p are similar.
- It assumes that the variable factors can easily be divided into smaller units.
- It assumes that the law only operates in the short run period.

LIMITATIONS OF THE LAW/WEAKNESSES/CRITICISMS.

- The assumption of homogeneity of variable factors is unrealistic i.e the variable factor like labour cannot be the same.
- It doesn't consider the technological changes which is unrealistic coz technology keeps on changing.
- The payment to f.o.p vary from factor to factor which is ignored by the law e.g. wages and interest vary.
- The assumption of only 2 f.o.p is unrealistic co2 there are various f.o.p we work hand in hand.
- Ignores the long run situation where all f.o.p can vary.

IMPORTANCE OF THE LAW.

- It helps producers to obtain determine the optimum level of production i.e. a point of the firm i.e where M.P is at its maximum.
- It can be used to explain the marginal productivity theory of wages.

REVENUE CONCEPT OF A FIRM.

Revenue refers to funds realized by the firm from the sales of its products at various prices.

TYPES OF REVENUE:

i) Total revenue (TR)

This refers to the total sum of money which the firm realizes from the sale of its products at various prices.

Total revenue = price x quantity

OR

TR = P x Q

ii) Average revenue (AR)

This refers to the total revenue per unit output of a firm.

Average revenue = $\frac{\text{Total revenue}}{\text{Output}}$

$$AR = \frac{TR}{Q}$$

In production economics the average revenue of a firm is the same as the price i.e. AR = P

Prove that AR = P

AR = P

But $TR = \frac{P \times Q}{Q}$

$\underline{AR = P}$

iii) Marginal revenue (MR)

This refers to the extra revenue obtained from the sale of an extra unit of output of a firm.

$$MR = \frac{D\ TR}{D\ Q}$$

where

D TR = Change in total revenue

D Q = Change in output.

Qn.

Given that the initial output of 150kg, the producer realizes shs.2,000/=, when the output increases to 200kg total revenue increased to 2,500/=. Calculate marginal revenue.

$$MR = \frac{D\ TR}{D\ Q}$$

$$MR = \frac{2500 - 2000}{200 - 150}$$

$$MR = \frac{500}{}$$

50

MR = Shs.10

THE PROFIT CONCEPT OF A FIRM.

A profit of a firm is realized from the difference between total generated from the sale of output and total costs used in the production of output.

Profit = Total revenue – total cost.

DETERMINANTS OF PROFITS.

- Quantity of output sold: The lower the quantity of output sold, the lower the profits and vice versa.
- Costs incurred in the production of a given output; where the costs incurred are high the profits are low and vice versa.
- Nature of commodities produced i.e. essential/luxury commodities fetch more profits and vice versa.
- Degree of competition of firms in an industry: the higher the competition, the lower the profits and vice versa.
- Government policy of taxation and subsidization. Where the government charges low taxes and offers subsides to producers more profits are made and vice versa.
- Efficiency of firms in production: where producers are efficient more profits are realized than where producers are inefficient.

TYPES OF PROFITS.

1. **Normal Profits.**
   This refers to the reward to an entrepreneur which is just enough to cover the total costs. Where Average Profits = Average costs.

2. **Abnormal profits / super normal profits.**
   These are profits earned by the firm when its average revenue is greater, than its average costs. It normally attract new firms into industry.
   Where average profit > Average costs.

3. **Windfall profits.**

These are un expected profits realized by a firm due to capital appreciation resulting from an increase in market prices.
Capital appreciation is where there is an increase in the value of capital.

4. **Net/Pure Profits.**
   These are profits which an entrepreneur remain with as residues after subtracting all the expenses e.g. wages, salaries etc.
   They are also referred to as residue profits.
   Given the table below;

Total revenue	Total cost	Sugar output (kg)
10,000	8,500	15

Calculate the price of a kilogram of sugar.
Total revenue = Price x quantity

$$10{,}000 = P \times 15$$

$$\frac{10{,}000}{15} = \frac{15p}{15}$$

P=666.7 shs per kg of sugar.
Calculate the abnormal profits.

$$\text{Abnormal profits} = \frac{TR}{Q} - \frac{TC}{Q}$$

$$= \frac{10{,}000}{15} - \frac{8{,}500}{15}$$

$$= 666.7 - 556.7$$

= 100 shs. Per unit.

THEORY OF OSTS OF PRODUCTION.

Costs of production refer to the expenses incurred by the firm during the production process of goods and services.
For any firm to produce any quantity output if has to incur costs e.g transport costs, salaries and wages, Advertising costs, electricity.

TYPES OF COSTS.

1. Total costs (TC)

This refers to the total sum of all costs incurred by the firm during the production of output at a given period of time. It is a sum of total fixed costs and total variable costs at a given level of output therefore.
TC = Total fixed cost + Total variable costs
TC = TFC + TVC.

2. Variable costs/Prime costs/operating/running/avoidable (TVC)
   These are costs of production which change with the change in the level of output e.g costs of raw materials.
   TVC = TC – TFC

3. Fixed costs (TFC)/supplementary/over head/unavoidable/indirect costs.
   These are costs of production which do not change with the change in the level of output. Therefore where at zero level of output they have to be incurred e.g. rent.
   TFC = TC – TVC
   Study the table and answer the questions that follow.

Output	TC	TFC	TVC	AC	AVC	AFC	MC
0	300	300	0	0	0	0	
1	600	300	300	600	300	300	
2	750	300	450	375	225	150	
3	800	300	500	266.7	166.7	100	
4	900	300	600	225	150	75	

Fill the table.

$$AFC = \frac{TFC}{Q}$$

$$\frac{TVC}{Q} = AVC$$

The relationship between TC, TF, & TV

- The TC curve lies between TFC & TVC curves coz TC is the sum of TVC and TFC at any given level of output.
- The TFC curve is a straight line co2 fixed costs donot change with the change in out put.
- The TVC curve slopes upwards co2 they are know variable costs.
- The TFC curve indicates that even at zero level of output fixed costs most be incurred.

4. Average fixed cost (AFC)
   This refers to the total fixed costs per unit output of the firm i.e. the fixed costs incurred to produce each unit of output

   $$AFC = \frac{TFC}{Q} \qquad Q = \text{Output}$$

5. Average variable cost (AUC)
   The refers to the total variable costs per unit output of a firm i.e. the variable costs incurred to produce each unit of output

   $$AVC = \frac{TVC}{Q}$$

6. Average cost.
   This refers to the total cost per unit output of a firm i.e. the total costs incurred to produce each unit of output.

7. Marginal cost (MC)
   This refers to the extra costs incurred by the firm due to the extra units of output produced.

   $$MC = \frac{D\ TC}{D\ Q}$$

   $$= \frac{20000-15000}{}$$

150 – 100

$\frac{5000}{50}$

MC = 100shs.

8. Implicit costs.
   This refers to the costs of production which are not expressed with monetory terms and are not included in calculating the total costs of a firm e.g. the producer using own labour, producer using his own assets.

   a) Explicit costs.
      This refers to the costs of production which are directly incurred by a firm in monetary term and included while calculating the total costs of a firm.

9. Explicit costs.
   This refers to the costs of production which are directly incurred by a firm in monetary term and included while calculating the total costs of a firm.

10. Social costs.
    These are disadvantages which are experienced by the security as a result of the production process e.g. pollution, congestion, traffic Jam.

11. Economic costs.
    This refers to the expenses made by the producer morder to ensure the constant supply of inputs.

12. Sunk costs.
    This refers to the costs that cannot be recovered when the firm leaves the industry / production process.

    Nominal costs.
    These are costs of the firm expressed in monetary terms.

13. Opportunity costs/trade of cost/displacement cost.

This refers to the costs of alternatives foregone when a producer makes a production decision.

Exercise.

Given the table below;

0	600
3	1650
4	1860
5	2100
6	2400
7	2800
8	3400
9	4300
10	5800

Calculate;

i) The total fixed costs.
ii) The total variable costs.
iii) The average costs
iv) The average fixed costs.
v) The average variable costs.
vi) The marginal cost.

Solution:

(i) TFC = TC – TVC
TFC = TC when Q is zero
TFC = 600

TC = TFC + TVC
TVC = TC – TFC
TFC = TC – TVC

$$AFC = \frac{TFC}{Q}$$

$$AVC = \frac{TVC}{Q}$$

$$AV = \frac{TC}{Q}$$

$$ME = \frac{DTC}{DQ}$$

(ii) TVC

TVC = TC – TFC

Output	Total Cost (TC)	TFC	TVC	AC	AFC	AVC	MC
0	600	600	0	0	0	0	0
3	1650	600	1050	550	200	350	350
4	1860	600	1260	465	150	315	210
5	2100	600	1500	420	120	300	240
6	2400	600	1800	400	100	300	300
7	2800	600	2200	400	85.7	314.3	400
8	3400	600	2800	425	75	350	600
9	4300	600	3700	477.5	66.7	411.1	900
10	5800	600	5200	580	60	520	1500

TFC = TC
when Q is zero
TFC = 0

TVC when Q=O
TVC = TC – TF
= 600-600
= 0

When Q = 3
TVC = TC-TFC
= 165-600
= 1050

When Q=4
TVC=TC – 7FC
=1860-600
TVC= 1260

When Q = S
TVC = TC – TFC
=2100-600
TVC =1500

When Q=6
TVC =TC-TFC
TVC = 2400-600
TVC = 1800

When Q=7
TVC = TC-TFC
= TC-TFC
=2800-600
TVC = 2200

When Q=8
TV=TC-TFC
=3400-600
TVC=3700
When Q=10
TVC =TC-TFC
=5800-600
TVC = 5200

AC=TC
When Q-O
AC = TC / Q
=600 / 0
AC = O

When Q=3
AC =1C / Q
=1650 / 3
AC=550

When Q=4
AC = TC / Q
=1800 / 4
AC =465

When Q=5
AC=TC / Q
= 2100 / 5
AC = 420

When Q=6
AC = TC / Q
=2400 / 6
AC = 400
When Q=8
AFC = TFC / Q
=600 / 8
AFC = 75

When Q=9
AC = TC / Q
= 4300 / 9
AC=477.8

When Q=10
AC =TC / Q
=5800 / 10
AC=580

AFC = TFC / Q
When Q=0
AFC = TFC / Q
= 600 / 0
AFC = 0

AFC = 75

When Q=3
AFC = TFC
Q
600
3
AFC = 200

When Q=4
AFC =TFC
Q
=600
4
AFC=150

When Q=5
AFC=TFC
Q
=600
5
AFC = 120

When Q=6
AFC =TFC
Q
=600
6
AFC = 100

When Q=7
AFC =TFC
Q
=600
7
AFC = 85.7

When Q=8
AFC =TFC
Q
600
8

When Q=9
AFC = TFC
Q
=600
9
AFC = 66.7

When Q=10
AFC =TFC
Q
=600
10
AFC =60

AVC=TVC
Q
When Q=O
AVC =TVC
Q
= O
O
AVC = O

When Q=3
AVC=TVC
Q
=1050
3
AVC=350

When Q=4
AVC = TVC
Q
=1260
4
AVC=315

When Q=5
AVC =TVC
Q
=1500
5
AVC =300

When Q=6
AVC =TVC
Q
=1800
6
AVC = 300

When Q=7
AVC = TVC
Q
=2200
7
AVC = 314.3

When Q=8
AVC = TVC
Q
=2800
8
AVC = 350

When Q=9
AVC = TVC
Q
=3700
9
AVC =411.1

When Q=10
AVC=TVC
Q
=5200
10
AVC =520

MC =DTC
D Q
When Q=O
MC =DTC
DQ
=600-0
0
MC = 0

When Q=3
MC =1650-600
3-0
MC = 350

When Q=4
MC=1860-1650
4-3
MC=210

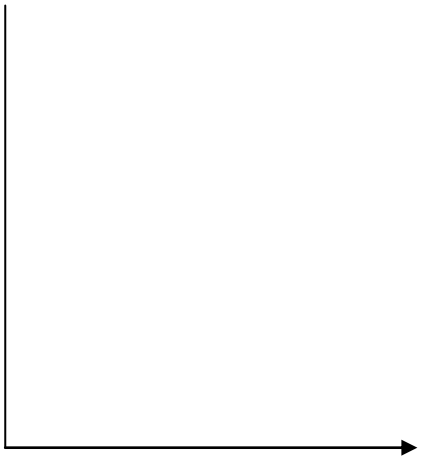
When Q=5
MC = 2100-1860
5 – 4
MC = 240

When Q=6
MC=2400-2100
6-5
MC =300

When Q=8
MC=3400-2800
8-7
MC=600

When Q=9
MC = 4300-3400
9 – 8
MC = 900

When Q = 10
MC = 5800-4300
10 - 9
MC = 1500



AVERAGE COSTS.

They tend to decrease as output increases up to an optimum point beyond we they increase leading to a U-shaped curve in the short run and in the long run. Illustration of the U-shaped average cost curve.

The optimum point is reached when a firm produces high output Q at the lowest cost C and at this point there is effective utilization of a fixed factor.

Beyond point A, costs per unit output increase coz of over utilizing the fixed factor which turns into diminishing returns.
An optimum firm refers to the firm that produces at the lowest point of the Average cost curve.

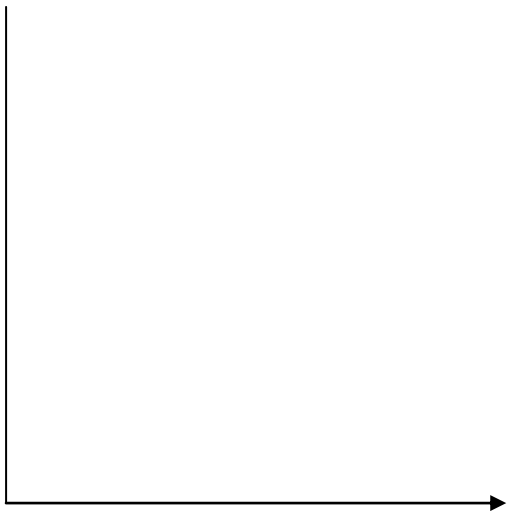
WHY THE AVERAGE COST CURVE U-SHAPED IN THE SHORT RUN.

- It is U-shaped in the short run co2 of the law of diminishing returns, where by below the optimum point there is less of the variable factor compared to the fixed factor hence returns increases as costs fall.
- At the optimum point, the valuable factor is counter balanced by the fixed factor hence returns are at maximum.
- Beyond the optimum point there is more of the variable factor compared to the fixed factor leading to diminishing returns as costs increase.

THE RELATIONSHIP BTN AC & MC.

- The MC & AC curves are U-shaped
- When AC is falling MC is also falling but below the AC.
- When AC is at its minimum it is equal to MC.
- The MC curve cuts the AC curve at its lowest point from below.
- When AC is rising the MC curve is above it.

THE RELATIONSHIP BTN AC & AVC CURVES.



The AC & AVC curves are U-Shaped in the short run coz of the law of diminishing marginal returns.
The AC curve lies above the AVC curve.
The AC curve donot reach the minimum of the same time hence AVC reaches the minimum first and AC follow.

The curve between AC & AVC tends to narrow as more output is produced co2 in the long run AVC tends to increase hence taking the largest share of the AC.

THE LONG RUN AVERAGE COST CURVE (LAC)
THE PLANNING/ENVELOP CURVE.

The long run average cost curve shows the minimum costs per unit output in the long run. It is also referred to as the planning co2 the firm uses it to change the f.o.p to effect the production process at various sizes until it gets the best size where it can produce in the long run.

It is illustrated at various points where the short run average cost curves are target to the long run average cost curve.

From the above illustration, the minimum costs of producing output Q1 is C1, Q2, is C2, Q3 is C3.

Therefore the farm is in position to plan various production costs until the best size is established where the firm incurs the lowest costs using the different average cost curves.

It is referred to as envelop curve co2 it contains a number fo short run average cost curves.

In this case the best size of output of a firm is Q3 which is produced at cost C3.

The LAC curve is U-shaped Co2 of economies and diseconomies of scale such that is the firm expands, it enjoys the economies of scale before the optimum level of output.

At the optimum level of output, economies of scale are counter balanced with diseconomies of scale hence LAC curve is neither falling nor rising.

After the optimum point, the firm experiences, diseconomies of scale hence the rising part of the LAC curve making it U-shaped.

THE EQILIBRIUM OF A FIRM AND AN INDUSTRY.

A firm is in equilibrium when maximizing profits and this is achieved at the point where the marginal revenue is equal to marginal cost. (MC=MR). At this point the firm has no tendance to chance its level of output.

An industry is in equilibrium when all the firms that constitute it are in equilibrium.

MARKET STRUCTURES.

This refers to the unique conditions / characteristics/features that influence the behavior of sellers and buyers in the particular market e.g

1. Level of profits
2. No of firms
3. Level of output etc.

TYPES OF MARKET STRUCTURES.

1. Perfect competition market structures.
2. Monopoly market structures.
3. Monopolistic market structures.
4. Oligopoly market structures.

CLASSIFICATIONS OF MARKET STRUCTURES.

Market structures can be classified using various market characteristics which include:-

- The number of producing firms (sellers): If there is only one seller/firm in the market, then it is monopoly. If there are few but large firms then its oligopoly. If there are many sellers then it is either perfect competition/monopolistic competition.
- The degree of freedom of entry into the industry: If there is free entry into and exit out of the market, there is either perfect competition / monopolistic. If the entry is limited / restricted then its oligopoly and if it is blocked then its monopoly.
- Nature of commodities produced: If the commodities are homogeneous then its either perfect competition / oligopoly and if the commodities are differentiated their its monopolistic competition.
- Degree of government interference: If there is no government interference then its perfect competition and if there is government interference then its either monopolistic / oligopoly.

- Degree of advertisement: if there is persucissive advertisement then its either inperfect oligopoly or monopolistic competition and if advertisement is limited then its either perfect oligopoly or monopoly but if there is no advertisement then its perfect completions.