THE CONCEPT OF PRODUCTION

The aim of any economic activity is to produce goods and provide services. Production is therefore the transformation of the input into the output, by means of different productive processes.

To produce any article or provide any service depends upon some factors or agents of production, also called **resources**. There are two broad types of factors of production: **human factors and non-human factors**.
The human factors consist of labour and enterprise, and the non-human factors refer to land and capital.

Labour describes the productive services, that is to say, the human physical efforts, skills and intellectual abilities.
Enterprise refers to the way in which the structural organization of production is made.
Land denotes the natural resources of the universe, such as earth, the sun, lakes, rivers, animals etc.
Capital consists mainly of finance and other resources, such as factories, means of production, roads etc.

As far as production is concerned, we distinguish two kinds: **direct production and indirect production**. The former implies that the worker produces for his own needs, whereas the latter refers to chain of productive processes. This chain can be divided into three major processes:

Primary process: deals with the extraction of raw materials: **mining**.

Secondary process: in this process, the raw materials are transformed into manufactured goods. Eg. **Car manufacturing.**

Tertiary process: in which the finished article is made available and displayed to the consumer.

1 – Answer the following questions from the text. Use your own words as much as possible.

- What is the main aim of any economic activity?
- What are the factors of production?
- What is meant by indirect production?
- What is meant by direct production?
- What are the major processes of production?

2- Say whether the following statements are true or false .

- The production of goods and the provision of services are economic activities.
- The transformation of the input into the output is not a productive process.
- Goods and services require a combination of labour, enterprise, land and capital.
- Direct production requires a chain of productive processes.
- The productive processes are not interdependent for the end product.

3- Which is true according to the text? Circle either A, B, C, or D as the correct answer.

To undertake an economic activity is:

A- To transform the output into the input.
B- To produce goods and to provide services.
C- To provide some productive processes.
D- To create factories and firms.

Production depends upon

A- Goods and services.
B- Some productive processes.
C- Land, labour, enterprise and capital.
D- The transformation of the input into the output.

Labour and enterprise are human factors because

A- They are provided by man.
B- They refer to the production of man.
C- Both of them are resources.
D- They denote the human production.

Land and capital are non-human factors because

A- They are productive services.
B- They provide the basic natural and financial support to man.
C- They do not refer to the production of man.
D- They denote the non-human production.

Direct production is different from indirect production because

A- It is more developed than indirect production.
B- The former involves a few production of man.
C- The latter does not require some factors of production.
D- The latter does not require machinery.

4- Translate the first paragraph into French.

MARKETS

In the ordinary speech, the word market means a place where people buy and sell goods such as fish, meat, fruit and vegetables. In economics a market has a more general meaning.
A market is any arrangement that enables buyers and sellers to get information and to do business with each other. An example is the market in which oil is bought and sold- the world oil market. The world oil market is not a place. It is the network of oil producers, oil users, wholesalers, and brokers who buy and sell. In the world oil market, decision makers do not meet physically. They make deals throughout the world by telephone, fax, and direct computer link.

CLASSIFICATION OF MARKETS:

- **According to the assets traded :**
  - **Physical asset markets**: (also called "**tangible**" or "**real**" asset markets) deal with products as autos, computers.
  - **Financial asset markets** : deal with stocks, bonds and other financial instruments.

- **According to maturity :**
  - **Short term** (money markets) is defined as the markets for financial assets that have original maturity of **one year or less**.
  - **Long term** (capital markets) is defined as the markets for the financial assets that have maturity of **more than one year.**

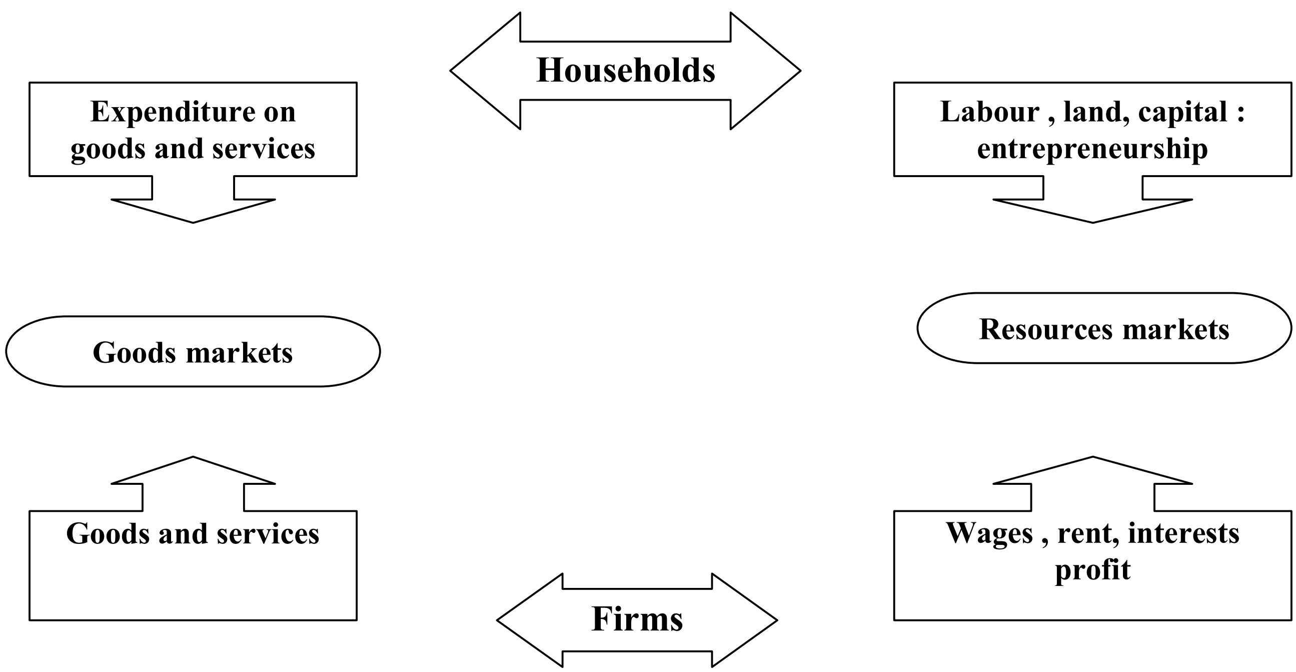
- **According to the date of transaction :**
  - **Spot markets**: it is the type of markets in which the transactions of exchange take place in the same time when the price is determined.
  - **Forward markets** (future markets) : it is the type of markets in which the price is determined now, but the counterparts of the contract will

agree to perform the transaction at some future date , such as six month or a year in the future .

Circular of flows in markets economy :

The following figure identified two types of markets : goods markets and resources markets. Goods markets are those in which goods and services are bought and sold. Resources markets are those in which resources are bought and sold.

Households decide how much of their labour, land, capital and entrepreneurship to sell or rent in resources markets.
They receive income in the form of wages, rent, interest and profit. Households also decide how to spend their incomes on goods and services produced by firms. Firms decide the quantities of recourses to hire, how to use them to produce goods and services, what goods and services to produce, and in what quantities.



Circular flows in the markets economy

DEMAND

Demand is the quantity of goods or services that customers are **willing** and **able** to purchase during a **specified period**.

In Economics, demand is the **desire** to own anything, the **ability to pay** and **willingness** to pay for it.

DIFFERENT TYPES OF DEMAND:

- **Direct Demand**: refers to demand for goods meant for final consumption, it is a demand for consumers' goods like food items, and houses.

- **Derived Demand**: refers to demand for goods which are needed for further production, it is the demand for producers' goods like industrial raw materials, machine tools and equipments.

FACTORS AFFECTING DEMAND:

1- **Price of goods** : the basic demand relationship is between potential prices of goods and the quantities that would be induce a decrease in the quantity demanded, it is a negative relationship.

2- **Price of related goods**: the principle related goods are: Substitute and Complements.

- **Substitute** goods demand is increased when the price of another product is increased.

<u>There is a direct relationship between a price change for one good and the market demand for the other.</u>

Example of substitute goods : Margarine and Butter , or Petroleum and Gas , Coca Cola and Pepsi , Tea and Coffee.

- **Complements**: goods that are jointly consumed in the market.

<u>There is an inverse relationship between a price change for one good and the market demand for the other.</u>

Example of complement goods: Cd players and Cds, computers and printers, pencils and paper.

3- **Income** : in the most cases, the more income you have the more likely you buy, so there is a positive relationship between income and demand .

4- **Tastes and Preferences**: it depends on people's behavior.

5- **Consumer expectation about future prices and incomes**:

- If consumers believe that prices of goods will be higher in the future, they are more likely to purchase the goods now.
- If the consumer expects that their income will be higher in the future the consumer may buy the goods now.
- In other words, positive expectations about future income may encourage present consumption.

DEMAND SCHEDULE:

The demand schedule shows the quantity of commodity that consumers are willing and able to buy at specific prices.

It is also a table showing the quantity of commodity that consumers are willing and able to purchase, over a given period of time at each price of the commodity, while holding constant all other variables.

DEMAND CURVE:

The demand curve represents a simple relationship, it tries to demonstrate how many items of product or service a consumer would like to purchase at different prices.

Demand curve is a relationship of price and quantity demanded and can be exhibited graphically (demand curve). This curve is generally negatively sloped.

Example :

Market Demand schedule

Price per car ($)	Quantity demanded per year (millions car)
25000	8
24000	8.5
23000	9
22000	9.5
21000	10

The demand curve for cars

SUPPLY

- **Supply** is the amount of some product producers are **willing** and **able** to sell at a given price.
- **Supply** is the amount of some product which is available to customers.
- **Supply** is the total amount of a product (goods or services) available for purchase at any specified price.

➢ Factors affecting supply (determinants):

1- The price of goods :

The basic supply relationship is between the price of goods and the quantity supplied .
The relationship is **positive** or **direct** , meaning that an increase in price will induce and increase in the quantity supplied.

2- The price of inputs :

Inputs include **land, capital, labour** and the **entrepreneurship**, if the price of inputs increases, the supply curve will shift in as sellers are less willing or able to sell goods at existing prices.
For example: If the price of electricity increased, a seller may reduce his supply because of the increased costs of production. The seller is likely to raise the price according to the rise in charges for each unit of output.

3- The Number of Producers in the Market:

As more or fewer producers enter the market, this has a direct effect on the amount of a product that producers (in general) are willing and able to sell.
More competition usually means a reduction in supply, while less competition gives the producer a chance to have a bigger market share with a larger supply.

4- Conditions of productions :

The most significant factor here is the state of technology, if there is a technological advancement in one's production, the supply increases.

5- Expectations:

Sellers' expectations concerning future market conditions can directly affect supply, if the seller believes that the demand for his products will sharply increase in the foreseeable future, the firm owners may immediately increase production in anticipation of future price increases.

6- Government policies and Regulations:

Government intervention can have a significant effect on supply. Government intervention can take many forms including environmental health, regulation, hour and wage, laws, taxes, electrical and natural gas rates, and zoning and land use regulations.

- **Supply schedule:**

A supply schedule is a **table** which shows how much one or more firms will be willing to supply at particular prices .The supply schedule shows the quantity of goods that a supplier would be willing and able to sell at specific prices under the existing circumstances.

- **Supply curve:**

The relationship of price and quantity supplied can be **exhibited graphically** as the supply curve. The curve is generally **positively sloped**. The curve depicts the relationship between two variables only: **price and quantity supplied**. All other factors affecting supply are held constant.

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INFLATION:

Inflation refers to an economic situation in which the prices of goods and services increase above the normal general price level. This phenomenon has been an increasingly important characteristic of the world economy.

Economics have distinguished two major causes of inflation **"cost push"** refers to situation which is due primarily to a rise in prices caused by increases of the cost of production .This may happen because of rising raw material prices or a wage increase in excess of productivity increase , resulting from trade union pressures .

Demand pull describes a situation which is due to an increase in the money supply, for example the purchasing power exceeds the productive capacity. This may happen because of extra incomes.
It is usual to identify two distinct types of inflation: **creeping** inflation and **galloping** inflation.

Creeping inflation refers to an inflationary situation characterized by a gradual rise in the general price level. (**2** or **3** percent per year).

Galloping inflation, as it name implies refers to an inflationary situation characterized by a fast increase in the general price level. (**25** percent per year). When prices rise rapidly, money, loses its real value and people lose confidence in the monetary system.

- **Answer the following questions from the text. Use your own words as much as possible.**

1- What is an inflationary situation?
2- What is meant by cost push?
3- What is meant by demand pull?
4- In what terms can we distinguish between creeping and galloping inflation?
5- Why do people lose confidence in the monetary system?

- ❖ **Choose A or B which is true according to the text.**

1- inflation refers to :
A – An increase in the general price level in an economy.
B- The phenomenon of increasing the costs of production of goods and services.
2- Cost push refers to a situation which could be due to:
A- An increase in the costs of raw materials.
B – Trade union pressures.
3- Demand pull describes a situation caused by an:
A- An increase in the money supply.
B- Excess in the purchasing power.
4 – Creeping inflation refers to a:
A- Slow rise in the general price level.
B- Permanent rise in the general price level.
5 – Galloping inflation refers to a:
A- Rapid rise in the general price level.
B- Temporary rise in the price level.

- ❖ **Calculate the rate of increase, the rate of inflation of the following products and say what type of inflation is it?**

	2010	2011	Rate of increase	Rate of inflation	Type of inflation
Coffee	25	36	44 %	144 %	Galloping
Petrol	2.25	2.31			
Bread	0.82	0.98			
Meat	80	100			
Sugar	1.18	1.21			

Rate of increase = $\frac{NP- FP}{FP}$
Rate of inflation = Rate of increase + 100 %.
NP: New price.
FR: Former price.