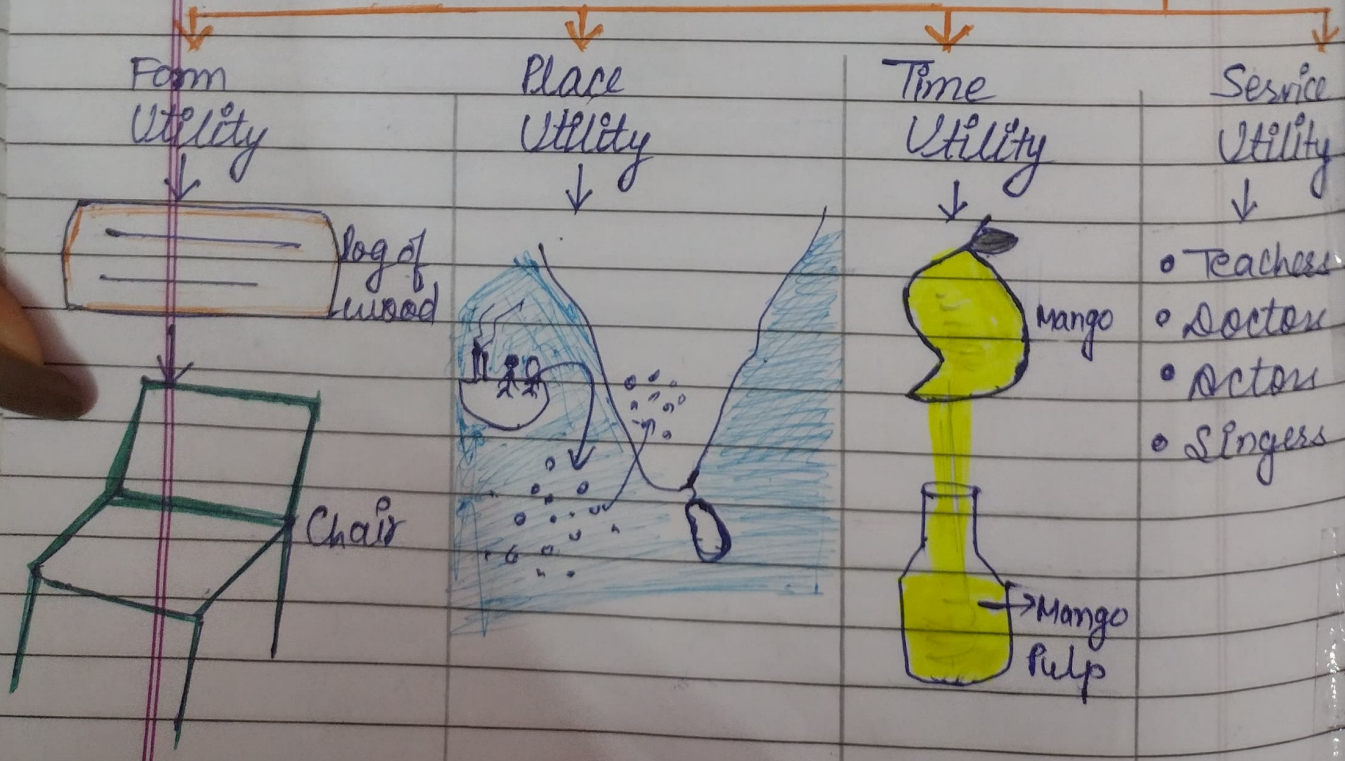
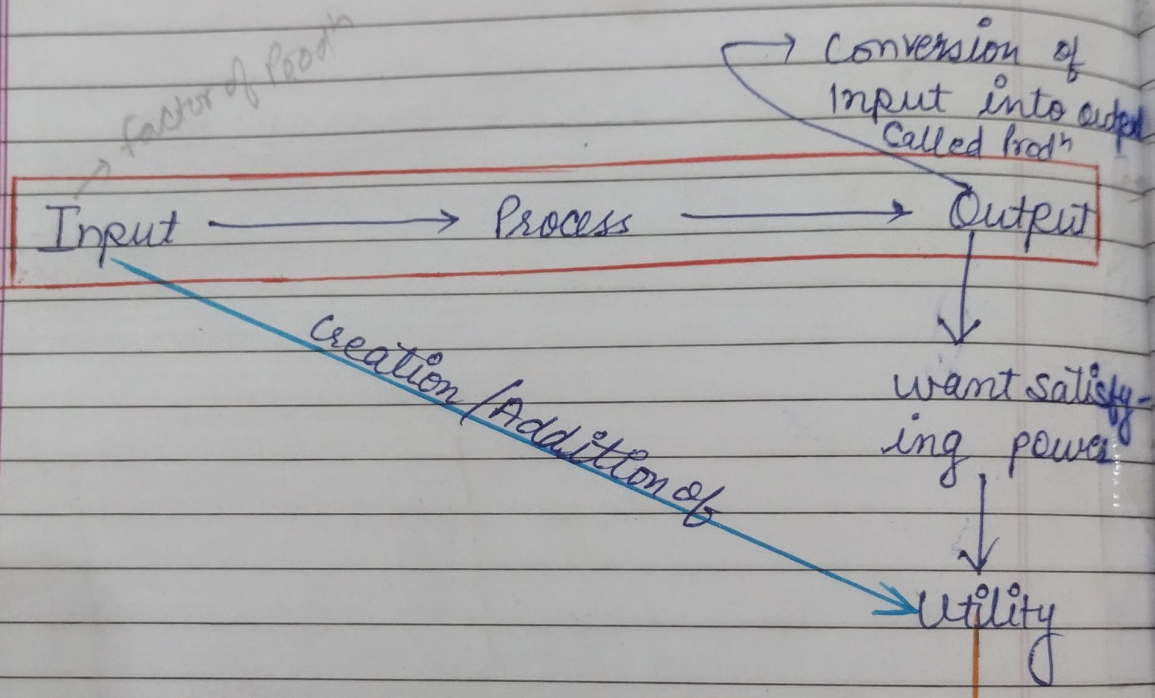


Chapter - 5

11/9/11

Chapter - 5 Theory of Production



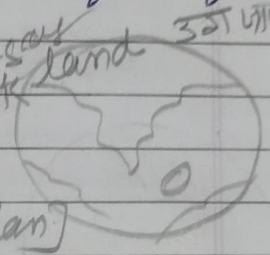
Factors of Production:-

M+lab permanent
मिडल स्पेस & अच
अचि

a) Land :- Free Gift of Nature.

(i) Anything on, above or below the surface of earth.
(ii) It has indestructible power.

(iii) Supply of land is fixed
Macro - Perfectly inelastic [we can't sell land]
Micro - Relatively elastic (for a man he can sell his land)



(iv) Land cannot be shifted from one place to another (place mobility - x).

(v) Land has occupational mobility ✓. [classroom, restaurant, malls]

(vi) Land is a Passive factor :- Land does not work on its own.

(vii) Heterogenous factor [Fertile, Infertile, red, Black, Brown] Types

(viii) Reward :- Rent; → diffⁿ types of land.

b) Labour :- Any ~~work~~ mental or physical exertion done with an intention to secure income.

(i) Labour & Labourers are different.

(ii) Labour & Labourers are inseparable.

(iii) Labour cannot be stored :- A day's Labour gone is gone forever.

(iv) Labour is highly perishable.

(v) Labour has got weak bargaining power.

(vi) Place Mobility - ✓

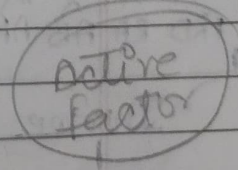
(vii) Occupational Mobility - ✓ (CEO, Auditor)

(viii) Heterogenous factor :- Skilled, Semi, Unskilled.

(ix) Exception to law of supply.

(x) Reward :- wages

(xi) All labours are not Productive.



Chapter → 5
Unit → 1

Page No.: PANKAJ
Date:

- Wealth → Stock concept
- Income → Flow Concept
- Land and labour → Primary Factor of Prodⁿ
- All capital is wealth, but all wealth is not capital

Capital: reward: Interest

Definition:-

(i) Part of wealth used for further production of wealth.

- Land X
- Building
- Car
- Gold / Silver
- Money
- Knowledge
- Shares
- Goodwill

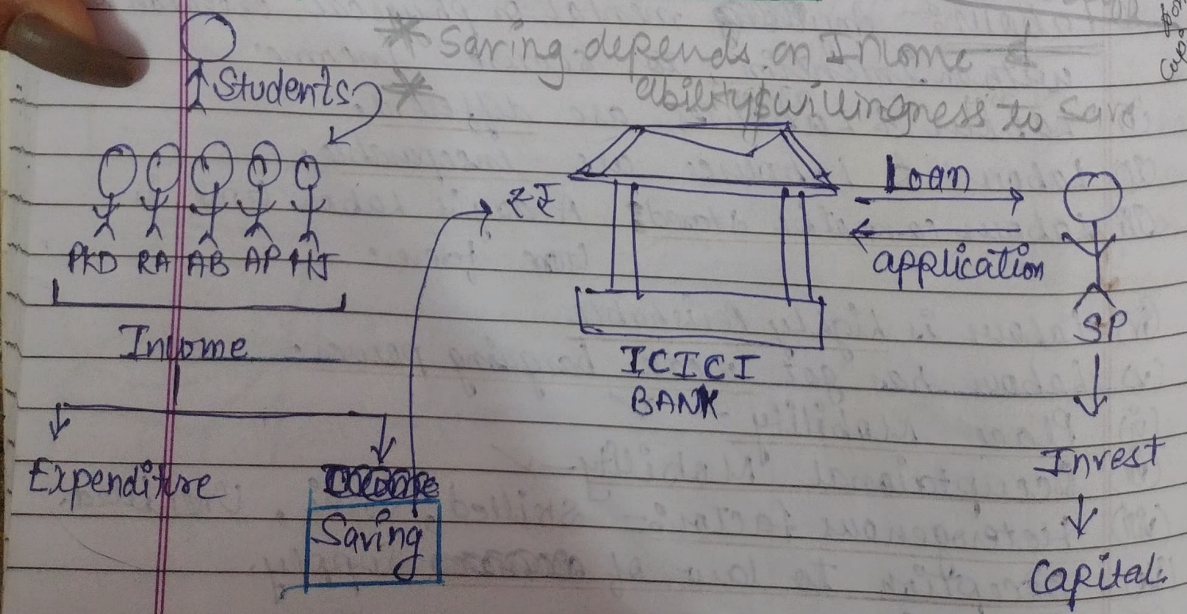
Passive factor
Place Mobility ✓
Occup Mob ✓
distribute in nature X

(ii) Produced means of production.

(iii) Man-made instruments of production.

Land & Labour are called primary or original factors of production
BC of this Land & Labour are diffⁿ

⇒ Stages of Capital formation:-



- (i)
- (ii)
- (iii)
- (iv)
- (v)
- (vi)
- (vii)
- (viii)

- (1)
- (2)

Income

- (i) Savings → Ability & willingness
- (ii) Mobilization of saving :- deposit - Banks
- (iii) Investment : Loan

⇒ Types of Capital :-

- (i) Fixed Capital [ex → laptop, car] संयोजक संपत्ति
- (ii) Circulating Capital [ex → Books, raw material] चक्र-संपत्ति
- (iii) Real Capital [ex → Laptop, Books] Physical goods
- (iv) Human Capital [ex → Harshad Jaju] Human
- (v) Tangible Capital [ex → Laptop, Books] touch, see
- (vi) Intangible Capital [ex → Goodwill, Patent] feel it
- (vii) Individual Capital [ex → Private Property]
- (viii) Social Capital [ex → Public Property]

d) Entrepreneur :- reward : Profit
 ⇒ Start Business, risk Bearer, Organise, Manage.
 ⇒ Also called Organizer, Manager, & risk taker
 ⇒ Start, & Risk taker → delegate (transfer) ✓
 ✓ delegate (transfer) ✓

⇒ Functions of Entrepreneur :-

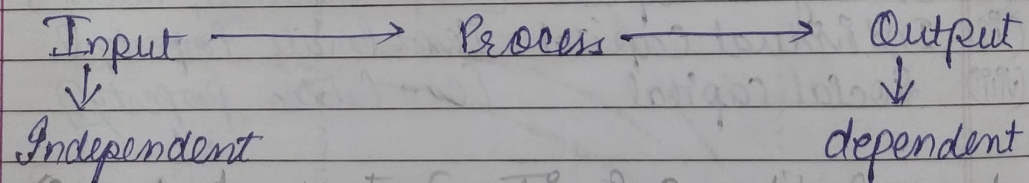
- ① start and organize :-
 - (i) Remuneration (Reward) → is not fixed
- ② Risk Bearing or Uncertainty bearing.
 - (i) Responsibility of success & survival of Business.
 - (ii) sometimes actual course ≠ Anticipated
 - (iii) economic is dynamic, ∴ Entrepreneur should also be.
 - (iv) Risks he faces → Financial → uninsured risk
 Technological
 - (v) He is rewarded for risking bearing of uninsured risks with dynamic economy as profit.

③ Innovation → New things in Business
 * Continuously new innovation = task.
 introducing

* New Improved Prodⁿ, adoption of new forms of organisation, utilisations of raw material, introduction of new product, opening of new markets.

Production function:

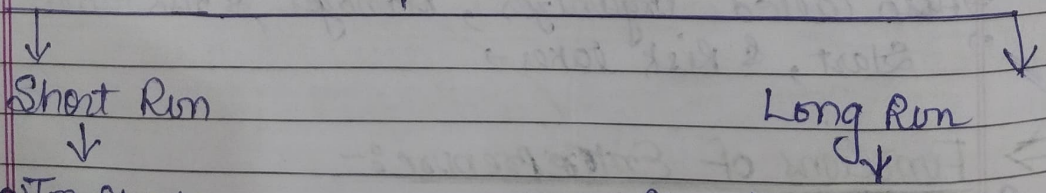
Inputs, output → fix minimum
 Input → fix Output → Max return.



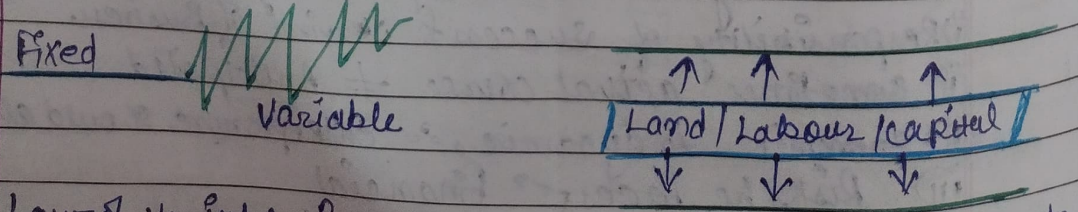
Quantity of output = function of Quantity of Input

$Q_0 = F(Q_I)$ → Prodⁿ function

Direct Relationship, I ↑ O ↑, I ↓ O ↓



- a) Too Short
- b) ~~one~~ factor - fixed (class room) others - variable (labour batches)
- a) Planning Horizon
- b) All factors are variable

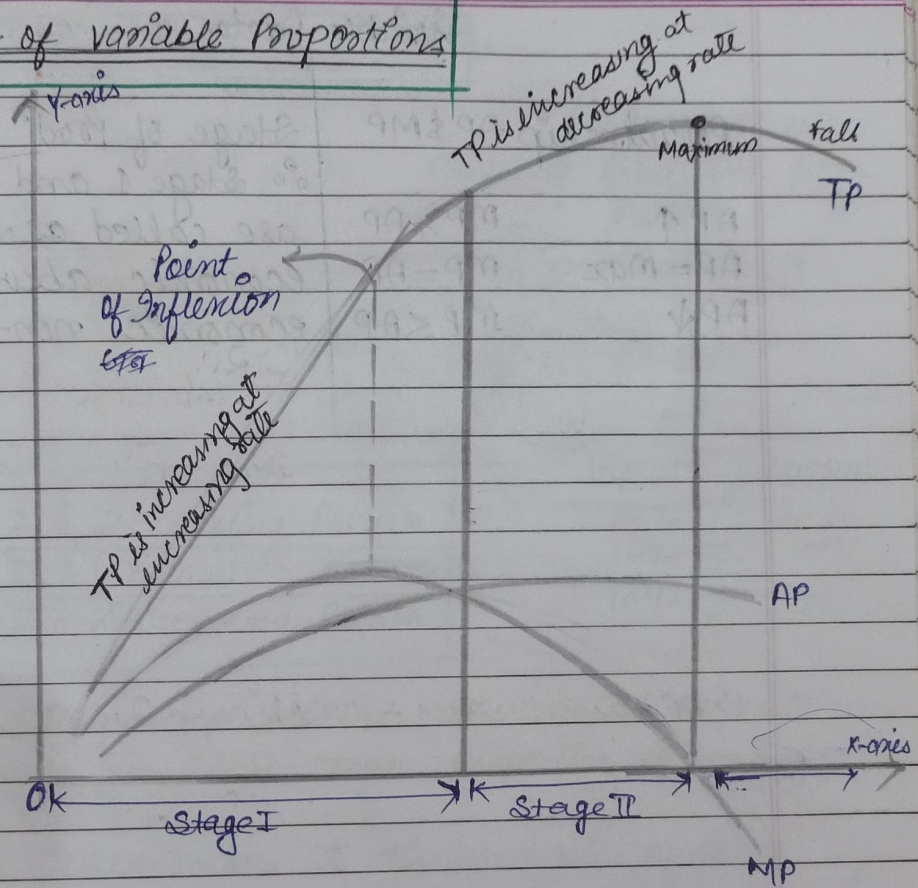


Law of Variable Proportions

Law of Returns to Scale

MP → Additional output obtained by employing one variable factor

Law of variable Proportions



Stage I = AP = MP	Increasing Returns
Stage II = MP = 0	Diminishing Decreasing Returns
TP = Max	
Stage III = MP = -ve	Negative Return.

MP ↑ or ↓
at a decreasing rate

$AP = \frac{TP}{TV \text{ Factor}}$
 $MP = TP_n - TP_{n-1} \propto \frac{\Delta TP}{\Delta VF}$
 $TP = \sum MP$

Unit → I

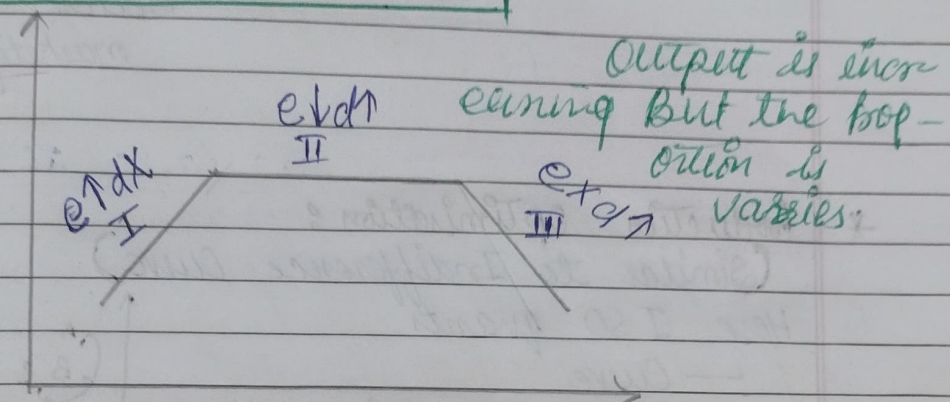
Variable factor

Relationship AP & MP

- AP ↑ MP > AP
- AP = Max MP = AP
- AP ↓ MP < AP

Stage of Prodⁿ = Stage II
∴ Stage 1 and Stage 3
are called as stages of
economic absurdity or
economic non-sense.

Law of Returns to scale



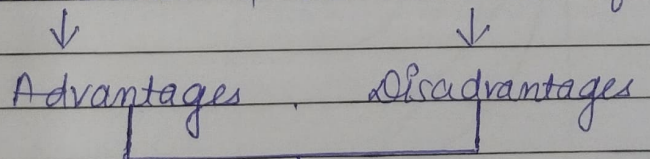
Stage I : Increasing Return
Stage II : Constant Return
Stage III : Decreasing Return

Input	Output
10%	< 20%
10%	= 10%
10%	> 5%

Q Under decreasing returns the total output decreases in less than proportion to input

Ans → false,

Reason : Economies & dis-economies of scale



↓

इसका कुछ अपन करते है जिसका परिणाम सिर्फ आपन को है

Internal

↓

- Technological → cost ↓ → New technology
- Managerial → cost ↓ → management ↑
- Commercial → cost ↓ → Bulk purchase → money
- Risk bearing → cost ↓ → available Bank loan
- Financial

↓

इसका कुछ भाग है जो सिर्फ आपन को है

External

↓

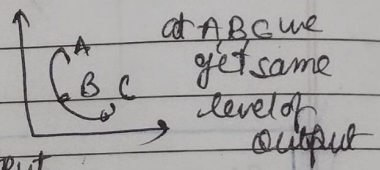
- Cheaper raw materials
- Capital equipment
- Technological external economies
- Development of skilled Labours

- Ancillary Industries
- Better transportation & marketing facilities

* Production optimisation:
(Similar to Indifference Curve)

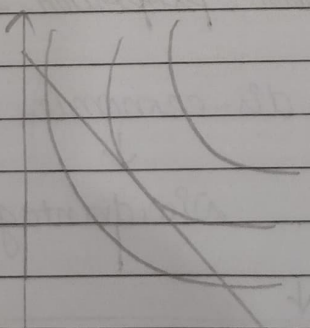
Here ISO quant

- Curve
- which gives 2 inputs
- at same level of ^{output} input



Budget line / Price line → ISO cost.

* Production optimisation: ISO quant meet to ISO cost at tangency.



* ISO cost

