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*PRESENTS*

# BUSINESS STUDIES

**TOPIC 4: PRODUCTION**

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## PRODUCTION

It can be defined as the creation of goods and services or increasing their usefulness to become more satisfying. Production activities include transforming raw materials into finished products, transportation and storage. Goods and services produced must have utility. There are several types of utility:

### **Types of Utility**

- (i) **Form utility** – involved the changing of raw materials into finished products.
- (ii) **Time utility** – it is created by storage of goods until an appropriate time, e.g. storing seeds until planting time;
- (iii) **Place utility** – this is the bridging the gap between the producer and the consumer of a commodity, for instance moving maize from the fields into the market.
- (iv) **Possessive utility** – it is created when ownership of goods change from one person to another.

### **Direct and Indirect Production**

#### **a. Direct Production**

This is where goods and services are produced for own consumption rather than for commercial purposes. It is commonly referred to as subsistence and is much more common in rural areas. However, nowadays it is difficult to find someone living purely on this form of production.

### **Characteristics of Direct Production**

- ✓ Goods and qualities are mainly of low quality and quantity;
- ✓ Encourages individualism
- ✓ Leads to low standards of living;
- ✓ Does not encourage consumption;
- ✓ Can be very tiring;
- ✓ Does not encourage invention and innovation;
- ✓ A lot of time is wasted as one moves from one job to another;
- ✓ No one has the ability to provide all that he/she requires.



### a. Indirect Production

It is the production of goods and services for selling the excess to the market in order to purchase what one needs but doesn't produce. It thus leads to specialization.

Characteristics of Indirect Production

- ✓ Production with a view for exchange;
- ✓ The producer specializes in one or a few areas of production;
- ✓ It results in surplus of goods and services.

Level of Production and Related Occupations

#### i. Primary Level

This involves extracting the goods from their natural setting. The goods are either used as is or they are processed further to make them more useful. Primary level of production mainly involves mere 'looking after' e.g. growing crops where the farmer looks at the crops and nature grows them, or extracting the materials from nature. Examples of primary production include: farming, mining, fishing and lumbering.

#### ii. Secondary level

It involves processing raw materials into much more useful products like processing clothes, processing and food canning, manufacturing like furniture making and welding, and construction roads, houses and railways

### b. Tertiary level

This level deals with production of services. It may be divided into two categories:

- ✓ Communal services – it involves trade or aids to trade activities like banking, retailing, banking and insurance.
- ✓ Direct personal services – include services rendered by individuals directly to the consumers. E.g. teaching, nursing, pastoral work, legal practice, etc.

## Factors of Production and Their Rewards

They are resources necessary for the production process such that without them, production would not be possible. They include:



### a. Land

It refers to all natural e.g. soil, rivers, lakes and climate. Since it is natural, it cannot be increased in quantity, it can only be improved in quality. Land earns rewards to the owners or users in terms of royalty, rent and rates.

#### Characteristics of Land as a Factor of Production

- i) It is a basic factor of production since production cannot take place without it;
- ii) It is fixed in quantity of supply;
- iii) It is not homogenous in quality. Production in one piece of land is different from that of another.
- iv) It is a natural resource;
- v) It lacks geographical mobility since it cannot be shifted from one place to another but it is occupationally mobile as it can be put to alternative uses;
- vi) It is subject to the law of diminishing returns;
- vii) Its productivity can be improved by increasing the quantity and quality of capital.

### b. Labour

Also referred to as human resource, it requires either human physical effort or mental effort or both. It can be categorized as skilled where skills acquisition is required for one to be productive, semi-skilled where some simple training is needed or unskilled where no training is needed at all. Its reward is salaries and wages.

#### Characteristics of labour as a factor of production

- i) It is a basic factor of production;
- ii) It cannot be separated from the laborer;
- iii) It is human in nature, with capacity to think and limitations of moods;
- iv) It cannot be stored;
- v) It is mobile both in terms of geographical and occupational mobility;
- vi) The laborers sell their labour, not themselves.



### c. Capital

This is also known as producer goods or capital goods and includes all man-made resources used in production of goods and services. It earns interest.

#### Characteristics of Capital as a factor of Production

- i) Its supply is under man's control since it is manmade;
- ii) Can be improved through technology;
- iii) It is a basic factor of production;
- iv) It is subject to depreciation.

### d. Entrepreneurship

An entrepreneur organizes all the other factors of production and pays rent for the land, interest for the capital and wages for the labour so as to use them. He/she is the organizer, the manager and the risk taker. His/her reward is the profit.

#### Functions of the entrepreneur:

- i. Controls the business;
- ii. Starts the business;
- iii. Makes decisions;
- iv. Owns the whole project;
- v. Acquires and pays for all the other factors of production;
- vi. Pays for such expenses as electricity, water, stationery and postage;
- vii. Bears the risk and enjoys the profit.

## Division of Labour and Specialization

This involves breaking down a production process into stages and assigning each stage to an individual or a group of individuals. It was first observed to be productive by a British economist, Adam Smith, who observed that workers in a pin manufacturing factory were much more productive when assigned to specific stages of production.

### Specialization

This refers to a situation where one concentrates in production of what he/she produces best and leaves the others to produce the rest. One may for example concentrate on teaching or farming or engineering or treating people.



### Advantages of division of labour and specialization

- (i) Output per worker is greatly increased;
- (ii) It encourages invention and innovation as one repeats the same process over and over, he can easily come up with more innovative and efficient tactics or solutions to a certain challenge.
- (iii) Enables greater use of machines in production making production fast and efficient;
- (iv) It saves time where the worker does not have to move from one activity to another;
- (v) It enables a worker to acquire skills in a particular field;
- (vi) It enables one to engage in a trade in which he/she is best suited or talented to do;
- (vii) Leads to production of production of quality goods and services;
- (viii) Routine jobs involved reduce mental and physical effort.

### Disadvantages of division of labour and specialization

- i) Its monotonous nature leads to boredom;
- ii) Specialization may make a country dependent on other countries;
- iii) Specialization makes a worker dependent on one trade risking his employment in case his/her skills or product lose demand in the market;
- iv) It hinders creativity since people work mechanically like machines;
- v) Interruption of the work of a few people derails the entire process;
- vi) Specialization and division of labour brings people together bringing about congestion causing social crimes like prostitution and robbery.
- vii) Lack of motivating pride in the final product by any of the individual worker.

### Classification of Goods and Services produced in an economy

- a) **Free goods and economic goods** – free goods are mainly the free gifts of nature. They are abundant, have utility but no monetary value while economic goods have both monetary value and utility due to their scarcity nature.
- b) **Producer goods and consumer goods** – producer goods are also known as capital goods and are used to produce other goods. They include such equipments as machinery, tools, tractors, Lorries and grinding mills. Consumer goods are readily usable by their final consumer and include foods, television, cars, cosmetics, medicines etc. some goods can



also be both producer and consumer depending on the intention of the buyer e.g. a building might be for renting or for occupation.

- c) **Perishable goods and durable goods** – perishable goods go bad easily for example the horticultural products while durable goods are usable for a longer period of time and are able to withstand spoilage. They include cars, furniture, buildings, metals etc.
- d) **Public goods and private goods** – public goods are owned by the government or are collectively owned, for instance infrastructure like roads, railways, ports, courts, churches, etc. while private goods are owned by individuals and the individuals have exclusive right to usage for example cars, private schools.
- e) **Intermediate goods and finished goods** – intermediate goods are not ready for use but require more production e.g. sisal, wood, cotton, skins and hides, minerals etc. while finished goods are final products ready for use like bread, furniture, shoes, ornaments et.
- f) **Material goods and non-material goods** – material goods are tangible while non-material goods are services.

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