

Lecture Notes:

- There are basic building blocks used to produce anything.
In business, these building blocks are called **factors of production**.
- The factors of production are:
 1. **Natural resources:**
 - They are raw materials found in the ground, grown from earth, or harvested from nature.
 - Examples include coal, wheat, water, wood, etc.
 - A **resource intensive business** is a business that relies heavily or primarily on natural resources.
 - Examples include the farming, fishing, forestry, and mining industries.
 2. **Labour:**
 - They are the workers.
 - A **labour intensive business** is a business that relies heavily or primarily on labour. Success will depend upon the quantity and quality of workers the business can hire.
 3. **Capital:**
 - They are the money or the machines and technologies that money can buy.
 - Examples include tractors, hammers, printers, phones, etc.
 - A **capital intensive business** is a business that relies on lots of money, equipment and technology.
 - Examples include banking and auto manufacturing.
- The **factor intensity theory** suggests that all businesses need some combination of all three. However, depending on the business or industry one factor may be more important than the others.
- A **theory** is an attempt to explain something complicated, hard to understand, or hard to prove.
- The factor intensity theory evolved to include a fourth factor of production. This fourth factor of production is **entrepreneurship**. Businesses are formed by people. People motivated to take time, incur costs and take risks, to make something happen.
- The **industrial revolution** (1760 - 1820) was a concentrated period of invention and discovery, most of it were labour saving, which transformed the industries of the age and had far reaching consequences. One of which is factor substitution. The industrial revolution started in Britain and spread to other European countries and then to America.
- **Factor substitution** is substituting one factor for another so products can be made faster or better, more effectively, and more cheaply.
- 10, 000 years before the industrial revolution, there was the **agricultural revolution**.
- Many theorists suggest that we have been in an **information revolution** since the 1970s. As such, they suggest that there is a fifth factor of production, information.
- The information revolution is a concentrated period of invention and discovery which transformed the most important industries of the age.
- A business is made from 3 basic elements: natural resources, labour and capital, which are organised and assembled by entrepreneurs and understanding what each does, allows you to better manage the whole.

Textbook Notes (Chapter 3):

- **The Theory of Factors of Production:**
- The term **factors of production** refers to the factors that are required to produce goods and services. They are the basic building blocks that, in combination, are required to make a business, and produce things.
- There are 4 factors of production:
 1. **Natural resources (raw materials):**
 - **Natural resources** are things found in nature and the resources that grow out of the earth or can be extracted from it. Examples of natural resources are land, water, wood, coal, cotton, oil, and wheat.
 - Canada has abundant land and natural resources.
 - In the 15th and 16th centuries, the Portuguese came to our Atlantic coast in pursuit of fish.
 - In the 16th century, France came to what is now Quebec in search of fur.
 - In the 18th and 19th centuries, the British established businesses to exploit the supply of timber.
 - Currently, Canada is the world's 6th largest supplier of wheat and has the 2nd highest supply of oil.
 - Furthermore, some of Canada's largest businesses rely on natural resources for their main activities. Examples include:
 - a. Suncor Energy, Canada's 3rd biggest business ranked by revenue, extracts oil from northern Alberta tar sands.
 - b. Domtar, headquartered in Montreal, is the world's largest paper company.
 - c. Barrick Gold is the world's largest gold mining company.
 - Businesses whose activities are predominantly dependent on the production or use of natural resources are called **resource intensive**. An example of a business that is resource intensive is farming.
 2. **Labour (people):**
 - **Labour** is the people who contribute their efforts to a business.
 - No businesses can exist without people. Every business needs at least one person to organise and plan things.
 - Many organizations, both not-for-profit organizations and businesses, use many workers. A business that employs many people is called **labour intensive**.

The World's 10 Largest Employers ¹		
Employer	Employees	Headquarters
United States Department of Defense	3.2 million	United States
People's Liberation Army	2.3 million	China
Walmart	2.1 million	United States
McDonald's	1.9 million ²	United States
National Health Service	1.7 million	United Kingdom
China National Petroleum Corporation	1.6 million	China
State Grid Corporation of China	1.5 million	China
Indian Railways	1.4 million	India
Indian Armed Forces	1.3 million	India
Hon Hai Precision Industry (Foxconn)	1.2 million	Taiwan

1. List and employment totals are current as of 2012

Canada's Largest Business Employers ¹	
Business	Number of Employees Year
George Weston Ltd.	192,000 (2019)
Magna International	174,000 (2018)
Onex Corp.	172,000 (2019)
Empire Company	125,000 (2014)
Bank of Nova Scotia	88,600 (2017)
Toronto-Dominion Bank	84,400 (2018)
Royal Bank of Canada	79,300 (2018)

3. Capital (money and technology):

- **Capital** is money or the machines and technologies that money can buy.
- A business that requires a great deal of money is called **capital intensive**.
- The most capital intensive businesses are banks.
- **Capitalists** are the people who own the capital used as a factor of production.

4. Entrepreneurship (motivation of individuals to start a business):

- Businesses are formed by people who are motivated to take the time to incur the costs and risks and make the effort to make something happen. We call these people **entrepreneurs**.
- An **enterprise** is a project or undertaking that requires energy and effort and whose outcome is uncertain.
- **Entrepreneurship** is the willingness or the motivation to take the initiative, and to accept the risk of failure in return for suitable gratification or reward.
- For most of the 20th century, in most of the world's largest countries, the assumption, either implicit or explicit, was that governments were best placed to assemble and organize the resources necessary to get things done. However, increasingly, business theorists subscribe to Adam Smith's view that it is only because of the entrepreneur's desire for profit that productive activity occurs. Without entrepreneurs, the other factors of production may exist, but would lack the organizing and coordinating influence.
- **Combining the factors of production:**
- No business can exist without some combination of labour, natural resources, and capital.
- **Replacing people with machines:**
- The history of the world changed dramatically during the **industrial revolution**, which was from 1760 to 1820. The industrial revolution is the name given to a rapid series of technological developments that first transformed the United Kingdom and then the rest of Europe and the U.S.
- The **Industrial revolution** was a series of technological developments and inventions (many of them labour saving) that transformed the manufacturing, agriculture, mining, and transportation industries in the 18th century.

- The industrial revolution was notable because of the speed with which a large number of innovations, many to do with the most important industries of the age, came within a short period of time.
- The rapid flow of technological innovations that occurred during the industrial revolution meant that many jobs that had previously been done by hand became obsolete. While thousands of people lost their traditional livelihoods, the time and cost to make the products fell. Furthermore, workers made unemployed from traditional jobs found work elsewhere, in one of the rising industries created by the outpouring of new technologies. As a result, the standard of living rose throughout Europe.
- The phenomenon of replacing human workers with faster, more efficient machines is called **factor substitution**.
- As the machinery became larger, more expensive and more sophisticated, the work moved out of people's homes and into larger, dedicated workspaces known as factories.
- This **factory system** meant that work that had previously been done independently and on the worker's schedule was now concentrated in factories and performed at standardized and regulated hours.
- In this way, the industrial revolution led to the growth of industrial cities and towns.
- **The factors of production – A theory:**
- The existence of the factors of production is a **theory**. A **theory** is an idea, which is an attempt to explain something complicated, hard to understand, or hard to prove. Examples of theories include the big bang theory and the theory of evolution.
- Some theorists suggest that there is a fifth factor of production, information. These theorists suggest that businesses need to collect vast amounts of information to understand and successfully meet the needs of their customers, and effectively use their natural resources, labour, and capital.
- Consider the industrial revolution. 10, 000 years earlier, mankind went through the **agricultural revolution**, where humans learned how to domesticate crops, farm animals and discovered irrigation. The agricultural revolution changed human society from a nomadic one to a settled one.
- Many theorists are now suggesting that we're living in a revolution comparable to the previous two. They suggest that since 1970, we have been living through an **information revolution**.

Textbook Definitions:

- **Capital:** Money or the machines and technologies that money can buy.
- **Capitalist:** The people who own the capital used as a factor of production.
- **Capital intensive:** A business or a process that requires a large amount of money, machines or technology to produce its goods and services.
- **Enterprise:** A project or undertaking that requires energy and effort and whose outcome is uncertain.
- **Entrepreneurs:** The people who are motivated to take the time, to incur the costs and risks, and make the effort to make something happen.
- **Entrepreneurship:** The willingness or the motivation to take the initiative, and to accept the risk of failure in return for suitable gratification or reward.
- **Factors of production:** The basic building blocks that, in combination, are required to make a business, and produce things. The 4 factors of production are natural resources, labour, capital and entrepreneurship.
- **Factory system:** The concentration of work in large buildings erected for the purpose and performed at standardized and regulated hours.

- **Factor substitution:** Substituting one factor of production (for example capital) for another (for example labour) so that products can be made more quickly or cheaply.
- **Industrial revolution:** A series of technological developments and inventions (many of them labour saving) that transformed the manufacturing, agriculture, mining, and transportation industries in the 18th century.
- **Information revolution:** The period of history when a large number of inventions and discoveries in computing and information technology are changing the nature of businesses and are having far-reaching consequences on society.
- **Labour:** The people who contribute their efforts to a business.
- **Labour intensive:** A business or a process that requires a large amount of labour to produce its goods and services.
- **Natural resources:** Things found in nature. Resources that grow out of the earth or can be extracted from it. Examples of natural resources are land, water, wood, coal, cotton, oil, and wheat.
- **Resource intensive:** An activity that is predominantly dependent on the production or use of natural resources. An example of a business that is resource intensive is farming.
- **Theory:** An idea, which is an attempt to explain something complicated, hard to understand, or hard to prove. Examples of theories include the big bang theory and the theory of evolution.