

THEORY OF PRODUCTION

It deals with the question of how to produce? It discusses supply side of the pricing of products.

Supply of a products depends on its cost of production.

Cost of production depends on, I. the physical relationship between inputs and output.

ii. the price inputs.

The physical relationship forms the subject matter of theory of production.

Production; Transformation of inputs into output! In Economics production means, is any economic activity which is directed towards the satisfaction of the wants of people by converting physical inputs into physical output. Whether it is the making of material goods or providing any service, it is included in the production provided it satisfies the wants of some people.

FACTORS OF PRODUCTION;

The process of producing in an economy is very complex. Goods has to pass through many stages and many hands until it reaches the consumer hands the consumer's hands in a finished form, Land, Labour, capital and entrepreneurial ability are all the factors and resources which makes it possible to produce goods and services. While land is a free gift of nature and refers to natural resources, the human endeavor is classified functionally and qualitatively into three main components namely, labour, capital and entrepreneurial skills.

Factors of production is being explained in the following paragraphs.

LAND; It refers to all free gift of nature which would include natural resources, fertility of soil, water, air, natural vegetation etc. there are characteristics of land.

- 1. Land is nature's gift: land is free gift nature. it is neither created nor destroyed by man**
- 2. Supply of land is fixed: land is strictly limited in quantity. it is permanently in being, no change in demand can affect the amount of land in existence.**
- 3. It has indestructible powers: the production power of soil is indestructible in the sense that the properties of land cannot be destroyed. Even if its fertility gets depleted, it can be restored.**