Achievement Standard 90196

Producers, production, resources and their use.

What is production?

- **Production**
  - is the process which combines resources and turn them into commodities or goods and services
- **Resources**
  - are the things used in the production process such as materials, tools and machinery and labour.

Resources

- **Labour**
  - Human Resources – the workers who work on the production lines, service workers (hairdressers, bank tellers etc) are all examples of labour
  - The reward for labour is called **wages**

Resources

- **Capital**
  - The machinery/manufactured resources that are used in production.
  - Some things can be capital or consumer goods depending on their usage e.g. a motor vehicle used by a family is a consumer good but a similar vehicle used as a taxi is a capital good
  - The reward for capital is **interest**

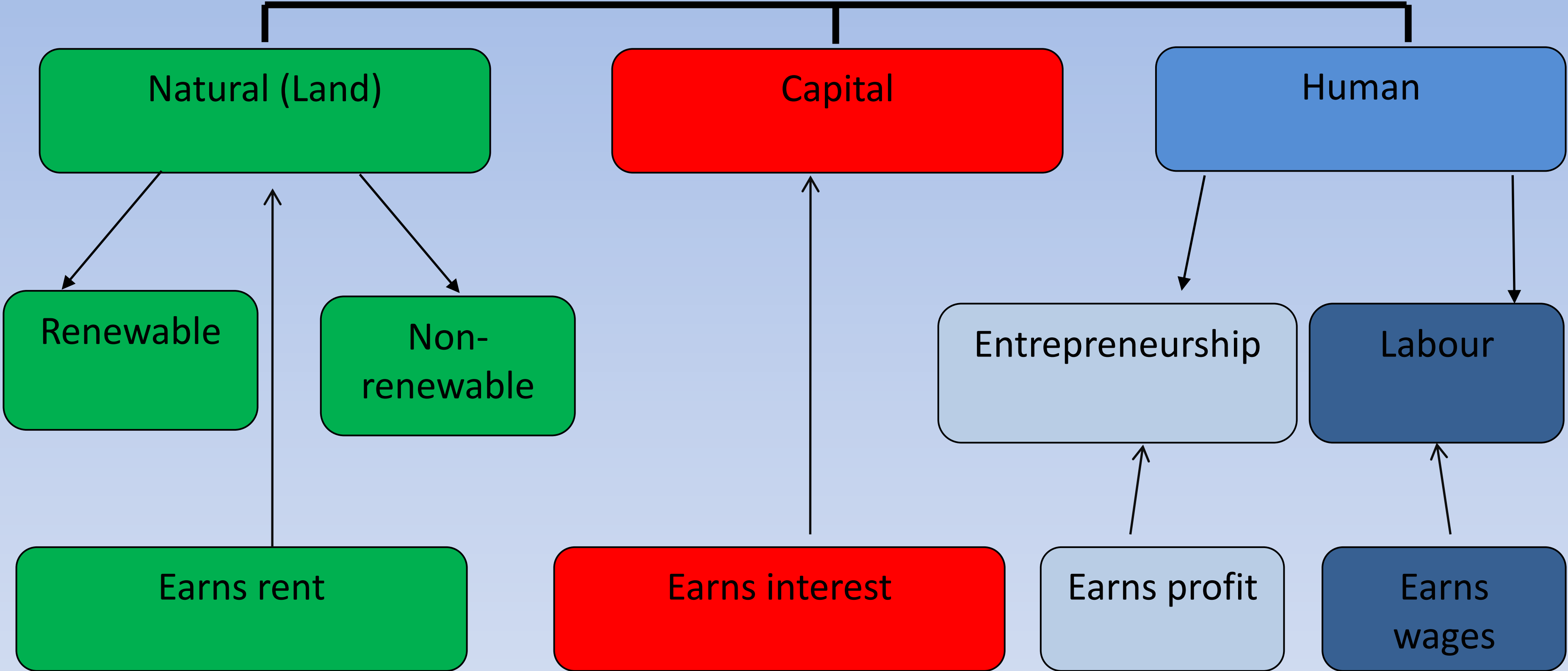
Resources

- **Entrepreneurship**
  - The risk-taker. The entrepreneur is the person who recognises the gap in the market and gathers the resources together to exploit it
  - The reward for entrepreneurship is **profit**

Resources

- **Natural**
  - Is all the gifts of nature and includes things such as coal, oil, forests etc as well as land itself
  - Natural resources can be split into renewable and non-renewable categories
  - The reward for natural resources is **rent**

RESOURCES
Inputs into Production



What are Producers?

- **Producers**
  - Economic units that make the goods/services that satisfy needs/wants
  - Producers can be a large firm such as Carter Holt Harvey, or a small business like a plumber
  - Producers are divided into three sectors.
  - 1.Primary

    2. Secondary
    3. Tertiary

What are Producers?

- **Primary Producers**
  - Are involved in extracting raw materials from the land including:
  - Mining, farming, fishing etc.
- **Secondary Producers**
  - Use the raw materials and process them into goods or semi-finished goods including:
  - Sawmills, factories, car assembly plants
- **Tertiary Producers**
  - Provide services and/or are the retailers that supply goods to end consumers such as:
  - Plumber, electrician, The Warehouse

A Final thought:

- Not everything fits nicely into categories that are listed above
  - E.g. how do you classify a winery that grows the grapes, crushes them and then sells the wine from a shop on site
- The simple answer is you can’t nor should you try

Private Sector Firms

- Are organised as sole traders, partnerships, companies or co-operatives
- Usually have profit as a (main) incentive for their operation
- Can be a large corporate like *Telecom* or a small family business like *Take It Easy Tours.*

Private Sector Non Profit Organisations

- Are set up by groups of like minded individuals with a specific goal or interest in mind
- They provide goods and services not usually provided by a private firm
- Would include sporting clubs, societies and charities.

Public Sector

- Are owned by the government at either national (central govt) or local (city/regional council) level
- Some public sector firms are run to make a profit – state owned enterprises
- Some exist purely to provide a service - hospitals

Types of Business Unit

- Private sector firms can be either :
  1. Sole Traders
  2. Partnerships
  3. Companies (listed or unlisted)
  4. Co-operatives
- Each of the above has different ownership structures and has a different effect on the liability (responsibility for debts) of the owners

Sole Trader

- One owner so he/she can make all the decisions
- No formal set up costs so easy to start a business as a sole trader
- Owner has unlimited liability for business debts (i.e. would need to pay for business debts from his/her own money if necessary)
- Owner may have difficulty raising finance for the business
- Owner may find it difficult to take holidays/sick leave

Partnership

- Has between 2 and 25 owners called partners
- More owners gives the firm greater access to capital
- More owners also means more (and different) skills can be brought to the firm by the owners
- Decision-making must be shared between partners which could hinder a firm's progress
- Partners are jointly and severally liable for the business debts – 1 partner can enter a contract that is binding on all partners
- Partners usually have an **Agreement** or **deed** that says how decisions are made and profits/losses are shared
- If no agreement is made then the Partnership Act applies and profits/losses are shared equally

Company

- Has 1 or more owners (called **shareholders**) and must be registered with the Registrar of Companies
- The shareholders have limited liability – this means if the business fails they are only lose their investment in the company not any other personal assets
- Limited liability exists because the company is a 'legal entity' – that is a person in the eyes of the law.
- Shares can be onsold so the business can outlive its owners/founders
- New Shares can be created and sold allowing the company to raise large sums of capital
- If the company is listed its shares can be sold on the share market. Unlisted companies are usually smaller and sell shares direct to individuals
- A company is more expensive to set up.

Co-operative

- Set up and owned by its members who operate the firm for their mutual benefit
- Members are usually customers of the firm (consumer co-op) or suppliers of the firm (producer co-op)
- Fonterra is a good example of a producer co-op while a building society is often a good example of a consumer co-op.
- Members/owners of the co-op have limited liability

Service industries and Interdependence

- A number of specialist firms exist to provide other firms with certain expertise
- The other firms rely on these specialist firms either because:
  - they do not have the expertise themselves
  - **or** they can not afford to provide themselves because it is too expensive to set up
- Examples of these specialist firms are:
  - Accounting firms, marketing firms, transport firms, communication firms, legal firms etc.

What is Productivity?

- The level of production is the amount of a good or service produced by a firm.
- Level of productivity is the level of output produced in relation to the level of inputs
- Example
  - if a firm hires 5 staff and in one week produces 50 units then the productivity of labour is 10 units per worker
  - If the following week the firm increases production to 55 units then productivity has gone up by one unit per worker.

$$\text{Productivity} = \frac{\text{Units of Output}}{\text{Units of input}}$$

Improving Productivity

- Improved productivity lowers the per unit cost of production and therefore improves profits
- Productivity of labour can be improved by:
  - Specialising in producing one type of good or service and allows workers to become good at their job
  - Using division of labour where the production process is divided up into separate tasks each completed by a different person

Improving Productivity

- Division of labour reduces workers training time (and costs) because each worker only needs to learn one part of the job
- However division of labour can become monotonous resulting in high staff turnover/low morale

- Increased use of technology can also help to improve the productivity of a firm by making the job faster

Economies of Scale

- Economies of scale occur when a firm's per unit (or average cost) decreases as the scale of the operation increases
- Economies of scale become possible due to:
  - Large firms getting lower rates of interest on loans (financial economies)
  - Discounts for buying in bulk (commercial economies)
  - Greater use of technology (technical economies)
- Diseconomies of scale can also occur when a firm becomes too large and average costs increase

Business Growth

- A business can grow through capital formation/investment but there are a number of other ways a firm can grow
  - Mergers occur when two (or more) firms agree to join together
  - Takeovers occur when one firm buys up the shares of another firm and assumes control of it

Diversification

- Occurs when a firm decides to produce a wider range of products
- This spreads the risk of the firm as a loss of demand for one product can be offset by continued sales of another
- However the owner of the firm may not have the expertise to understand the new product increasing the firms costs
- E.g. General Electric produced electronic appliances and then diversified to offer loans and financial services

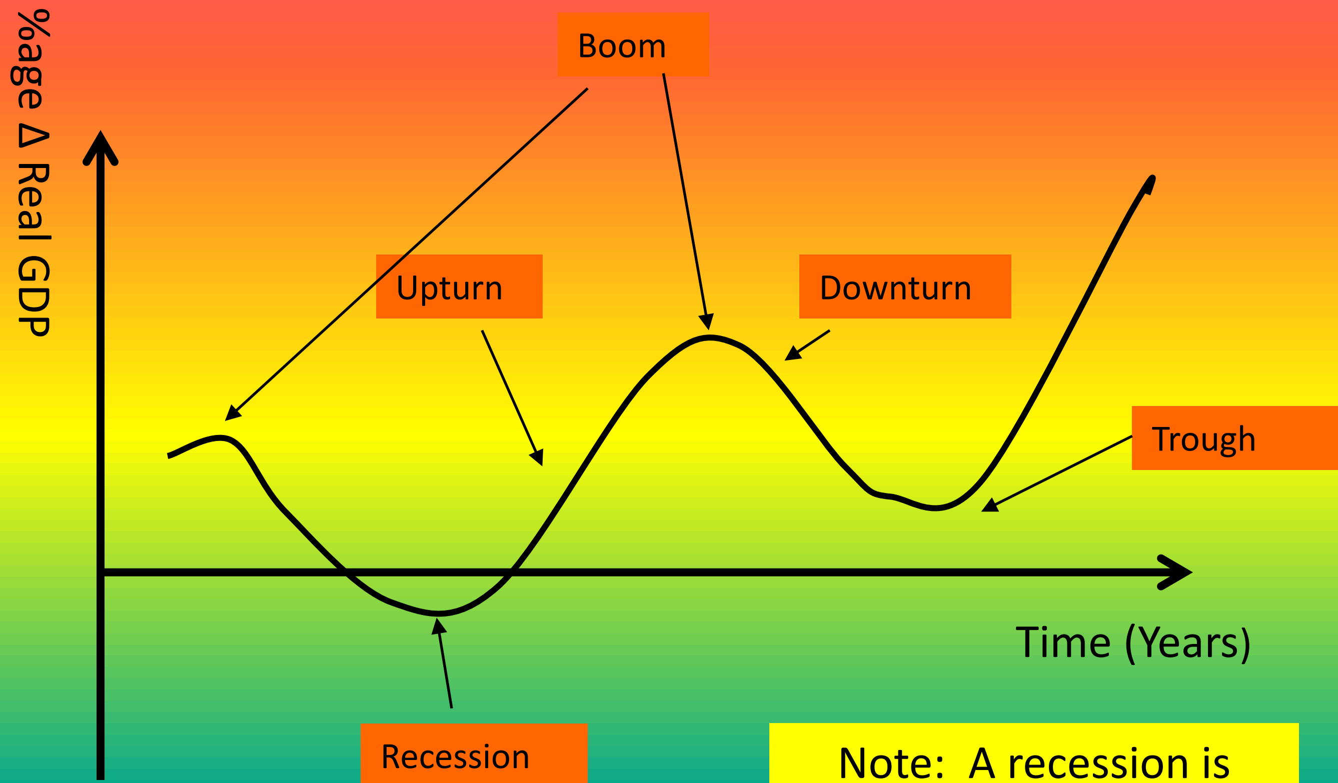
Vertical Integration

- Occurs when firms at different stages of the same industry combine
- E.g. A canning factory (secondary) purchases a fishing company (primary)
- This allows the firm to achieve security of supply or secure markets for their products
- It also allows the firm to absorb the profit margins of the other business

Horizontal Integration

- Occurs when firms at the same stage of the same industry combine
- E.g. Two clothing manufacturers combine
- This allows the firm to reduce competition for their product or perhaps acquire a strong brand name to become more influential in the market

The Business Cycle



Note: A recession is usually defined as 2 or more consecutive quarters of negative economic growth

The Business Cycle

- Most economies follow a business cycle something like what is shown above
- It should be noted however that the cycle is not quite as predictable or smooth as is shown in many textbooks.
- In general over time the real output of an economy would be expected to increase (the business cycle overall trend is upwards)

The Business Cycle

- Upturn – period of increasing growth and falling unemployment
- Boom – period of strong economic growth and low unemployment.
- Downturn – period of falling economic growth and increasing unemployment
- Trough/Recession – period of weak economic growth and high unemployment