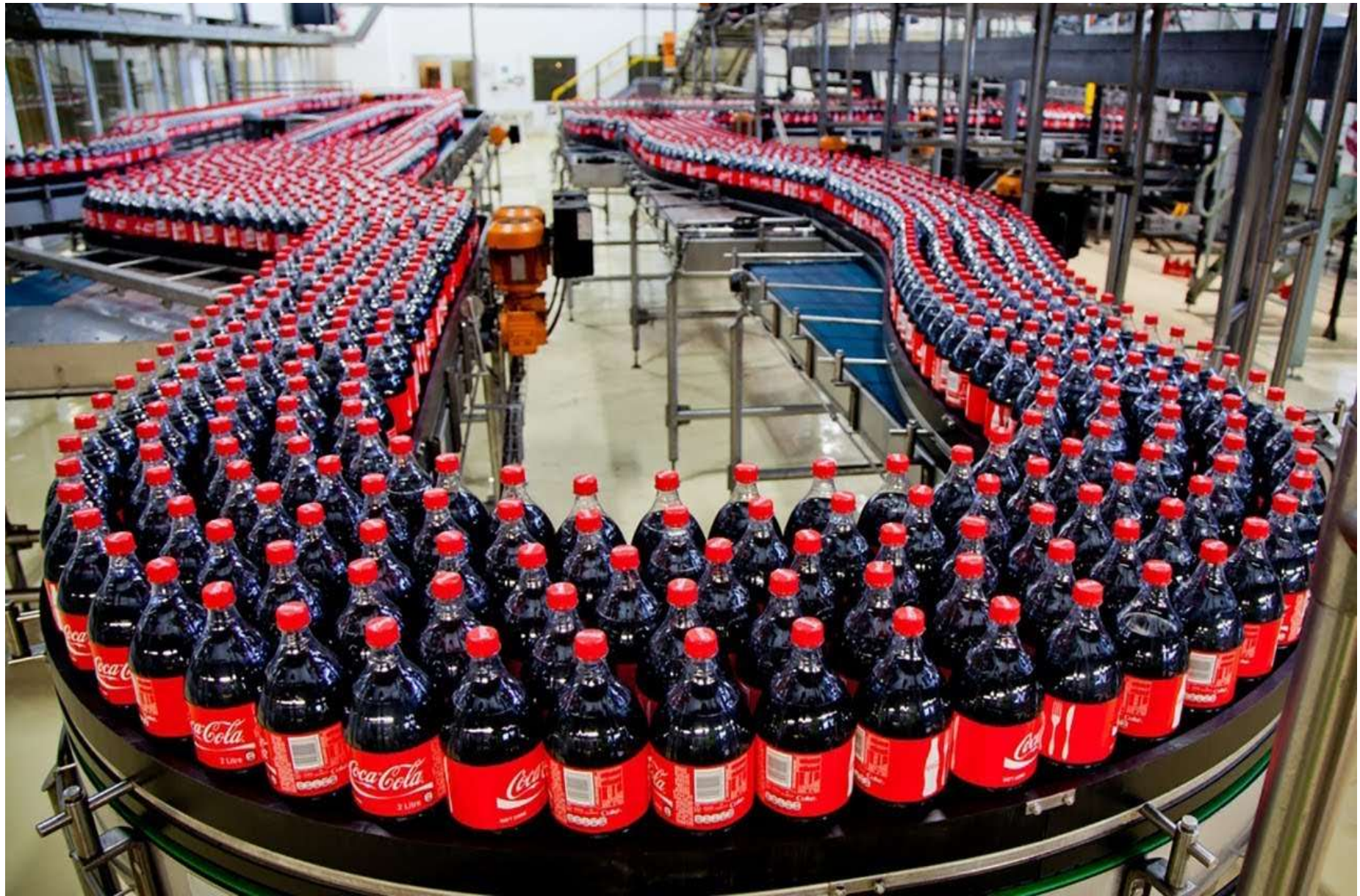


**MGT 104**

**Micro Economics**

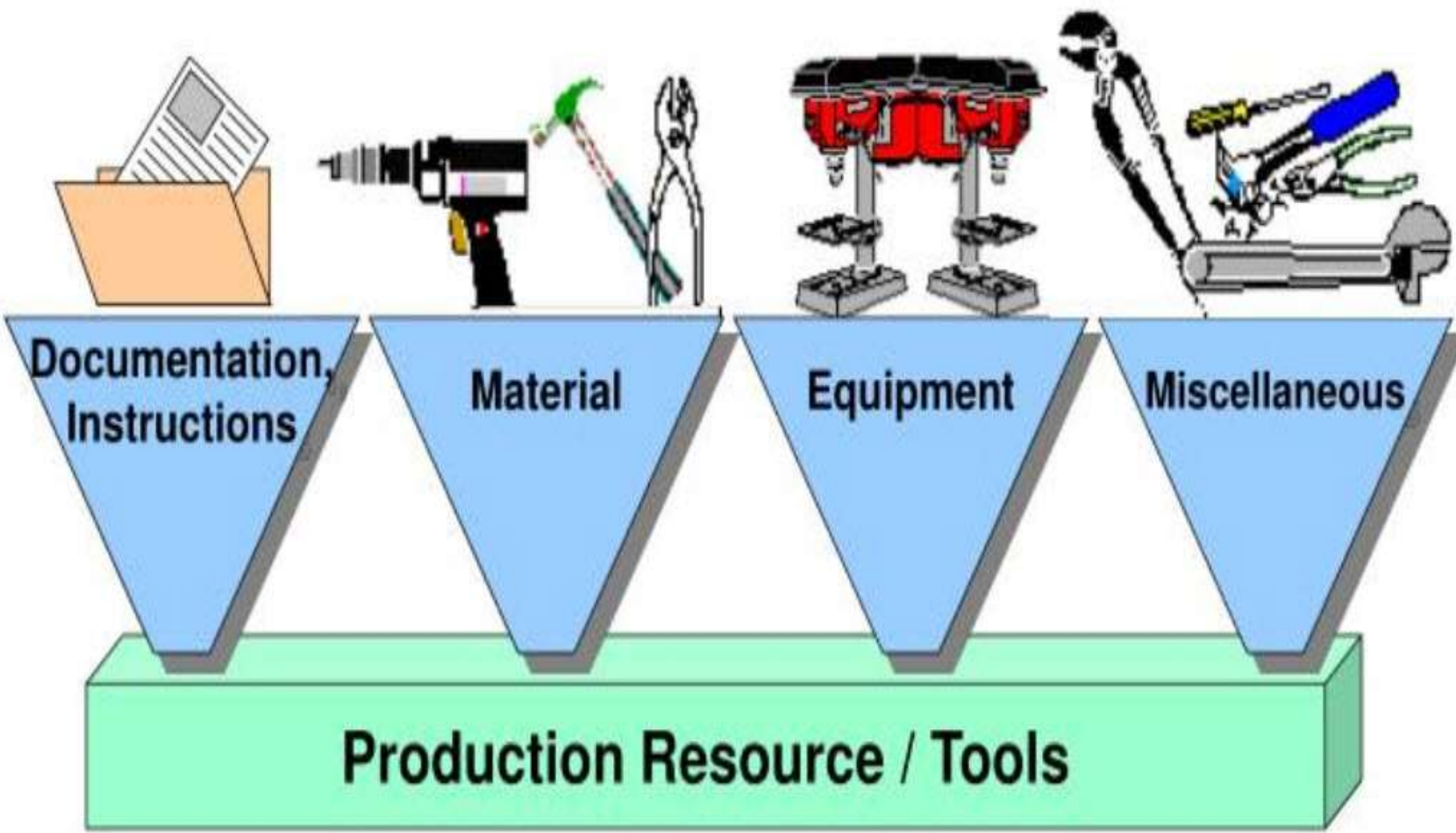
# Theory of Production & Cost











**Documentation,  
Instructions**

**Material**

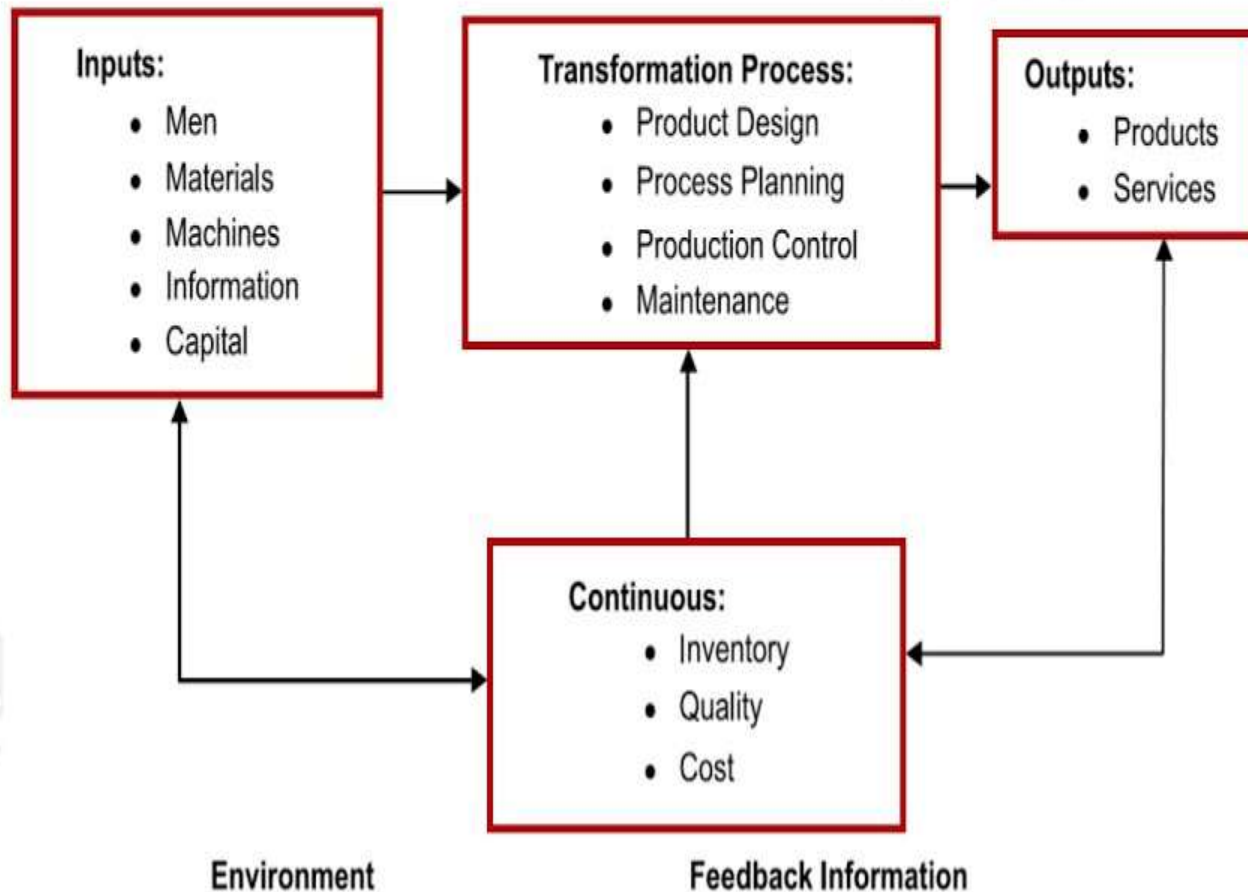
**Equipment**

**Miscellaneous**

**Production Resource / Tools**

# Meaning of Production

**6M's = man, material, machine, money, method and management**





# Process of Production

## Factors of Production

Land

Labor

Capital

Enterprise

Inputs



Output

## Production of Goods & Services

Cars

TV Phones Computers

Food & Drinks

Houses

# The Production Process

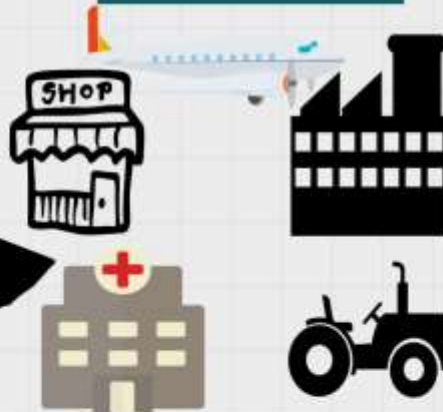
## Inputs

Resources:

Land  
Labour  
Capital



## Production



Where the production occurs;  
airlines, shops, factories,  
farms, schools, hospitals .....

## Outputs



Goods and Services;  
travel, hospital services, food,  
education, computers .....

# Importance of Production

To produce quality product

To make business profitable

To smooth functioning of other dept. activities

To attain customer satisfaction

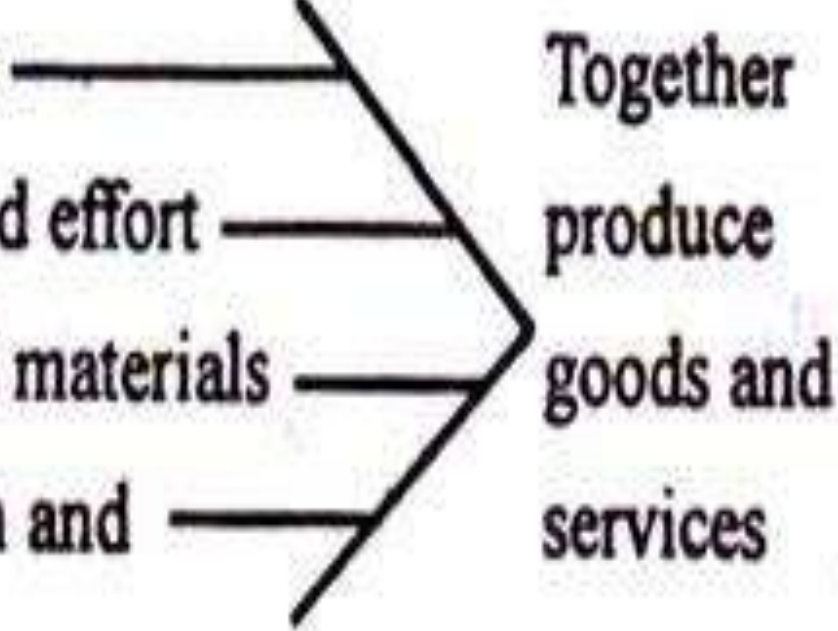
To increase productivity

To meet market demand

To sustain long time in business

To be a market leader

## The factors of production

1. Land : Natural resources
  2. Labour : Human skill and effort
  3. Capital : Equipment and materials
  4. Enterprise : Organisation and undertaking production
- 
- Together  
produce  
goods and  
services

## Process of a Production System

### Inputs

- \* Materials
- \* Energy
- \* Manpower
- \* Equipment and tools
- \* Capital



### Process

- \* Process productivity
- \* Factors affecting productivity
- \* Productivity enhancement techniques



### Outputs

- \* Intended products
- \* Generated products
- \* Generated wastes

## PRODUCTION COSTS

```
graph TD; A[PRODUCTION COSTS] -.-> B[Direct materials]; A -.-> C[Direct labour]; A -.-> D[Direct expenses]; A -.-> E[Variable production overheads]; A -.-> F[Fixed production overheads];
```

Direct  
materials

Direct  
labour

Direct  
expenses

Variable  
production  
overheads

Fixed  
production  
overheads

# Production

Production is an activity of utter importance for any economy.

In fact, a nation with a high level of productive activities spearheads the prosperity charts.

This is because raw goods, surely are valuable, but production done upon these raw goods adds up to their value or their want-satisfying power.

# Production

Production is the process of working upon the resources of nature and pushing or creating their utilities in order to satisfy the wants of consumers.

It is important to note that production cannot account for the creation of the seed, but it accounts for the transformation of the seed into a tree, the sale of the fruits grown on that tree and so on.

In other words, production is not the creation of matter, which is also out of the realms of human powers.



# Processes in Production

The meaning of production, that production creates or adds utility.

There are various processes through which we can achieve the aim of utility creation or addition to ultimately satisfy human wants. These processes are as follows:

# Processes in Production

## Utility of Form

The manufacturing processes that take physical inputs and produce physical outputs, eventually increasing the utility of the resource being manufactures, are integral branches in the production tree. These processes are the most obvious forms of production. They change the form of the goods under concern, in order to satisfy a greater human want.

For example, changing a log of wood into a table or chair is a manufacturing process. Further, such processes add to the *utility of form* of the raw materials.

# Processes in Production

## Personal Utility

Unlike the manufacturing processes which are tangible, there are various intangible services that contribute towards the utility of the goods. For instance, apples have to be sold by merchants to consumers.

The services of labor are also a part of this category. Such services are intangible but are as important as other processes of production. This imparts personal utility to the materials.

# Processes in Production

## Utility of Place

Another process involves changing the place of the resources, to a place where they experience a greater demand and use.

□ This includes the extraction of natural resources from earth e.g. mining of ores, gold, coal, metal ores, etc. These are further transported to markets where they can be sold.

□ Transportation service from a place where the resource gives little satisfaction to a place where it provides a lot of satisfaction also adds up to the utility. For example, once extracted, the metal ore needs to be taken to an industrial site where it can be further processed. This concept is also known as the utility of place. This includes all the additional utility conferred through the efforts of transportation services or transport agents for the movement and marketing of goods.

# Processes in Production

## Utility of Time

Lastly, storage and manipulating availability drastically change the utility of products. For example, seasonal fruits are canned and various preservation techniques are used for their storage so that they can be sold for higher prices during off-seasons.

Let's take another example of umbrellas. The demand for umbrellas touches the sky during monsoons. In such a case, production of umbrellas takes place generally during the off-season and stored until the monsoon.

At the advent of monsoon, the producers release their stocks of umbrellas to meet the increasing the demand. In this way, we add the *utility of time* through the process of production.

# Theory of Production