

# Concept of Production

4<sup>TH</sup> SEM, HONS, CC-9

PREPARED BY DR SURAJIT LET

## **Meaning of Production:**

Since the primary purpose of economic activity is to produce utility for individuals, we count as production during a time period all activity which either creates utility during the period or which increases ability of the society to create utility in the future.

Business firms are important components (units) of the economic system.

They are artificial entities created by individuals for the purpose of organising and facilitating production. The essential characteristics of the business firm is that it purchases factors of production such as land, labour, capital, intermediate goods, and raw material from households and other business firms and transforms those resources into different goods or services which it sells to its customers, other business firms and various units of the government as also to foreign countries.

## **Definition of Production:**

### **According to Bates and Parkinson:**

“Production is the organised activity of transforming resources into finished products in the form of goods and services; the objective of production is to satisfy the demand for such transformed resources”.

### **According to J. R. Hicks:**

“Production is any activity directed to the satisfaction of other peoples’ wants through exchange”. This definition makes it clear that, in economics, we do not treat the mere making of things as production. What is made must be designed to satisfy wants.

### **What is not Production?**

The making or doing of things which are not wanted or are made just for the fun of it does not qualify as production. On the other hand, all jobs which do aim at satisfying wants are part of production.

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Those who provide services Such as hair-dressers, solicitors, bus drivers, postmen, and clerks are as much a part of the process of satisfying wants as are farmers, miners, factory workers and bakers. The test of whether or not any activity is productive is whether or not anyone will buy its end-product. If we will buy something we must want it; if we are not willing to buy it then, in economic terms, we do not want it.

## **Importance of Exchange:**

So from our above definition it is clear that many valuable activities such as the work done by people in their own houses and gardens (the so-called do it yourself exercise) and all voluntary work (such as free coaching, free-nursing, collection of subscription for a social cause such as flood-relief or earthquake- relief) immensely add to the quality of life but there is no practical way of measuring their economic worth (value).

This being so, and because in economics an important task is to measure changes in the volume of production, it is necessary to add the qualifying clause 'through exchange', i.e., in return for money, to the definition of production.

## **Three Types of Production:**

**For general purposes, it is necessary to classify production into three main groups:**

### ***1. Primary Production:***

Primary production is carried out by 'extractive' industries like agriculture, forestry, fishing, mining and oil extraction. These industries are engaged in such activities as extracting the gifts of Nature from the earth's surface, from beneath the earth's surface and from the oceans.

### ***2. Secondary Production:***

This includes production in manufacturing industry, viz., turning out semi-finished and finished goods from raw materials and intermediate goods— conversion of flour into bread or iron ore into finished steel. They are generally described as manufacturing and construction industries, such as the manufacture of cars, furnishing, clothing and chemicals, as also engineering and building.

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### ***3. Tertiary Production:***

Industries in the tertiary sector produce all those services which enable the finished goods to be put in the hands of consumers. In fact, these services are supplied to the firms in all types of industry and directly to consumers. Examples cover distributive traders, banking, insurance, transport and communications. Government services, such as law, administration, education, health and defence, are also included.

### **Output:**

Any activity connected with money earning and money-spending is called an economic activity. Production is an important economic activity. It results in the output (creation) of an enormous variety of economic goods and services.