

# E101 - 7.1 - Factors of Production

Product Market - The market for consumer goods and services.

Factor Market - The market for the factors of production period

Marginal Revenue Product - The increase in a firm's total revenue that results from the use of one more unit of input.

$$MRP = MP \times P \quad MRP = \frac{\Delta Q}{\Delta L} \quad MRP = \frac{\Delta TR}{\Delta L} \quad L = Labour \quad Real Wage = \frac{Nominal Wage}{Price Level}$$

$$\frac{MP_K}{P_K} > \frac{MP_L}{P_L} \quad \text{It would be profitable to substitute Capital (K) for labour.}$$

$$MRP_L = W \quad \text{Maximum Profit Wage}$$

Labour Force - The total number of people over the age of 15 who are willing and able to work.

Labour Force Supply - The total hours that those in the labour force are willing to work.

Monopsony - A market structure in which there is only one buyer.

Marginal Wage Cost - The extra cost of hiring an additional worker.

Real Wage - The purchasing power of the nominal wage; That is, nominal wage divided by the price level.

Nominal Wage - The wage rate expressed as a dollars and cents figure.

Human Capital - The accumulation of all skills and knowledge acquired by individuals period the accumulation of all skills and knowledge acquired by individuals.

Economic Rent - The return to any factor of production above what is required to keep the factor in its present use.  
Transfer Earnings - A necessary payment that a factor of production must earn in order for it to remain in its present use.

Factor Substitution Effect - One factor replaces another factor as a result of technical logical change.

Factor Output Effect - Rising total output leads to an increased demand for labour.