**Producing Success**

Have you ever been to a Broadway musical or play? So much time, effort, and money goes into the final product that you see. It’s a combination of talented writers, actors, and choreographers, finely tuned musical instruments, a theater with just the right lighting and acoustics, and the money it takes to pay for it all. No wonder that when it all comes together, it’s called a production! Examples of production are all around you, every day. If it weren’t for production, our economy would fail, jobs would disappear, and we’d be without most of the goods and services we depend on to live! As you can see, production is extremely important.

**Production** is the creation of goods and services from economic resources. It combines human, natural, and capital resources to produce such varied products as clothing, meals, agricultural products, appliances, college graduates, farm equipment, and haircuts. All the resources used are called the **factors of production**. What goods or services do the following businesses produce?

**•** Hospitals?

**•** Record labels?

**•** Schools?

**•** Dairy farms?

**•** Cell phone companies?

Goods and services don’t just create themselves. For production to occur, businesses and individuals require certain components. These components are inputs, a conversion process, and outputs. Let’s take a closer look at each.

**Inputs**

The specific economic resources used in producing goods and services are called **inputs**. The basic categories of inputs are **human resources**, **natural resources**, and **capital** or **capital goods**. In other words, the business must have workers, materials to create products, production equipment, and the money to pay for it all. A restaurant, for instance, must have skilled chefs and servers, quality ingredients, and equipment such as ovens, freezers, and dishwashers to produce meals for consumers.

It’s important to note that most businesses don’t receive resources for free. They cost money. Take the restaurant, for example. Its human resources, or employees, must be paid wages and benefits. It must buy fresh produce and other ingredients (natural resources) from food suppliers. And it must also purchase capital goods—appliances, dishes, tables, the building, etc. The money a business uses to purchase resources can come from various sources, such as investors, bank loans, profits from previous sales, **crowdfunding**, etc. This money is often referred to as **financial capital**.

**Conversion process**

Inputs turn into products during the **conversion process**. Conversion processes could include manufacturing, cooking, teaching, constructing, printing, or any activity that takes resources and turns them into something usable.

Some conversion processes rely heavily on the special skills of workers. These conversion processes are known as **labor-intensive**. Examples of labor-intensive conversion processes are dentists performing tooth repair and contractors constructing homes. These professionals use their skills and knowledge to convert inputs into outputs. Other conversion processes depend more on the use of equipment than human resources. These are known as **capital-intensive** conversion processes. Examples of capital-intensive conversion processes are the production of electricity in a power plant and the mass production of automobiles.

Check out the music video for “This Too Shall Pass” from OK Go at <https://www.youtube.com/watch?v=qybUFnY7Y8w&list=RDqybUFnY7Y8w#t=25>.

What are some of the inputs used for this production? Is this an efficient conversion process for the final output?

**Outputs**

The goods and services produced as the result of combining inputs are called **outputs**. Outputs may be **tangible** products such as computers or jewelry, or they may be **intangible** products such as education or health care. Can you think of more examples of tangible and intangible outputs?

Outputs that are sold to producers who will use them to make other products are called **industrial goods**. When a manufacturer sells sewing machines to a clothing producer, the sewing machines are industrial goods because they are being used to make other products for resale. Outputs are categorized as **consumer goods** if they are ultimately sold to consumers. You use consumer goods—a carton of orange juice, a desk lamp, a bottle of shampoo, etc.—every day.

**Importance of production**

A key benefit of production is that it gives resources **form utility**—usefulness created by altering or changing the form, shape, or look of a good to make it more useful or attractive to the end user. Production gives crude oil form utility by refining it into gasoline and oil that consumers can use in their vehicles. Otherwise, the crude oil would be of little use to most consumers. Can you think of more examples of natural resources that receive form utility through the production process?

Without production, businesses would not have anything to sell in order to stay in business. A clothing boutique could not succeed without clothes and jewelry to sell, and a movie theater would have to close if it had no films to show. Even nonprofit organizations rely on production to keep going. The March of Dimes, for instance, wouldn’t receive many grants or donations if it didn’t use its resources to produce results or outputs such as research studies, community services and education, and advocacy for parents and babies.

When production is most efficient, businesses turn out the maximum number of products at the lowest cost. This enables businesses to be competitive. If a business’s costs of production are higher than its competitors’ costs, it will have to set its prices higher than competitors’ prices, which could reduce sales. For example, if it costs a sporting goods company more to make golf balls than it costs its competitor, the company may have to charge more for its golf balls than its competitor. As a result, the company may not be able to sell as many golf balls as its competitor. Watch this video on economic production by Lee A. Arnold for a better understanding of the balance between costs, inputs, outputs, and competition: <https://www.youtube.com/watch?v=LBOLmMtvZ1g>

**Summary**

Production is the creation of goods and services from economic resources. For production to occur, a business needs inputs, a conversion process, and outputs. Inputs are resources, such as human resources, natural resources, and capital resources, that are used to produce a product or service. Conversion processes may be either labor-intensive or capital-intensive and are needed to change inputs into outputs. Outputs are the goods and services created as a result of combining inputs in the production process. Outputs may be either tangible goods or intangible services. If outputs are sold to other producers, they are called industrial goods. If they are sold to ultimate consumers, they are called consumer goods. Production is important because it gives form utility to natural resources, keeps companies in business, and when it is most efficient, allows businesses to turn out the maximum number of products at the lowest cost.