



2 (a) Explain how capital goods contribute to production in a modern economy and how capital is rewarded. [8]

(b) Discuss whether enterprise is crucial to the outward shift of the production possibility curve in a mixed economy. [12]

Resources or Factors of Production

1. **Land:** any natural resource like coal, wood, oil, chemical, metals and the land itself
2. **Labor:** any human effort whether mental or physical used in a business. It includes skilled and unskilled labor.
3. **Capital:** any man made resource including machinery, furniture, laptops, notepads
4. **Enterprise / Entrepreneurs:** a business person who takes the initiative and arranges other factors of production and takes the risk.

<i>Resource</i>	<i>Compensation</i>
land	rent
labor	wages
capital	interest
Enterprise / entrepreneur	profit

Profit = revenue - cost

Depending upon the nature of product the choice of capital goods will be determined. Agricultural production would require tractors, harvesters, insecticides, Manufactured goods require machinery, computers, furniture, building, phones, internet

PRODUCTION POSSIBILITY CURVE / Production Possibility Frontier

Is a graph that shows maximum output that a country can produce in terms of 2 goods.

Any point within the curve shows that the country is not fully utilizing its resources.

Any point on the curve shows full employment of resources.

Any point outside the curve is not achievable.

What factors cause an outward in the PPC?

1. Discovery of natural resources
2. More educated and trained labor force
3. More advance technology which will increase productivity
4. More working population

What factors cause an inward shift in PPC?

1. Natural disaster
2. Working population of a country leaving the country to find employment in other countries
3. Pandemic