

CHAPTER 21 : Firms and production

1. Demand for factors of production

Factors influencing demand for capital goods

1. **Price of capital** ↓ ⇒ Demand for capital ↑
2. **Price of other factors of production** e.g. wage ↑ ⇒ Demand for capital ↑ as firms use more capital to replace workers.
3. **Profit levels** ↑ ⇒ Demand for capital ↑ as firms have the ability to invest in machines.
4. **Corporate tax** ↓ ⇒ Demand for capital ↑ as firms pay lower tax and have higher ability to invest in capital.
5. **Income** ↑ ⇒ Demand for capital ↑ as consumers have higher spending then firms have to increase production and invest more on capitals.
6. **Demand for product** ↑ ⇒ Demand for capital ↑ to produce products responding to higher demand.
7. **Interest rate** ↓ ⇒ Demand for capital ↑ as firms have lower cost of borrowing.

2. Production and Productivity

Production : The process to convert raw material into a product.

Productivity : output per input per period of time.