Chapter Three Economic Operations

What are the main objectives of economic activities

Meeting the needs and wants is the primary goal of economic activity. They involve many activities, such as production, distribution, and trade.

Businesses produce goods and services to meet demand. Some of them provide products to other companies, either as capital goods, semi-finished products, or finished products. And, the others offer consumer products to households and individuals.

Individuals need goods and services to survive. Products and services are also essential for a better lifestyle and standard of living.

Why economic activity continues to develop

Demand for goods and services would increase along with population growth. Not only that, but it is also increasingly varied along with changes in consumer tastes and preferences. Growth and variations in the needs and the wants ultimately spur economic activity.

Individual’s needs and wants are unlimited because we are often unsatisfied with what is at present. Some items may meet the needs. But, we want something more, for example, sophisticated and innovative products.

Product innovation makes life more productive, comfortable, and accessible. You can take the example of a cell phone. It, for example, has been around for a long time to meet your communication needs.

1 the Production

Production is the process of combining various inputs, both material (such as metal, wood, glass, or plastics) and immaterial (such as plans, or knowledge) in order to create output. Ideally this output will be a good or service which has value and contributes to the utility of individuals. The area of economics that focuses on production is called production theory, and it is closely related to the consumption (or consumer) theory of economics.]

The production process and output directly result from productively utilising the original inputs (or factors of production). Known as primary producer goods or services, land, labour, and capital are deemed the three fundamental production factors. These primary inputs are not significantly altered in the output process, nor do they become a whole component in the product. Under classical economics, materials and energy are categorised as secondary factors as they are byproducts of land, labour and capital. Delving further, primary factors encompass all of the resourcing involved, such as land, which includes the natural resources above and below the soil. However, there is a difference in human capital and labour. In addition to the common factors of production, in different economic schools of thought, entrepreneurship and

technology are sometimes considered evolved factors in production. It is common practice that several forms of controllable inputs are used to achieve the output of a product.
The production function assesses the relationship between the inputs and the quantity of output.]

Economic welfare is created in a production process, meaning all economic activities that aim directly or indirectly to satisfy human wants and needs.[3] The degree to which the needs are satisfied is often accepted as a measure of economic welfare. In production there are two features which explain increasing economic welfare. The first is improving quality-price-ratio of goods and services and increasing incomes from growing and more efficient market production, and the second is total production which help in increasing GDP. The most important forms of production are:

- market production
- public production
- household production

In order to understand the origin of economic well-being, we must understand these three production processes. All of them produce commodities which have value and contribute to the well-being of individuals.

The satisfaction of needs originates from the use of the commodities which are produced. The need satisfaction increases when the quality-price-ratio of the commodities improves and more satisfaction is achieved at less cost. Improving the quality-price-ratio of commodities is to a producer an essential way to improve the competitiveness of products but this kind of gains distributed to customers cannot be measured with production data. Improving the competitiveness of products means often to the producer lower product prices and therefore losses in incomes which are to be compensated with the growth of sales volume.

Economic well-being also increases due to the growth of incomes that are gained from the growing and more efficient market production. Market production is the only production form that creates and distributes incomes to stakeholders. Public production and household production are financed by the incomes generated in market production. Thus market production has a double role in creating well-being, i.e. the role of producing goods and services and the role of creating income. Because of this double role, market production is the "primus motor" of economic well-being and therefore here under review.

2 **Exchange economy**

Exchange economy is technical term used in microeconomics research to describe interaction between several agents. In the market, the agent is the subject of exchange and the good is the object of exchange. Each agent brings his/her own endowment, and they can exchange products among them based on a price system. Two types of exchange economy are studied:

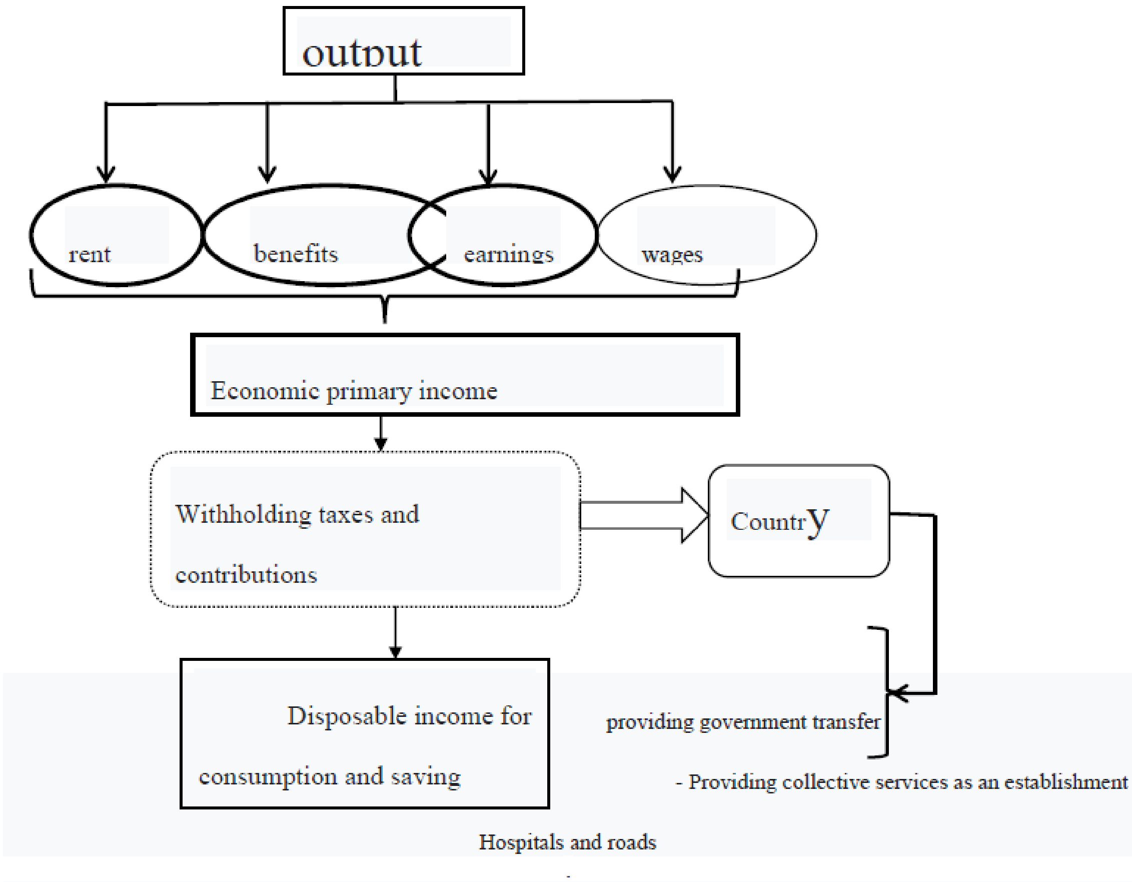
- In a **pure exchange economy**, all agents are consumers; there is no production and all agents can do is exchange their initial endowments. In daily research, to avoid research difficulties caused by a large number of consumers and goods, the simple trading conditions of two consumers and two goods are usually assumed.[1]
- In contrast, in an **exchange economy with production**, some or all agents are firms that may also produce new goods

A major interesting question regarding an exchange economy is if and when the economy attains a competitive equilibrium. Exchange and distribution efficiency are concerned.

3 **distribution**

In economics, **distribution** is the way total output, income, or wealth is distributed among individuals or among the factors of production (such as labour, land, and capital).[1] In general theory and in for example the U.S. National Income and Product Accounts, each unit of output corresponds to a unit of income. One use of national accounts is for classifying factor incomes and measuring their respective shares, as in national Income. But, where focus is on income of *persons* or *households*, adjustments to the national accounts or other data sources are frequently used. Here, interest is often on the fraction of income going to the top (or bottom) *x* percent of households, the next *x* percent, and so forth (defined by equally spaced cut points, say quintiles), and on the factors that might affect them (globalization, tax policy, technology, etc.).

Title: Representing the Distribution and Redistribution of National Income......



“Each member of the establishment has a job that he performs and he is entitled to a return or income, whether this job is represented in a work he performs in production for which he deserves a wage, or this job is represented in a capital he owns and he waives the right to use it to others or freezes it in the form of production equipment, and therefore he deserves benefit , Or this job is represented by a job that he does without others, bearing the risks that this work may involve, and thus deserves a profit, or this job is represented in owning land or a natural resource that he participates in in the production process, and therefore he deserves a rent in exchange for the scarcity of this resource.
With regard to the employee who receives the wage, he is subject to deductions by the state in the form of taxes provided to the state in order to improve public facilities, and accordingly, the employee finally obtains available income directed to saving and consumption.

4 **Consumption**

Consumption is the act of using resources to satisfy current needs and wants It is seen in contrast to investing, which is spending for acquisition of *future* income. Consumption is a major concept in economics and is also studied in many other social sciences.

Different schools of economists define consumption differently. According to mainstream economists, only the final purchase of newly produced goods and services by individuals for immediate use constitutes consumption, while other types of expenditure — in particular, fixed investment, intermediate consumption, and government spending — are placed in separate categories (see consumer choice). Other economists define consumption much more broadly, as the aggregate of all economic activity that does not entail the design, production and marketing of goods and services (e.g., the selection, adoption, use, disposal and recycling of goods and services).

Economists are particularly interested in the relationship between consumption and income, as modelled with the consumption function. A similar realist structural view can be found in consumption theory, which views the Fisherian intertemporal choice framework as the real structure of the consumption function. Unlike the passive strategy of structure embodied in inductive structural realism, economists define structure in terms of its invariance under intervention

5 Investment

Investment is the value of all goods and services produced for use in the production of other goods. Characteristics of economic investment pertain to how they're made when they're made, and scope: How: Economic investments are made via the purchase of real assets like labor, land, or production machinery