

The factors of production

Read online at pastopic.com/cambridge/economics-0455/notes/factors-of-production

Last checked 5 October 2026

Read first: [The nature of the economic problem](#)

© 2026 Pastopic. Free for personal study. Please share the link, not the file.

What you need to know

By the end of this topic you should be able to:

1. **Define the four factors of production and their rewards, with examples of each.** Land (natural resources, earning rent), labour (human effort, earning wages), capital (human-made goods used to make other products, earning interest) and enterprise (organising the other factors and taking risks, earning profit).
2. **Explain the mobility of the factors of production:** how easily each factor can move to a different use (occupational mobility) or a different place (geographical mobility), and what makes a factor more or less mobile.
3. **Explain the causes of changes in the quantity and quality of each factor:** why a country may end up with more or less land, labour, capital and enterprise, and why each may become better or worse at producing.

Understand it

What a factor of production is

A **factor of production** is a resource used to produce goods and services. Every product, from a loaf of bread to a haircut, needs some mix of four of them. They are the finite resources of the economic problem: because they are limited, an economy cannot produce everything people want.

Factor	What it is	Examples	Reward
Land	Natural resources: everything provided by nature, on or under the ground, in the sea or in the air	A forest, farmland, fish in the sea, oil and gold under the ground, a river, a crop of wheat still growing	Rent
Labour	Human effort, physical and mental, used in production	Farm workers, pilots, van drivers, teachers, doctors	Wages (and salaries)

Factor	What it is	Examples	Reward
Capital	Goods made by people that are used to produce other goods and services (capital goods)	Machines, tools, tractors, vans, aircraft, factories, offices, a café building, railway track, a computer network	Interest
Enterprise	The ability and willingness to organise the other three factors, make the key decisions and bear the risk of the business	The owner who starts a restaurant, the founder of a technology firm	Profit

The person who supplies enterprise is an **entrepreneur**.

Telling the factors apart

Most multiple-choice questions on this topic test whether you can put an item in the right box. Four tests settle almost every case:

- **Was it made by people?** If not, it is **land**. A forest, a field, wheat growing in it and fish in a lake are land. Once people have processed something (bread from wheat, a building on a plot) it is no longer land.
- **Is it a made good used to make something else?** Then it is **capital**. A railway track, a factory, an aircraft and a delivery van are capital because they help produce transport, goods or meals.
- **Money is not a factor of production.** A 10-dollar note or savings in a bank produce nothing on their own. In economics, capital means the machines and buildings that money can buy, not the money itself.
- **Working for the business is labour; owning, organising and risking is enterprise.** A chef, a pilot or a driver supplies labour. The owner who decides what to sell, hires the staff and loses money if the business fails supplies enterprise.

Every business uses all four, even when a question only mentions some. A hairdresser's salon uses labour (the stylists), capital (the salon, chairs, dryers), enterprise (the owner) and land (the site it stands on and the water it uses). When a firm changes what it uses, sort each change the same way: a bakery that installs two extra ovens and takes on a night-shift baker has added capital and labour; a hospital that swaps its scanners for newer models and sends its nurses on courses has raised the quality of its capital and its labour.

Only people count as labour when they are working or able and willing to work. Young children and retired people are not part of the labour force.

The rewards

Each factor earns an income for its owner:

- the owner of **land** is paid **rent** for its use;
- **workers** are paid **wages**;
- the owner of **capital**, or whoever lent the money to buy it, earns **interest**;
- the **entrepreneur** keeps the **profit**.

Rent, wages and interest are **agreed before production takes place**: a contract says how much the landlord, the workers and the lender will be paid. **Profit is not**. It is what is left over after every other cost has been paid, so the entrepreneur only finds out afterwards, and it can be negative (a loss). That uncertainty is the **risk** that enterprise bears.

$$\text{profit} = \text{total revenue} - \text{total costs}$$

For example, a café takes 30 000 dollars in a month. It pays 4 000 dollars rent, 12 000 dollars in wages, 1 000 dollars interest on a loan for its equipment and 9 000 dollars for ingredients and electricity. Its costs are 26 000 dollars, so the owner's profit is 4 000 dollars. If takings fall to 24 000 dollars, the landlord, the staff and the lender are still paid in full, but the owner makes a **loss** of 2 000 dollars.

One person can supply more than one factor, and then earns more than one reward. An owner who also cooks in her own restaurant earns profit (enterprise) and wages (labour). Someone who rents a building to a business and also works there earns rent and wages.

Mobility of the factors of production

Mobility is how easily a factor can be moved. There are two kinds:

- **Occupational mobility**: how easily a factor can change from one use, job or industry to another.
- **Geographical mobility**: how easily a factor can move from one place to another, within a country or abroad.

The two are different, and questions often test whether you can tell them apart. A shipyard welder whose skills are used only in shipbuilding is **occupationally** immobile because of those **skills**; whether he is also willing to leave his town is a separate, **geographical**, question.

Labour. What makes workers more or less **occupationally** mobile:

- **Skills and qualifications**. Skills that can be used in many jobs (general, transferable skills) make it easy to change jobs; skills that fit only one job (a miner, a specialist surgeon) make it hard.
- **Education, training and retraining**. Workers who can learn new skills can move to new jobs, so government or firm spending on retraining and apprenticeships raises occupational mobility.
- **Entry requirements**. Long training or strict licences to enter a profession (doctor, lawyer, pilot) keep others out.
- **Age and experience**. Younger workers usually have more recent qualifications, find it easier to learn new skills and hear about openings online, so they switch jobs more easily; older workers may have skills that are out of date and find retraining harder.
- **Income**. A worker with a higher income can afford to pay for courses and gain new qualifications.

What makes workers more or less **geographically** mobile:

- **Housing**. Cheap and available housing in the new area makes moving easy; big differences in house prices, or a shortage of homes to rent, make it hard.

- **Cost of moving and of living.** Transport costs, moving costs and a high cost of living in the new area discourage moving. Better, cheaper transport and relocation grants help.
- **Family and friends.** Strong family ties, and children settled in local schools, keep people where they are. Young workers often have fewer of these ties (and may be fitter and more ready to adapt to a new place), so they tend to be more geographically mobile than older workers.
- **Information.** Workers who do not know about jobs elsewhere cannot move to them.
- **Government rules.** Visa requirements, limits (quotas) on foreign workers, language tests and not recognising foreign qualifications all reduce mobility between countries. A shortage of skilled workers in a country, and higher wages or lower taxes there, attract workers from abroad.
- **Income.** A worker with a higher income can afford the costs of moving.
- **Working from home** and online work let people take jobs far away without moving at all.

Land is **geographically immobile**: a field or a mine cannot be moved. But it is often **occupationally mobile**: farmland can grow a different crop, or be built on for houses or a factory. Some land is harder to switch (a mountain is poor for farming).

Capital varies. Some is geographically mobile (vans, laptops, tools can be moved), some is not (a factory, a railway track). General capital, such as a delivery van or a computer, is occupationally mobile; specialised capital, such as a steel furnace, can only be used for one thing, so it is occupationally immobile.

Enterprise is usually the most mobile factor: the skills of organising and risk-taking can be used in almost any industry and in any place.

Why greater mobility matters

When labour is more mobile, workers can move from industries and areas where jobs are disappearing to those where firms are short of workers. This:

- **reduces unemployment**, especially structural unemployment (a mismatch of skills) and frictional unemployment (time spent between jobs), because workers find new jobs more quickly;
- **fills labour shortages**, so firms can produce more and do not have to push wages and costs up to attract scarce workers;
- lets firms **respond quickly to changes in demand**, so the economy produces more of what people want and output rises;
- gives workers **more choice of jobs**, often with higher pay and better conditions.

It can also have costs: areas that lose workers can decline, workers who cannot move are left further behind, and areas that gain workers can become crowded, with pressure on housing and services.

Changes in the quantity and quality of the factors

The **quantity** of a factor is how much of it there is. Its **quality** is how productive it is: how much each unit can help produce. An increase in either means the economy can produce more.

Land

- *Quantity rises*: land reclaimed from the sea, forest cleared for farming, new deposits of oil or minerals discovered.
- *Quantity falls*: rising sea levels and flooding, soil erosion, desert spreading, non-renewable resources such as oil being used up.
- *Quality rises*: fertilisers, irrigation, drainage, cleaning up pollution, better farming methods.
- *Quality falls*: over-farming, pollution, deforestation, climate change.

Labour

- *Quantity rises*: a larger population (higher birth rate earlier on, lower death rate), more immigration than emigration, a higher retirement age, more people of working age, more women and older people choosing to work.
- *Quantity falls*: a falling birth rate, an ageing population, emigration of workers, a lower retirement age, a longer time in full-time education.
- *Quality rises*: better education and training (more skills), better healthcare and nutrition (fitter workers, fewer days off), work experience, immigration of skilled workers.
- *Quality falls*: poor schooling, loss of skills during long unemployment, emigration of the most skilled (a "brain drain").

Capital

- *Quantity rises*: **investment**, that is firms or the government buying more capital goods, encouraged by low interest rates, high demand and business confidence.
- *Quantity falls*: capital wears out or is destroyed (by a war or natural disaster) faster than it is replaced.
- *Quality rises*: new technology, often from research and development, makes machines faster and more reliable.

Enterprise

- *Rises*: higher expected profits, lower taxes on profits (corporate tax), lower interest rates on business loans, less regulation and paperwork, grants and advice for new firms, education in business skills, economic confidence, immigration of entrepreneurs.
- *Falls*: lower profits or higher corporate tax (less reward for the risk), higher interest rates (costlier to borrow to start a firm), more regulation, a recession or war (more risk, less confidence), entrepreneurs emigrating to countries with better prospects, nationalisation (the state takes over firms), fewer people with business skills.

Key facts and formulas

This topic has no formulas to use in a calculation apart from profit, and the exam gives no formula list. "Learn it" means you must remember it.

Fact	Status
Factor of production: a resource used to produce goods and services	Learn it
Land = natural resources, reward rent	Learn it
Labour = human effort, reward wages	Learn it
Capital = human-made goods used to produce other goods and services, reward interest ; money is not capital	Learn it
Enterprise = organising the factors, making decisions and taking risks, reward profit	Learn it
Rent, wages and interest are agreed before production; profit is not known until afterwards and can be a loss	Learn it
$\text{profit} = \text{total revenue} - \text{total costs}$	Learn it
Occupational mobility: ease of changing job or use; geographical mobility: ease of changing place	Learn it
Skills, qualifications and training affect occupational mobility; housing, moving costs, family ties, information and visa rules affect geographical mobility	Learn it
Land is geographically immobile but often occupationally mobile	Learn it

How to do it

In the questions we have tagged for this topic (39 questions, 2021 to March 2026: 25 multiple choice and 14 Paper 2 questions), we counted the parts about the factors of production. Four Paper 2 questions have two such parts, so there are 43 parts from 39 questions.

Question type	Questions
Multiple choice (concept)	25
Explain (4 marks)	9
Analyse (6 marks)	3
Discuss (6 marks, Section A)	3
Identify (2 marks)	2
Analyse (4 marks, Section A)	1

By content, the parts are about classifying resources as a factor (13), the mobility of labour and land (17, including 2 on the effects of greater mobility), the quantity or quality of a factor (8) and factor rewards (5). No 8-mark Discuss part on this topic has been set yet, but worked example 4 shows one, since this topic often feeds a Section B part (d).

1. Multiple choice (concept) (25 questions)

1. **Decide what is being tested:** which factor an item is, which reward goes with which factor, which kind of mobility, or what changes the quantity or quality of a factor.
2. **Classify with the four tests:** made by nature → land; made by people and used to produce → capital; human work → labour; owning, organising and risk → enterprise. Money is never a factor.
3. **For mobility,** first decide whether the question asks about **occupational** (skills, training, qualifications) or **geographical** (housing, transport, relocation costs, family ties, job information) mobility, then cross out options about the other kind.
4. Watch for "**least likely**", "**not**" and "**most likely**" in bold. Three options may all be true about mobility in general; only one fits the question.

Variations you will meet:

- **Which factor is this?** (13 questions): a forest or wheat is land; a railway track, factory, aircraft or computer network is capital; pilots and drivers are labour; the owner is enterprise. "Which factors changed?" when a firm buys vans and hires drivers: capital and labour. "Which statement is correct?": land includes trees and fish; capital is **not** savings; labour does **not** include children and pensioners. A shortage in a service (a university turning away applicants) points to a **scarcity of labour** (too few teaching staff).
- **Mobility** (6 questions): retraining raises **occupational** mobility; low-cost housing, relocation expenses, better roads and job information raise **geographical** mobility; strengthened family ties reduce it; a worker with no relevant skills is occupationally immobile. A shortage of skilled workers encourages immigration; high housing costs and quotas on foreign workers discourage it.
- **Rewards** (3 questions): land–rent, labour–wages, capital–interest, enterprise–profit. When one person has two roles, give both rewards (owner-chef: profit and wages). Profit is the only reward not set before production.
- **Quantity and quality** (3 questions): a fall in population reduces the factors available (new resources and better technology add to them, and unemployment leaves the labour force the same size); less regulation on firms raises enterprise (more education would too; more emigration and higher taxes on firms reduce it). Land reclamation adds land, not **human** resources; health, education and nutrition improve labour.

2. Explain (4 marks) (9 questions)

These are point-marked: usually **two points**, each worth 1 mark for **identifying** it and 1 for **explaining** it. If you give more than two, only the first three are considered.

1. **Identify** the cause or influence in a few words (1).
2. **Explain** how it changes the factor, and say which change: "so more people are available to work", "so workers can move to jobs in other areas, raising geographical mobility" (1).

3. Repeat for the second point, using a **different** idea, not the reverse of the first.

Variations you will meet:

- **Influences on the mobility of labour, or why it may increase** (3 questions, including one on attracting foreign workers from the source): tie each influence to **occupational** or **geographical** mobility. Education and training → new skills → occupational mobility. Cheaper transport or housing → can take jobs in other areas → geographical mobility. Removing a language test or letting workers bring their families → more foreign workers willing to come.
- **Why one group of workers is more mobile than another** (1 question, young against older workers): give one occupational reason (more recent skills and qualifications, better informed about jobs online) and one geographical reason (fewer family ties, more able to adapt to a new place), and say which mobility each one raises. The March 2026 report notes that answers about young people in general, without linking to mobility, scored little.
- **How a rise in income affects mobility** (1 question): workers can afford to move to another area (geographical) and to pay for courses and qualifications (occupational). Examiners report that many answers said only "they move to better-paid jobs", which misses the point.
- **Whether land is mobile** (1 question): land cannot be moved, so it is geographically immobile (1), with an example (1); but it can change use, for example from farming to housing, so it is occupationally mobile (1), with an example (1).
- **Causes of a change in quantity or quality** (3 questions: enterprise, land, quality of labour): say **what changes** and in which direction. "Corporation tax rises (1), so the reward for taking risks falls and fewer people start firms (1)." Stating only "tax" or "education" without saying whether it went up or down caps the answer at 2 marks.

3. Analyse (6 marks) (3 questions)

Point-marked: each link in a chain of reasoning earns a mark, up to 6. Write **two or three developed chains**, each of 2–3 linked steps, rather than a list.

1. **Point:** name the influence or advantage (1).
2. **Develop:** what it does, using "so", "this means", "as a result" (1).
3. **Link to the economics:** the type of mobility, unemployment, output or costs (1).
4. Repeat with a different point.

Variations you will meet:

- **The influences on the mobility of labour:** one chain on occupational mobility (transferable skills and qualifications), one or two on geographical mobility (visa rules, cost of living, transport, family ties, house prices, working from home, language, taxes abroad).
- **The advantages of an increase in labour mobility:** workers change jobs or areas more easily → structural and frictional unemployment falls → incomes rise and the government pays less in benefits; labour shortages are filled → firms' costs fall → output and GDP rise; firms can respond quickly to changes in demand.

- **Why workers may migrate to another area:** higher incomes and more jobs, better services (health, education), cheaper or available housing, a lower cost of living or lower taxes, safety, climate. Plain reasons earn at most 3 marks, so develop each one.

4. Discuss (6 marks, Section A) (3 questions)

Section A Discuss parts are point-marked: **up to 4 marks for one side and up to 4 for the other**, 6 in total. Each point counts once, on one side only; the reverse of a point you have already made earns nothing, but a **different** reason on the other side does.

1. **Why it might** (or why it is likely): two developed points, 2 marks each.
2. **Why it might not:** two developed points, 2 marks each.
3. Use the source material, then a short conclusion.

Variations you will meet:

- **Will labour mobility increase in the future?** Yes: better education and training raise occupational mobility; better, cheaper transport raises geographical mobility. No: an ageing workforce has out-of-date skills and is less willing to move; rising house prices make moving to expensive areas hard.
- **Does internal migration benefit an economy?** Yes: workers move to more productive areas, output rises, less pressure on resources in the areas they leave. No: communities left behind decline, inequality grows between mobile and immobile workers, congestion and housing shortages where they arrive.
- **Is enterprise likely to have increased?** Yes: immigration of entrepreneurs, more education, government spending boosting demand. No: higher corporation tax, low confidence, higher interest rates.

5. Identify (2 marks) (2 questions)

1 mark each, no explanation needed. "Identify the rewards to capital and land": interest (1), rent (1). "The reward to labour and to land": wages (1), rent (1). Give the reward, not a description of the factor ("machinery", "farmland" and "having a job" score nothing).

6. Analyse (4 marks, Section A) (1 question)

How investment in **capital goods** and **education** raises productivity: more and better machines let each worker produce more (1), new technology cuts the time each unit takes (1); education gives workers more skills (1), so they work faster, make fewer mistakes and can use advanced machines (1). One developed chain for each factor.

Worked examples

Example 1

Which change increases the **quality**, rather than the quantity, of a country's capital?

- **A** a courier firm buys 200 more delivery vans of the model it already uses
- **B** an insurance firm replaces its 50 old computers with 50 much faster ones
- **C** a new warehouse is built next to a port
- **D** households put a larger share of their income into savings accounts

[1]

The number of computers stays at 50, but each one now does more work in the same time, so the capital is better, not bigger. The answer is **B**. (1)

A and C add more capital goods, so they raise its **quantity**. D is wrong twice over: savings are money, and money is not capital at all.

Example 2

Explain two differences between the reward to labour and the reward to enterprise. [4]

Wages are agreed before production, in a contract (1), whereas profit is only known afterwards, as what is left of revenue once every other factor has been paid (1).

Workers are paid their wages even if the business does badly (1), but the entrepreneur bears that risk: profit can fall to zero or become a loss (1).

Example 3

In a country, the share of people aged over 65 is rising and fewer young people leave school each year. Analyse how this could affect the quantity and quality of the country's labour. [6]

Fewer school-leavers join the labour force each year (1), while more older workers reach retirement and leave it (1), so the number of people able and willing to work falls: the **quantity** of labour decreases (1).

Older workers may have skills that are out of date, for example with new technology (1), and may be less willing to retrain (1), so output per worker may fall: the **quality** of labour can decrease (1).

On the other hand, the government may raise the retirement age (1), which keeps experienced workers in the labour force for longer and limits the fall in quantity (1).

(Any six linked steps like these reach the 6 marks.)

Example 4

Discuss whether or not more people working from home will increase the mobility of labour. [8]

This is levels-marked: Level 3 (6–8 marks) needs both sides developed with clear analysis and a justified conclusion.

Why it might. Working from home separates where a person lives from where the employer is. A worker in a small town can take a job with a firm in a distant city without paying to move, finding new housing or leaving family behind, so the usual barriers to geographical mobility (house prices, moving costs, family ties) stop mattering. Employers can also recruit from the whole country, so vacancies in areas short of workers are filled more easily, which reduces regional unemployment. *(One side developed: at least Level 2.)*

Why it might not. Many jobs cannot be done from home: farming, building, nursing and factory work all need people on site, so for those workers nothing changes. Working from home also does nothing for **occupational** mobility: a worker whose skills fit only one industry still cannot switch jobs without training. And it depends on good internet access and a computer, which many workers in poorer areas lack, so the gain goes mostly to workers in office jobs who were already fairly mobile. *(Both sides developed with clear analysis: Level 3.)*

Conclusion. More home working is likely to raise geographical mobility for office and online jobs, because it removes the cost of moving, but it leaves occupational mobility and on-site jobs unchanged. Its overall effect therefore depends on how much of a country's work can be done remotely. *(A justified judgement that depends on conditions: top of Level 3.)*

Common mistakes

- **Confusing capital with the other factors.** Examiners report candidates mixing up enterprise with capital. Keep them apart: capital is a made good used in production (a machine, a building); enterprise is the organising and risk-taking. Money is not capital either: savings or a bank loan produce nothing on their own.
- **Leaving out a factor that is there.** In one year 40% of candidates left capital out of a question about a small food business, although the building it worked in is capital. Look for every factor, including land and enterprise.
- **Giving the wrong reward or a description.** The reward for capital is interest, not "machinery"; for land it is rent, not "farmland". Know the four pairs cold.
- **Mixing up occupational and geographical mobility.** In one year most candidates picked a geographical reason (family ties) when asked about a worker's occupational immobility, which is about skills. Decide which kind the question asks about first.
- **Writing about getting to work faster.** Labour mobility is about changing jobs or areas, not about how quickly people travel to work each day. Examiners saw this misunderstanding more than once.
- **Writing about firms' demand for labour** when asked about influences on mobility. Mobility is about workers' ability and willingness to move.
- **Not saying what changes.** "Education" is not a cause; "more spending on education" or "a cut in education" is. Mark schemes cap answers that list influences without saying which way they change.
- **Defining a factor of production by listing the four.** If asked to define it, say what it is: a resource used to produce goods and services.
- **Only half-answering "whether land is mobile".** Give both sides: geographically immobile, but occupationally mobile, each with an example.

How to get the marks

- **Command words.** *Identify* means name it, no explanation. *Define* means the exact meaning. *Explain* means give a reason and link it with "so" or "this means". *Analyse* means a developed chain of reasoning, step by step. *Discuss* means both sides and a justified conclusion.
- **Explain (4 marks):** two points, each identified (1) and explained (1). Keep them separate and different; don't use the reverse of your first point as your second.
- **Analyse (6 marks):** every link in a chain earns a mark. Two or three chains of two or three steps each are safer than six short, unlinked statements. For "why workers migrate", plain reasons alone are capped at 3.
- **Discuss (6 marks, Section A):** up to 4 marks a side. Two developed points each way, and each point counts only once.
- **Discuss (8 marks, Section B)** is levels-marked: one side developed reaches Level 2 (3–5); both sides developed with a justified judgement reaches Level 3 (6–8).
- **Use the terms.** Name the mobility ("occupational", "geographical"), the factor and its reward. Examiners reward accurate vocabulary.
- **Use the source** in Section A: if it mentions a language test, house prices or an ageing workforce, build your points on them.
- **Stick to the number asked for.** If two are asked for and you give more, only the first three are considered.

Quick check

1. A coastal country reclaims 30 square kilometres from the sea and builds a container port on part of it. How are the reclaimed area and the port classified?
 - **A** land and land
 - **B** land and capital
 - **C** capital and capital
 - **D** capital and land
 2. In Riverland, families who rent social housing lose their place on the waiting list if they move to another region, while the coastal region next door has many unfilled vacancies. Which policy would most help Riverland's workers take those vacancies, without changing the range of jobs they are able to do?
 - **A** tenants who move for work keep their social-housing place in the new region
 - **B** a firm moves each new recruit through four different departments during their first year
 - **C** years worked as an electrician count towards the licence needed to work as a plumber
 - **D** every 14-year-old learns to write computer code at school
 3. A printing firm's revenue last year was 250 000 dollars. It paid 40 000 dollars rent, 120 000 dollars in wages, 15 000 dollars interest on a loan for its presses and 50 000 dollars for paper and ink. (a) Calculate its profit. (b) This year revenue falls by 10% and every cost stays the same. Calculate the new profit, and state which factor owner bears the whole fall.
 4. Identify the factor of production supplied by (i) a dentist working in a clinic and (ii) the clinic's dental chair.
- [2]

5. Explain two ways a fall in interest rates could affect the factors of production in an economy. **[4]**

Answers

1. **B.** The reclaimed area is still natural ground, so it counts as land (reclamation adds to the **quantity** of land). The port was built by people and is used to produce transport services, so it is capital.
2. **A.** The barrier here is housing: keeping their social-housing place means workers no longer lose their home by moving, so they can follow the vacancies to the coast and **geographical** mobility rises, while their skills stay the same. B, C and D each give workers skills or recognition they can use in other kinds of work, so they raise **occupational** mobility instead.
3. (a) Total costs are $40\,000 + 120\,000 + 15\,000 + 50\,000 = 225\,000$ dollars, so profit = $250\,000 - 225\,000 = 25\,000$ dollars. (b) New revenue = $250\,000 \times 0.9 = 225\,000$ dollars, so profit = $225\,000 - 225\,000 = 0$ dollars. The landlord, the workers and the lender are paid in full; the **entrepreneur** bears the whole fall of 25 000 dollars, because profit is the only reward not fixed in advance.
4. (i) Labour (1). (ii) Capital (1).
5. Borrowing to buy machines and buildings becomes cheaper (1), so firms invest more and the **quantity of capital** rises (1). It also becomes cheaper to take out a loan to start a business (1), so more people are willing to take the risk and **enterprise** increases (1).

Past questions to try

- 0455/21/M/J/22 Q5: the rewards to labour and land, and how a rise in income affects mobility, in parts (a) and (b).
- 0455/22/F/M/22 Q5: whether land is mobile, in part (b).
- 0455/12/F/M/21 Q1: the incomes of two people who each supply two factors.
- 0455/22/M/J/21 Q4: causes of an increase in the quality of labour, in part (b).