BS-IT(2nd Sem)
Topic:Factor Market Analysis

What Is a Factor Market?

"Factor market" is a term economists use for all of the resources that businesses use to purchase, rent, or hire what they need in order to produce goods or services. Those needs are the factors of production, which include raw materials, land, labor, and capital.

The factor market is also called the input market. By this definition, all markets are either factor markets, where businesses obtain the resources they need, or goods and services markets, where consumers make their purchases.

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In the view of economists, there are only two markets: the factor market and the goods and services market.

- They also can be called the input market and the output market.
- The input market supplies the resources needed to make finished products.
- The output market buys and uses the finished products.
- The factor market is driven by demand in the goods and services market.

- What Transactions Take Place in a Factor Market?
- In the factor market, businesses are the buyers. They may buy, rent, or hire raw materials, land, or labor. Whatever a business needs in order to build, package, and deliver the products or services they provide must be obtained in the factor market.
- The sellers include producers of raw materials. However, every individual who has a job is a participant in the factor market. The skills and labor that the person is offering in return for compensation is a product that is made available in the factor marke
- What Are the Types of Factor Market?
- Economists generally divide the factor market into four components:
- The labor market, in which people make themselves available for hire
- Capital, or money, which is available as business loans or investment
- The land market, which is widely defined to include all the natural resources
- Entrepreneurship, the creators of companies
- These are the factors of production.

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- Understanding a Factor Market
- A factor market is termed an input market, while the market for finished products or services is an output market. This can be viewed as a closed-loop flow: In the factor market, households are sellers and businesses are buyers, while in the goods and services market, businesses are sellers and households are buyers.1
- Workers are participating in the factor market when they make their services available to businesses. An individual member of a household who is looking for a job is participating in the factor market. An employee's wages are a component of the factor market, but the money will be spent in the goods and services market.
- The factor market provides every component required to produce goods and services.
- In the appliance manufacturing industry, workers who are skilled in refrigerator and dishwasher assembly are considered to be part of the factor market when they are available for hire. In the modern world, job search websites are part of the factor market.

- Free Markets in a Factor Economy
- The factor market is one of the defining characteristics of a market economy.
- Traditional models of socialism are characterized by the replacement of factor markets, which respond to the dictates of supply and demand, with central economic planning, which dictates supply and assigns resources accordingly.
- The assumption of socialism is that market exchanges are redundant within the production process if capital goods are owned by a single entity representing the interests of the society as a whole.

- Monopoly and Monopsony in the Factor Economy
- A monopoly exists when there is only a single producer or seller of a product or service to serve many buyers. A monopsony is the opposite: there are many producers but only one buyer.
- Both are considered examples of market failures. The law of supply and demand can't work efficiently in either situation because of a lack of competition.
- This has particular relevance to the labor component of the factor market. An employee has no bargaining power in a town where there is only one possible employer. Moreover, a consumer faced with one brand has no choice but to pay the price demanded and accept the quality offered.
- A monopoly has an equally destructive effect in the factor market. A single supplier is under no pressure to cut prices, innovate, or even excel.
- Monopoly and monopsony are seen as disturbing the equilibrium of a factor market, which depends on competition to work efficiently.2

Topic:Problems Of Labor

- **"The labor problem"** is the economics term widely used toward the turn of the 20th century with various applications.[1] It has been defined in many ways, such as "the problem of improving the conditions of employment of the wage-earning classes."[2]
- The labor problem encompasses the difficulties faced by wage-earners and employers who began to cut wages for various reasons including increased technology, desire for lower costs or to stay in business. The wage-earning classes responded with strikes, by unionizing and by committing acts of outright violence. It was a nationwide problem that spanned nearly all industries and helped contribute to modern business conditions still seen today. Possible causes include the failure to account for the negative externality of reproduction in the face of finite natural resources which results in over-supply of labor and falling living standards for wage-laborers, depersonalization by machines and poor working conditions.

- Time frame[edit]
- A popular debate about the labor problem is the time that it encompasses. Some characterize it back as far as the 1860s, which is when many unions and groups began to form. However there wasn't a problem present at this time with the formation of these unions. Also, the first strike was a result of the problem between wage earners and union officials, not employers and unions or employers and wage-earners, which was the main conflict of this time.[3]
- Since the problem was within unions and not between unions and employers, the Labor Problem had not yet become an issue. Many also attribute the end of the problem to the end of the 1920s. This has some merit but is also open to interpretation. Reforms began to pass to correct many of the problems but reforms continued to pass well into the 1930s, 1940s and 1950s. The civil rights movement took over in the United States, which brought about even further legislation. Many attribute the end of the labor problem to the late 1920s because it marks a significant drop in strikes and violence and an increase in passed legislation aimed at correcting the labor issue

- Notable events[edit]
- Riots broke out in Baltimore in 1877 due to the negligence of union officials. It began as a railroad strike but eventually formed riots that lasted four days and killed fifty people.[3] The first strike due to depersonalization by machines was the Homestead Strike in 1892 on the Carnegie Steel Company by the Amalgamated Association of Iron and Steel Workers (AA).[5] This ultimately resulted in the attempted assassination of Henry Clay Frick, Chairman of The Carnegie Steel Company, and a crushing blow in the attempt to unionize steel workers.
- Another example is the Pullman Strike in 1894, where almost 4,000 workers who were members of the American Railway Union (ARU) went on a strike without permission of the union to protest wage cuts by the Pullman Company.[6] One extreme example occurred when train engineers and laborer stopped a train before it reached the station in New York City, stranding men, women and children alike in the heat

- Effects[edit]
- Legislation like the Wagner Act (1935) and the Fair Labor Standards Act (1938) were passed which forced employers to participate in collective bargaining and presented a minimum wage respectively.[8] Child Labor laws have also been reformed, limiting the age at which children can begin work and what type of work they can perform. The Department of Labor was established in 1913.[8]
- While some pieces of legislation like the aforementioned Wagner Act and Fair Labor Standards Act were not passed until the 1930s, their roots trace back to this Labor Problem at the turn of the century when demand for reform was growing in popularity. Many aspects of modern business like an established 40-hour work week, overtime pay, collective bargaining and safer working conditions among numerous other reforms can all trace their roots back to this time period and the legislation passed to correct it.[8]

Topic:Wages and Determination

- Unlike many industries that pay employees the same rate of pay regardless of work performed, in the construction industry there are several factors that need to be evaluated to ensure the correct rate is used for each hour worked by an employee in order to avoid Department of Labor violations.
- A wage determination is a wage decision made to assign the appropriate rate of pay to employees in order to comply with contract-mandated rates based on the project, union, job, or location where work is performed.
- **Example of a wage determination scenario:**
- On Monday an employee works 8 hours on Project A as a Welder. The contract rate for being a Welder is $32/hr. However the employee has been with the company for several years and their base rate is $35/hr. In this case the employee earns their base rate, which is higher than the contract required rate.
- On Tuesday the employee works 8 hours on Project B as a Supervisor. The contract rate for a Supervisor on this project is $40/hr. For this day's work, the employee gets the contract rate which is higher than their base rate. These different rates are used at the end of the week to determine the weekly average rate for any overtime worked by the employee.
- To add further complexity, wage determination may also include enforcing the highest wage rate policies of paying the employee the highest rate from a contract rate (like a prevailing wage rate), their base rate, or their union rate. The highest wage rate policy is designed to protect employees by ensuring they will get the most favorable rate of pay even if asked to perform a task that is below their normal rate of pay.
- Most Time and Attendance Systems cannot handle the complexity of assigning wages based on multiple wage-decision factors.

Shifts in the supply curve

Labour supply can change under a number of circumstances, including changes in:

The length of the working week.

Participation rates.

Demographic factors, such as migration, and changes in the age structure of the population.

Qualifications and skills required.

The length of training.

- Topic:Capital Interest in Enteroprenurere
- What Is Capital?
- Capital is a broad term that can describe any thing that confers value or benefit to its owner, such as a factory and its machinery, intellectual property like patents, or the financial assets of a business or an individual. While money itself may be construed as capital is, capital is more often associated with cash that is being put to work for productive or investment purposes.
- In general, capital is a critical component of running a business from day to day and financing its future growth. Business capital may derive from the operations of the business or be raised from debt or equity financing. When budgeting, businesses of all kinds typically focus on three types of capital: working capital, equity capital, and debt capital. A business in the financial industry identifies trading capital as a fourth component.

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- Capital assets can be found on either the current or long-term portion of the balance sheet. These assets may include cash, cash equivalents, and marketable securities as well as manufacturing equipment, production facilities, and storage facilities. Capital is typically cash or liquid assets being held or obtained for expenditures. In a broader sense, the term may be expanded to include all of a company’s assets that have monetary value, such as its equipment, real estate, and inventory. But when it comes to budgeting, capital is cash flowIn general, capital can be a measurement of wealth and also a resource that provides for increasing wealth through direct investment or capital project investments. Individuals hold capital and capital assets as part of their net worth. Companies have capital structures that include debt capital, equity capital, and working capital for daily expenditures.
- How individuals and companies finance their working capital and invest their obtained capital is critical for their prosperity.

- How Capital Is Used
- Capital is used by companies to pay for the ongoing production of goods and services in order to create profit. Companies use their capital to invest in all kinds of things for the purpose of creating value. Labor and building expansions are two common areas of capital allocation. By investing capital, a business or individual seeks to earn a higher return than the capital's costs.
- At the national and global levels, financial capital is analyzed by economists to understand how it is influencing economic growth. Economists watch several metrics of capital including personal income and personal consumption from the Commerce Department’s Personal Income and Outlays reports. Capital investment also can be found in the quarterly Gross Domestic Product report.

- Business Capital Structure
- A company’s balance sheet provides for metric analysis of a capital structure, which is split among assets, liabilities, and equity. The mix defines the structure.
- Debt financing represents a cash capital asset that must be repaid over time through scheduled liabilities. Equity financing, meaning the sale of stock shares, provides cash capital that is also reported in the equity portion of the balance sheet. Debt capital typically comes with lower rates of return and strict provisions for repayment.
- Some of the key metrics for analyzing business capital are weighted average cost of capital, debt to equity, debt to capital, and return on equity.
- Types of Capital
- Below are the top four types of capital that businesses focus on in more detail
- Debt Capital
- A business can acquire capital by borrowing. This is debt capital, and it can be obtained through private or government sources. For established companies, this most often means borrowing from banks and other financial institutions or issuing bonds. For small businesses starting on a shoestring, sources of capital may include friends and family, online lenders, credit card companies, and federal loan programs.

- Like individuals, businesses must have an active credit history to obtain debt capital. Debt capital requires regular repayment with interest. The interest rates vary depending on the type of capital obtained and the borrower’s credit history.
- Individuals quite rightly see debt as a burden, but businesses see it as an opportunity, at least if the debt doesn't get out of hand. It is the only way that most businesses can obtain a large enough lump sum to pay for a major investment in its future. But both businesses and their potential investors need to keep an eye on the debt to capital ratio to avoid getting in too deep.
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- Issuing bonds is a favorite way for corporations to raise debt capital, especially when prevailing interest rates are low, making it cheaper to borrow. In 2020, for example, corporate bond issuance by U.S. companies soared 70% year over year, according to Moody's Analytics.2 Average corporate bond yields had then hit a multi-year low of about 2.3%.3

- Equity Capital
- Equity capital can come in several forms. Typically, distinctions are made between private equity, public equity, and real estate equity.
- Private and public equity will usually be structured in the form of shares of stock in the company. The only distinction here is that public equity is raised by listing the company's shares on a stock exchange while private equity is raised among a closed group of investors. among a closed group of investors.
- When an individual investor buys shares of stock, they are providing equity capital to a company. The biggest splashes in the world of raising equity capital come, of course, when a company launches an initial public offering (IPO). In 2020, new issues appeared from young companies including Palantir, DoorDash, and Airbnb.

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- Working Capital
- A company's working capital is its liquid capital assets available for fulfilling daily obligations. It is calculated through the following two assessments:
- Current Assets – Current Liabilities
- Accounts Receivable + Inventory – Accounts Payable
- Working capital measures a company's short-term liquidity. More specifically, it represents its ability to cover its debts, accounts payable, and other obligations that are due within one year.

- Trading Capital
- Any business needs a substantial amount of capital in order to operate and create profitable returns. Balance sheet analysis is central to the review and assessment of business capital.
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