Tender Heart High School

Class : 10th
Economics
Lokesh Arora

Topic :- Capital

classmate
Date 22/04/24
Page (1)

Ch-1 Factors of Production

Good Morning Students
This lesson is of class 10th for the subject of Economics. The topic for today is 'Capital' which is covered in Ch-1 titled 'Factors of Production' of your book of Economics of class X. This lesson is being submitted to you on 22-04-24 and the voice is of Mr. Lokesh Arora

All the students now please listen carefully.

Capital:-

Capital refers to those man-made durable goods that are used as inputs to produce other goods and services in the future.
Capital consists of tools and instruments, plants and equipments, machines and trucks, factories and buildings and stock of goods with the producers which are used in the production of goods and services

Characteristics of Capital:-

Capital is a factor of production different from other factors of production. The main characteristics of capital are as follows:-

(i) Capital is Man-made:-
Capital is not available in nature. It is a produced means of production

Class 10th
Economics
Lokesh Arora

classmate
Date 22/4/24
Page (2)

Topic :- Capital

Capital is the mixed result of past labour of workers working on natural resources. Thus, when human labour is applied to natural resources then capital items are generated.

(2). Capital is Durable :-
An important characteristic of capital is its durability. Capital goods (i.e. machinery, plants, factory buildings) are durable goods. Some capital goods might last for a few years, while other might last for decades

(3). Capital is a Passive factor of Production :-
Like land, capital is also a passive factor of production. It cannot produce anything by itself. It becomes effective only when it is used by labour.

(4). Capital is a Mobile Factor of Production :-
Capital is the most mobile factor of production. It is easily transferable from one place to another and also from one occupation to another.

(5) Supply of Capital is Elastic :-
The supply of capital is elastic. It can be easily increased or decreased because it is man-made.

(6) Capital is Subject to Depreciation
The plant and machinery, wears out by using and have to be replaced after

some time. Therefore, the producer has to keep some fund every year for the replacement of machinery and this is known as depreciation fund.

(7) Capital is the Result of Past Savings:- Capital goods can be produced and increased in stock only after saving money and reinvesting it. Depreciation fund and undistributed profits of the firm, so saved each year, are used when old machinery is to be replaced. Hence, capital can be rightly called the outcome of savings.

Types of Capital:-

(1) Fixed Capital:- Fixed capital is that capital which is used again and again for further production of goods. For example, machine, office furniture, factory building etc.

(2) Circulating Capital:- Circulating capital refers to these goods which are used in production only once. For example, raw material, fuel, etc.

(3) Sunk Capital:- Sunk capital is that capital which can be put to a single use. It is also called as 'Specialised Capital'. For example, a printing machine can only be put for printing and nothing else.

Class: 10th
Economics
Lokesh Arora

Date 22/4/24
Page (4)

Topic:- Capital.

(4) **Floating Capital:-** Floating capital is that capital which can be used in alternative lines of production. For example, steel, wood, electricity etc.

(5) **Remunerative Capital:-** The payment made to workers for their contribution to production is called Remunerative Capital.

(6) **Auxiliary Capital:-** All man-made goods like machines, equipments etc which help labour in production are called auxiliary capital.

(7) **Material Capital:-** Material capital consists of those things which are in tangible form and which can be transferred from one person to another. For example, Machines, Tools, etc

(8) **Personal Capital:-** Personal capital comprises of all those energies, faculties and habits which contribute to make people efficient. For example:- Art of singing, art of writing etc

(9) **Real Capital:-** Real capital refers to the physical stock of goods which are used as inputs in the production process. Thus, machines, raw materials etc. are the examples of real capital. This is also called Concrete Capital.

(10) Debt Capital! - Debt capital consists of titles to wealth like shares, debentures, government promissory notes etc. They represent invested funds and earn income. For example IDBI flexibonds, ICICI bonds etc.

(11) Human Capital! - Human capital refers to the stock of people in a country equipped with education, skills and health etc. It helps people produce more goods and services.

Importance of Capital

(i) It increases the productivity of land and labour.
(ii) Capital increases employment opportunities, particularly in those countries where labour is in abundance. To more and more workers, capital is necessary.
(iii) Capital is used to provide the necessary tools and implements to the workers for productivity purposes.

Students, before going further. Write the answers of following questions in your note-books.

Ques 1. What is Fixed Capital?
Ques 2. Give two features of Capital.
Ques 3. What is Debt Capital?

Class: 10
Economics
Lokesh Arora

Topic:- Capital formation

Capital Formation:-

By Capital formation, we mean the increase in the stock of capital goods (e.g. machines, equipments, means of transport, etc.) which are used for more production. It refers to net addition made to the stock of capital goods of an economy during a time period.

Capital Formation can also be explained as the society does not apply the whole of its current productive capacity to the needs and desires of immediate consumption but directs a part of it to the making of capital goods, tools and implements, machines and transport facilities.

Process of Capital Formation:-

(1) Creation of Savings:-

Saving is the first stage in the process of capital formation. Savings depend upon several factors like (a) ability to save (b) desire to save and opportunity to save. Higher the income of people, more will be their ability to save. Desire to save depends upon the prospenity to consume. Opportunity to save refers to the conditions of peace and security in the country and favourable attitude of the government to motivate people to save.

Class 10th
Economics
Lokesh Arora

Date 22/4/24
Page 7

Topic :- Capital Formation

(2) Mobilisation of Savings :-
Capital formation cannot occur unless savings made by people are mobilised for investment purposes. Mobilisation requires a network of banks and other financial intermediaries who collects these savings and make them available to the producers or investors

(3) Investment of Savings :-
The third and last stage of capital formation is the investment of mobilised savings. Unless mobilised savings are utilised or invested, there cannot be any capital formation. It is, therefore, necessary that economy should have an entrepreneurial class which is prepared to bear the risk of business and invest savings in productive channels.

Role of Capital Formation in Economic Development :-
Capital formation is regarded as the key factor in economic development of an economy. The vicious circle of poverty can easily be broken in underdeveloped countries through capital formation. Role of capital formation is discussed as under :-

(1) Formation of Sound Infrastructure :-
The most important role of capital formation is the development of infra-

-structure facilities like roads, transport, communication, power etc. which is of utmost importance for the growth of every economy.

(2) Maximum utilisation of natural resources.
Most of the natural resources of an under-developed economy remain unutilised because of lack of capital resource. Capital formation, therefore, results in maximum utilisation of natural resources.

(3) Less Dependence on Foreign Capital:-
In underdeveloped countries process of capital formation increases dependence on internal resources and domestic savings by which dependence on foreign capital is declined.

(4) Increase in Employment Opportunities:-
Capital formation helps in increase of more and more employment opportunities. Moreover the productivity of labour also increase with the use of capital.

(5) Large Scale Production and Specialisation:-
Large scale production is possible only with the help of capital formation. The advantage of large-scale production and specialisation is that they greatly increase output and productivity and reduces the cost of production. Hence, Capital formation

Class: 10th
Economics
Lokesh Arora

Topic 1- Capital Formation

by enlarging the scale of production and specialisation increases the production and productivity in the economy and thereby promotes economic growth.

Causes of Low Rate of Capital formation

In a developing economy like India, the rate of capital formation is low. Following factors are responsible for low rate of capital formation in India.

(i) The level of saving is low because of low level of income. Level of income is low because of low productivity levels in the agricultural and industrial sectors of the economy.

(ii) An efficient entrepreneurial class, which is a prerequisite for economic growth, is lacking in developing economies.

(iii) There is lack of banking facilities which has adversely affected the level of investment.

(iv) Most of the Public Sector Undertaking have been running under losses.

(v) Private entrepreneurs are afraid of nationalisation of their industries, therefore, they do not set up industries.

Difference between Land and Capital

(i) Land is a free gift of nature but capital is man-made.

(ii) Land is fixed and limited in supply, while the supply of capital can be

Class: 10th
Economics
Lokesh Arora

increased or decreased.
(iii) Land is permanent, but capital is perishable
(iv) Land is immobile, while capital is mobile.

Difference between Capital and Labour.
(i) Capital is passive factor of production while labour is an active factor of production.
(ii) Capital can be seperated from his owner while labour cannot be seperated from labourers.
(iii) Capital is durable while labour is perishable.

With this, I am ending my topic here, I will give you few questions. you are requested to answer the following questions in your note-books

Ques 1. Define Capital Formation.
Ques 2. Explain the process of capital formation.
Ques 3. Give two differences between land and capital.

Last Page