

**PRODUCTION(continued...)**

**Capital Accumulation/ Capital Formation;** this refers to the **process** of creating a country's stock of capital goods mainly through Investment:

**OR:** the **process** of increasing a country's existing stock of producer goods / capital goods.

**Important concepts to note:**

- **Capital appreciation.** This refers to the **increase /gain** in the value of capital goods /assets.
- **Capital depreciation/ Capital consumption;** this refers to the reduction in value of the capital assets / capital goods having been used overtime.

**OR:** this refers to the wear and tear of machines during the production process.

- **Capital consumption allowance;** this is the money or fund put aside by the business owners so as to replace the worn out capital assets by making repairs, by buying spare parts etc.

**Factors affecting/influencing/determinants of Capital Accumulation/Formation:**

1. **The level of income;** high level of income increases capital accumulation, because it increases the level of savings leading to high levels of investment, on the other hand low levels of income limits capital accumulation because it reduces the level of savings leading to low levels investment.
2. **Level of savings;** high levels of savings increases capital accumulation because it increases investment funds which accelerates the level of investment, on the other hand low levels of savings limits capital accumulation because it limits investment funds and thus limiting investment.
3. **Political atmosphere;** political stability increases capital accumulation because it promotes investment in the country since investors are not scared of losing their lives and property, on the other hand political instability limits capital accumulation because it limits investment since investors are scared of losing their lives and property.
4. **Population growth rate;** low population growth rate promotes capital accumulation because of the low dependency burden which increases savings for investment, on the other hand high population growth rate limits capital accumulation because of the high dependency which limits savings for investment.
5. **Level of development of infrastructure;** high level of development of financial institutions encourages capital accumulation because people are to save and accumulate funds for investment; on the other hand low level of development of financial institutions limits capital accumulation because it discourages savings thus limiting funds for investment.

6. **Level of entrepreneurship;** high level of entrepreneurial skills promotes capital accumulation because there are many people who are ready to initiate businesses and sustain them, on the other hand low levels of entrepreneurial skills limit capital accumulation because there are few people ready to initiate businesses and sustain them.
7. **The rate of inflation;** low rate of inflation promotes capital accumulation because it lowers the cost of production which promotes investment, on the other hand high rate of inflation limits capital accumulation because it increases the cost of production which discourages investment.
8. **Size of the Market;** large market size encourages capital accumulation because of the high levels of profitability of doing business which encourages investment, on the other hand small size of the market limits capital accumulation because it leads to low levels of profitability of doing business which limits investment.
9. **Availability of investment incentives;** presence of investment incentives example tax holidays encourages capital accumulation because it lowers the cost of production which lowers investment, on the other hand limited investment incentives for example high taxes limits capital accumulation because it increases of production which discourages investment.
10. **The degree of accountability;** high levels of accountability encourages capital accumulation because it encourages investment since potential investor easily acquire licences without giving bribes, on the other hand low levels of accountability limits capital accumulation because it discourages investment since potential investors are frustrated by government officials who ask for bribes in order to give licences
11. **The level of Capital inflow;** high levels of capital inflows promotes capital accumulation because it increases capital which increases investment, on the other hand low levels of capital inflow limits capital accumulation because it reduces capital which discourages investment.
12. **Existing stock capital;** high levels of capital stock promotes capital accumulation because it increases efficiency in production, on the other low levels of capital stock limits capital accumulation because it reduces efficiency in production.
13. **The time preference/ Consumption habits;** positive time preference limits capital accumulation because it limits savings thus discouraging investment, on the other hand negative time preference promotes capital accumulation because it encourages savings which increases the level of investment.  
**NB:** Time preference is the desire by individual to spend his/her income now or later.
14. **Cultural factors/Degree of conservatism;** high degree of conservatism limits capital accumulation because conservative people are less adventurous which reduces investment, on the other hand low degree of conservatism promotes capital accumulation because people are more adventurous and willing to take risks which increases investment.
15. **Level of interest rate on capital/loans;** low interest rate on loans promotes capital accumulation because of low cost of doing business which increases investment, on the other hand high interest on loans limits capital accumulation because of high cost of doing business which discourages investment.
16. **The level of monetisation of the economy/The size of the subsistence sector;** high level of monetisation of the economy promotes capital accumulation because it encourages

commercial production which increases incomes and thus high savings leading increased investment, on the other hand low levels of monetisation of the economy limits capital accumulation because it discourages commercial production leading to low incomes among the people and thus low savings which leads to low levels of investment.

17. **The land tenure system**; favourable land tenure system promotes capital accumulation because it increases accessibility to land by potential investors which leads to high levels of investment, on the other hand unfavourable land tenure system limits capital accumulation because it reduces accessibility to land by potential investors which leads to low levels of investment.

18. **The state of technology**; advanced state of technology promotes accumulation because it reduces the cost of production which increases investment due to increased profits, on the other hand poor state of technology limits capital accumulation because it increases the cost of production which limits investment due to reduced profits.

#### **Factors promoting Capital formation**

- High levels of income
- High levels of savings
- Low rate of inflation
- Presence of well-developed infrastructure
- Presence of investment incentives
- High levels of entrepreneurship
- Presence of large market size
- High levels of existing capital stock
- High degree of accountability
- High levels of capital inflow
- High levels of technological development
- Low population growth rate
- Low degree of conservatism
- Low interest rate on loans
- High levels of political stability
- Favourable land tenure system
- High level of monetisation of the economy
- Negative time preference

#### **Factors limiting/hindering capital accumulation**

- Low levels of income
- Low levels of savings
- High rate of inflation
- Low level of development of (financial) infrastructure
- Limited investment incentives
- Low level of entrepreneurial ability
- Low degree of accountability
- Low level of existing capital stock

- High rate of capital outflow
- Political instability
- Low levels of technology
- High population growth rate
- High degree of conservatism /cultural rigidities
- High interest rate on loans/ low interest rate on savings
- Small market size/limited market
- Poor land tenure system
- Low level of monetisation of the economy
- Positive time preference

### **Measures that can be taken to promote Capital accumulation/Formation**

1. **Control population growth rate;** this will promote capital accumulation because it will reduce the dependency burden which will encourage savings and thus increase investment.
2. **Maintain political stability;** this will promote capital accumulation because it will remove fear for loss of life and property among the investors which will increase investment.
3. **Improve the infrastructure;** this will promote capital accumulation because financial institutions will encourage people to save and accumulate funds for investment.
4. **Extend credit facilities;** this will promote capital accumulation because it will increase on capital/investment funds which will increase investment.
5. **Improve on the land tenure system;** this will promote capital accumulation because it will ease accessibility to land by potential investors which will increase investment.
6. **Control/fight inflation;** this will promote capital accumulation because it will reduce the cost production which increase investment due to increased profitability of doing business.
7. **Provide investment incentives such as tax holidays;** this will promote capital accumulation because it will reduce the cost of production which will increase investment due increased profitability of doing business.
8. **Expand/widen the market size;** this will promote capital accumulation because it will increase investment due to increased profitability of doing business.
9. **Ensure proper accountability/fight corruption;** this will promote capital accumulation because it will ease the acquisition of licences by investors which will increase investment.
10. **Improve entrepreneurial skills/abilities;** this will promote capital accumulation because it will increase the number of people who will initiate businesses and sustain them.

**ENTREPRENEURSHIP;** this is a factor of production that bears the risk of initiating a business and sustaining it.

**An entrepreneur** is a person who bears the risk of initiating a business and sustaining it.

## **Types of Entrepreneurs**

- Directors
- Sole traders
- Share holders
- State

## **The Functions of an entrepreneur:**

- **Initiating business activities.** The entrepreneur is the inventor who thinks about what to produce, contributes the capital and start production.
- Mobilising, organizing, and coordinating other factors of production
- Making all the production decisions on behalf of the firm since he/she owns the business.
- **Coordinating business activities,** he/she is responsible for monitoring supervising and all business undertakings.
- **Bearing the all the risks of the business.** He/she risks his capital and other resources against uncertainties in business.
- Managing the profits and losses of the firm
- **Inventing and innovating better methods** of production so as to increase the output and also improve the quality of output sold.

## **Factors affecting/influencing/ determining the supply of the entrepreneurs:**

1. **Size of the market;** large market size large market lead to high supply of entrepreneurs because many people are stimulated to risk their capital in business due to high profitability on the other hand a narrow market lead to low supply of entrepreneurs because people fear to risk their capital in business due to low profitability.
2. **Availability of investment incentives;** presence of investment such as tax holidays lead to high supply entrepreneurs due to low cost of doing business which encourages many people to risk their capital due to high profit levels, on the other hand limited investment incentives such as high level of taxation lead to low supply of entrepreneurs because of high cost of doing business which discourages many people to risk their capital in business due to low profits.
3. **Availability of capital/ funds;** presence of capital/funds lead to high supply of entrepreneurs because many people are able to initiate businesses since there are funds necessary to hire other factors of production, on the other hand limited capital leads to low supply of entrepreneurs since many people are unable to initiate businesses due to limited funds to hire other factors of production.
4. **Level of development of infrastructures;** presence of well developed infrastructure such as well developed roads leads to high supply of entrepreneurs because it lowers the cost of production which encourages many people to initiate businesses due to high profit levels on the other hand underdeveloped infrastructure limit supply of entrepreneurs because it leads to high cost of production which discourages to initiate businesses due to low profit levels.

5. **The political climate;** political stability leads to high supply of entrepreneurs because many people are encouraged to risk their capital and initiate businesses since they are not scared of losing their lives and property, on the other hand political instability leads to low supply of entrepreneurs because many people are not ready to risk their capital to initiate businesses since they are scared of losing their lives and property
6. **The state of technology;** well developed technology leads to high supply of entrepreneurs because many people are ready to risk their capital and initiate businesses since it lowers the cost of production and thus increases the profit levels, on the other hand poor state of technology leads to low supply of entrepreneurs because many people fear to risk their capital to initiate businesses since it increases the cost of production and thus lower the profit levels.
7. **The land tenure system;** favourable land tenure system leads to high supply of entrepreneurs because it increases accessibility to land which motivates many people to risk their capital to initiate businesses on the other hand unfavourable land tenure system leads to low supply of entrepreneurs since it limits the accessibility to land which discourages many people to risk their capital to initiate businesses.
8. **Level of accountability;** high level of accountability leads to high supply entrepreneurs because many people are encouraged to risk their capital to initiate businesses since it eases acquisition of licences since investors are not asked for bribes by government officials, while low levels of accountability/ corruption leads to low supply of entrepreneurs because many people are discouraged to initiate businesses since it is hard to acquire licences as government officials ask for bribes.
9. **Degree of conservatism;** low degree of conservatism leads to high supply of entrepreneurs because many people are encouraged to risk their capital to initiate businesses since many people are adventurous, on the other hand high degree of conservatism leads to low supply of entrepreneurs because many people fear to risk their capital to initiate businesses since they less adventurous.
10. **Availability of training facilities;** adequate training facilities leads to high supply of entrepreneurs because many people acquire skills which enable them to risk their capital and initiate businesses, on the other hand inadequate training facilities leads to low supply of entrepreneurs because limited people acquire skills which limit the number of people who risk their capital to initiate businesses.

**Factors that promote the development of entrepreneurship in an economy:**

- Favourable land tenure system
- Adequate training facilities.
- Well developed state of technology

- Presence of capital/funds
- Political stability
- Presence of investment incentives
- Large market size
- Low degree of conservatism
- High levels of accountability
- Well developed infrastructure

**Factors which limit development of entrepreneurship in an economy:**

- Inadequate training facilities
- Poor infrastructures
- Poor state of technology
- Limited capital / funds
- Political instabilities
- Limited investment incentives
- Small market size
- Poor land tenure system
- High degree of conservatism
- Low levels of accountability / corruption

**Measures that can be taken to promote entrepreneurship in an economy:**

- Maintain political stability;
- Encourage formation of associations to stimulate private entrepreneurship
- Provide affordable credit facilities.
- Set up institutions to train entrepreneurs
- Improve infrastructural development.
- Provide investment incentives
- Improve on the land tenure system
- Ensure proper accountability/fight corruption
- Widen market.