

DEFINITIONS OF CAPITAL AND LABOR

CAPITAL

Money or assets put to economic use, the life-blood of capitalism. Economists describe capital as one of the four essential ingredients of economic activity, the factors of production, along with land, labor, and enterprise. Production processes that use a lot of capital relative to labor are capital intensive; those that use comparatively little capital are labor intensive. Capital takes different forms. A firm's assets are known as its capital, which may include fixed capital (machinery, buildings, and so on) and working capital (stocks of raw materials and part-finished products, as well as money, that are used up quickly in the production process). Financial capital includes money, bonds and shares. Human capital is the economic wealth or potential contained in a person, some of it endowed at birth, the rest the product of training and education, if only in the university of life. The invisible glue of relationships and institutions that holds an economy together is its social capital.

LABOR

One of the factors of production, with land, capital, and enterprise. Among the things that determine the supply of labor are the number of able people in the population, their willingness to work, labor laws and regulations, and the health of the economy and firms. Demand for labor is also affected by the health of the economy and firms, labor laws and regulations, as well as the price and supply of other factors of production.

In a perfect market, wages (the price of labor) would be determined by supply and demand. But the labor market is often far from perfect. Wages can be less flexible than other prices; in particular, they rarely fall even when demand for labor declines or supply increases. This wage rigidity can be a cause of unemployment.

Source:

The Economist Website: Economics A-Z.

[://www.economist.com/research/Economics/](http://www.economist.com/research/Economics/)