

## Topic: Capital

- Capital is anything that is **made by man** to produce goods and services.
  - Eg., machinery, equipment, phones, roads, boats, and computers.
  - The payment to Capital is **interest**.
- Demand for capital is **derived demand**. Capital is demanded not for its own sake but for the contribution to the production process.
  - E.g., machines are demanded for the crops they can harvest, not for their own sake.

### Four types of Capital

Type of Capital	Explanation
Social capital	<ul style="list-style-type: none"><li>• Refers to the assets/wealth owned by the community or society<ul style="list-style-type: none"><li>◦ E.g., parks</li></ul></li></ul>
Working capital	<ul style="list-style-type: none"><li>• Includes all finished products, work-in-progress goods, raw materials</li></ul>
Fixed capital	<ul style="list-style-type: none"><li>• Items of value that are owned and will last for more than a year,<ul style="list-style-type: none"><li>◦ Eg., buildings, machinery</li></ul></li></ul>
Private capital	<ul style="list-style-type: none"><li>• Assets owned by individuals, e.g., computers, cars</li></ul>

### Marginal Efficiency of Capital

- Marginal Efficiency of Capital (MEC) is the **extra** profit earned as a result of employing one extra unit of **capital**. [video](#)
- **Capital deepening** occurs when an increase in the capital stock leads to more capital per worker.
- **Capital widening** occurs when there is an increase in the total capital stock that occurs at the same rate as the increase in the labour force.

### Factors that Influence Marginal Efficiency of Capital

- The cost of capital goods
- The rate of interest
- Selling price of the good being sold
- Fall in the productivity of the extra capital being using
- Capital deepening
- Capital widening

**Exam Question 2024**

(a) The table below shows a firm's capital to labour ratio for the previous two years.

	2022	2023
No. of machines	5	10
No. of workers	5	5
<b>RATIO</b>	<b>1:1</b>	<b>2:1</b>

From the information given above, tick (✓) one of the boxes below to indicate whether the firm has engaged in capital widening or capital deepening and explain your answer.

Capital Widening

Capital Deepening

Explanation:


(c) Explain the term **Marginal Efficiency of Capital (MEC)**.

Explanation:
