

Henry Ford and the Model T: A Case Study in Productivity

Assembly line	Interchangeable parts	Profit
Craftsmen	Investments in capital	Profit margins
Demand	Investments in human	Specialization
Division of labor	capital	Supply
Incentive	Output	Vertical integration
Input	Productivity	Volume

Complete the statements using this list of words.

At the turn of the Twentieth Century, the automobile was a status symbol painstakingly manufactured by teams of craftsmen. Henry Ford's idea to build a car for the common man set him apart from other automotive pioneers. To accomplish his goal, Ford realized he would have to increase productivity—producing more output (goods and services) with less input (resources) or a combination of these two possibilities.

He and his team looked at other industries and found strategies that would further this objective. They adopted these ideas to the Model T and ultimately, revolutionized industrial production. Inspired by the meat processing factories in Chicago, Ford decided to create an assembly line that moved. Interchangeable parts were brought to the workers who stood in a line putting the cars together. Each worker completed a very specific task during the process. This practice is called division of labor or specialization.

When the Ford Motor Company built a new factory, power plant, and machine shop to accommodate these new methods of production at

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Highland Park, it was making investments in capital. New machines and tools simplified production and reduced the amount of time and effort required from workers. Recognizing that the health and education of workers was also important to improving productivity, the company operated a hospital and school. These were investments in human capital.

Henry Ford was also innovative in bringing together all elements of production through vertical integration. Controlling all stages in the manufacturing process from the extraction of raw materials to final assembly helped insure workers would have parts and materials precisely when they were needed. The benefits of controlling the many elements of manufacturing were increased productivity and profit. To address a problem with worker turnover that made it difficult to keep the assembly line flowing smoothly, Ford instituted another change—the \$5 workday. Increasing worker pay was an incentive that kept skilled workers on the job.

By reducing the per unit production costs for the Model T, Ford caused an increase in the supply of automobiles. As Ford and his competitors offered workers more pay, an increase in the demand for automobiles also occurred. The Ford Motor Company made up for lower profit margins by selling more volume.