UNIT 5 Income distribution and factor pricing.

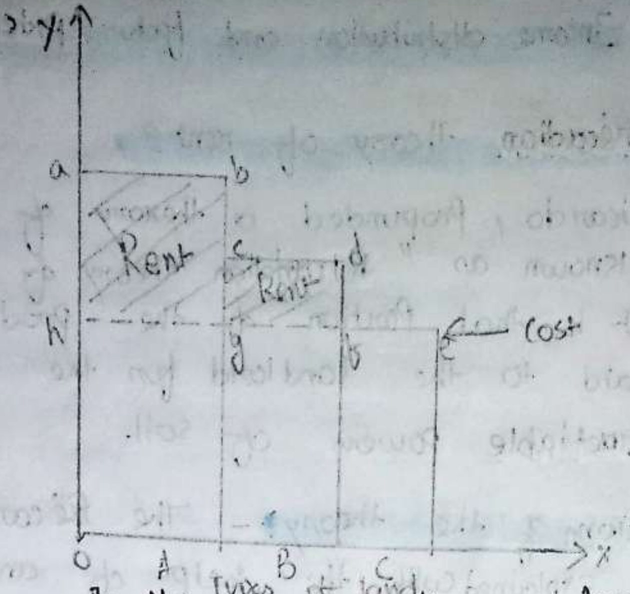
*1. Explain the Ricardian theory of rent?

Ans: David Ricardo, Propunded a theory of rent which is Popularly known as "Ricardian theory of rent". According to him rent is that Portion of the produce of the earth which is paid to the landlord for the use of orginal and indestructible powers of soil.

Explanation of the theory: - The Ricardian theory of rent can be explained with the help of an example: Let us suppose that a group of people arrives in a lonely Island. The Island has three categories of land namely grade A, grade B and grade C. According to Ricardo grade A is the most fertile land and he called it super marginal land. Grade B is less fertile land which was regarded by Ricardo as intra marginal land. Grade C is the least fertile land which was regarded by ricardo as marginal land.

According to Ricardo there is a definite order of cultivation. First of all Grade A land is brought into cultivation. As population increases, Grade A land becomes scarce and hence Grade B land, is brought into cultivation. As population further increases, Grade B land also becomes scarce and hence Grade C land is finally brought under cultivation.

The cost of Production is determine by cost of Production of marginal land. Grade A land being the most fertile land produce surplus output over the marginally determine cost of production. The surplus production of agricultural output forms rent. Grade B land also generates rent but it is less than Grade A land. In case of grade C land the cost of production is excetly equal to the value of output. So it does not generate any rent and it is known as marginal land or no rent land.



In the above diagram types of land are measured along the x-axic and cost, Rent an output are measured along the y-axic, cost of production per unit of output is 'Oh' and it remain costant. The land in grade A is 'hgcba' and the area of rent in grade B land is 'gfdc' and in case of grade C land there is no rent.

Assumptions: • The supply of land is perfectly inelastic.

• Fertility of land is original.

• land is a free gift of nature, and it has no cost of production.

Criticism: • Ricardo takes a unrealistic assumption of perfect competition.

• The assumption of no rent land seems to be unrealistic as because no land is available which is free of rent.

• Powers of soil are neither completely original nor completely in indestructible.

2. What is Quasi Rent?

Ans: According to marshall, Quasi rent is the surplus earned by instruments of Production other than land.

3. What do you mean by Economic Rent?

Ans- Economic Rent refers to that part of the payment made by a tanent to the landlord which is made for the use of land.

4. Is Rent Peculiar to land alone? Explain?

Ans- Though rent is the Price of land yet, other factors of production also generates rent in the Short run. Machines, tools and other instruments also generates surplus income over their actual price.

5. Difference between Rent and Quasi Rent?

Ans-

Rent	Quasi Rent
1. Rent accruce to land alone	1. Quasi Rent accruce to factor other than land.
2. Rent is a Permanent Surplus	2. Quasi Rent is temporary.
3. Rent accrues both in the long-run and Short run.	3. Quasi Rent arises only in the short run.

6. Write David Ricardo's views on Rent?

Ans- Same as Q NO. 1

7. Write the differences between Ricardian theory and modern theory of Rent?

Ans-

Ricardian Theory	Modern Theory
1. According to David Ricardo rent arises only to land.	1. According to modern theory rent can be a part of any factors of production.
2. Ricardian theory is a narrow concept.	2. Modern theory is a wider concept.
3. In Ricardian theory David Ricardo says that rent arises because of indifferences in fertility of soil.	3. According to modern theory rent arises when the supply of a factor becomes less elastic and Perfectly inelastic.

4. According to David Ricardo rent is paid to landlord for the use of original and indestructible powers of soil.	4. Modern theory states that rent is a difference between actual earnings and transfer earnings.
5. In the Ricardian sense rent doesnot enter into price rather it is determined by the price.	5. According to modern theory rent enters into price.

8. Explain why Rent arises?

Ans- According to David Ricardo rent arises due to the differences in the cost of production of marginal land and total production of super marginal and intra marginal land.

9. What does functional distribution of Income means? 6.8.29

Ans- The functional distribution of income refers to the way income is divided among the factors of production namely labour, capital and land within an economy. It analysis how the total economic output is distributed to those who provide labour, capital and land.

10. What is the value of marginal product?

Ans- The value of the marginal product (VMP) is the additional revenue generated by employing one more unit of a factor of production, such as labor or capital. It's calculated by multiplying the marginal product (MP) of the factor (the additional output produced by the extra unit) by the price at which the output is sold. Mathematically, it's expressed as:

$$VMP = MP \times \text{Price of output}$$

11. Define marginal revenue product?

Ans- Same as Q NO. 10.

12. What are the principals factors of production in economics?

Ans; (i) land, (ii) labor, (iii) Capital, (iv) Organization.

13. Given an example of Derived demand?

Ans; An example of Derived demand is the demand for steal in automobile industry.

14. What do you mean by factor pricing?

Ans; Factor pricing refers to the determination of the prices paid for the factors of production namely land, labor, Capital and organization.

15. Define marginal land?

Ans; Marginal land refers to land that has lower productivity and is less suitable for agriculture.

16. What is Subsistance wage?

Ans; A Subsistance wage is the minimum level of income necessary for a worker to meet their basic needs such as food, Shelter, clothing and other basic essentials required for maintaining a basic standard of living.

17. Mention the name of remuneration of the factors of Production?

Ans; The remuneration paid for land is rent. The remuneration paid for labor is wages. The remuneration paid for capital is ~~Profit~~ interest. The remuneration paid for organization is Profit

*18. "Rent is a differencial surplus". Explain the Statement with the help of diagram. -2022.

Ans; The Ricardian theory of rent States that Rent is a differencial surplus, which means that it is the Surplus revenue over cost that arises due to differences in land fertility or usability. The theory is based on the assumption that land is a gift of nature, so it has no supply price or cost of production. This means that more fertile land earns a surplus of revenue over its cost, which is a surplus over the earnings of marginal land, which only earns revenue to cover its cost.

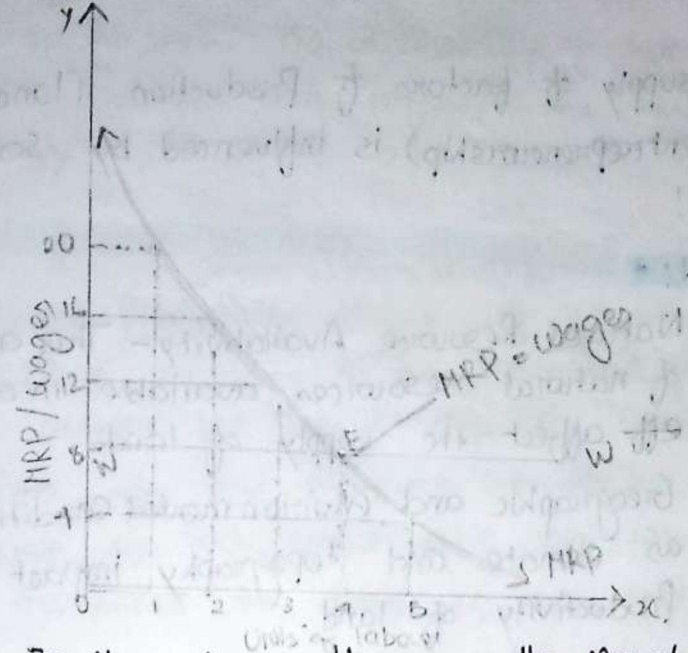
Ricardian theory second part.

19. Discuss the marginal productivity theory of distribution?

Ans: Marginal Productivity theory of distribution is the oldest and more significant theory which tries to explain the determination of the reward of different factors of production. It is a work of many economist. David Ricardo was the first man to use the theory for the determination of rent that is price of land. Than Mount Ford applied it for the determination of wages and interest. But the theory was finally developed by Jevons, wick-steed, walrus and clerk by the end of the 19th century. The theory tries to answer the question of how is the price of each factor determined.

Assumptions: • There is full employment in the economy.
• All factors are homogeneous in nature.
• Perfect competition prevails in both product and factor market.

Explaination: According to this theory, each factor has to be paid according to his marginal productivity. In this case the demand for a factor depends upon the marginal productivity of that factor. This theory concentrate on the determination of such factor price and factor employment which maximize the profit of the employers. As per this theory a firm will engage that number of a factor in the production in which the price of the factor becomes equal to its marginal revenue productivity. For example a firm for it optimum profit will employ that number of workers in the production at which their price that is wages and marginal productivity are equal. If the firm engages the workers upto a limit where the value of marginal productivity becomes less than the firm will have to incur loss.



In the above diagram, the no. of workers is shown along the x-axis and the price of worker and marginal revenue productivity are shown on the y-axis. MRP is the marginal revenue productivity curve and WW is the wages curve which intersect eachother at point E. Therefore, point E will be the equilibrium point. because at this point MRP and wages are equal.

Criticisms: • This theory is based on the unrealistic assumption of perfect competition.

- All units of factor maynot be equally efficient or homogeneous in nature.
- This theory also takes an unrealistic assumption of full employment in the economy.
- Different factors are not perfectly substitutes of one another.

20. What do you mean by supply of factor?

Ans: The supply of factor refers to the total amount of that factor of production such as land, labour or capital" available for use in the production process within a economy.

21. Explain the important factors influence the supply of factor?

Ans: The supply of factors of Production (land, labor, capital and entrepreneurship) is influenced by several important factors:

1. land:

- Natural Resource Availability - The amount and quality of natural resources available in a region can affect the supply of land.
- Geographic and environmental conditions - factors such as climate and topography impact the usability and productivity of land.

2. labor:

- Population Growth - An increase in population can lead to a larger labor force, affecting labor supply.
- Education and skills - The level of education and skill development among the workforce influences the quality and productivity of labour.
- wages and working conditions - Higher wages and better working conditions can attract more people to work or retain existing workers.

3. Capital:

- Investment levels: The amount of investment in physical capital (machinery, buildings) affects the supply of capital.
- Technological Advances: Improvements in technology can increase the efficiency and effectiveness of capital.

4. Entrepreneurship:

- Regulatory environment - Business regulations, ease of starting a business, and Intellectual Property protections can impact the level of entrepreneurship.
- Access to finance - The availability of funding and financial services can influence the willingness and ability to start and sustain businesses.

22. Explain the marginal productivity theory of wages? 8.8.24.

Ans: According to marginal productivity theory of wages, each labour has to be paid according to his marginal productivity. In this case, the demand for labour depends upon the marginal productivity of that labour. This theory concentrates on the determination of such labour price and labour employment which maximizes the profit of the employer.

As per this theory, a firm will employ that number of labourers in the production in which the price of the labour becomes equal to its marginal revenue productivity.

Assumptions: • Perfect competition prevails in both product and factor market.

- All labourers are homogeneous in nature.
- There is full employment in the economy.
- All the labourers are perfectly substitutes of one another.
- The producer is rational who wants to maximize profit.

Diagramatic explanation: Same as Q NO. 19 from diagram along with criticism.

23. Explain the mordern theory of rent?

Ans: The mordern theory of rent which is a modified version of Ricardian theory of rent was first of all developed by J. S. Mill and after that developed by economist by Jevons, Pareto

, Marsall and Robinson.

According to modern theory of rent economic rent is a surplus which is not peculiar to land alone. It can be a part of income of labour, capital and organization. According to modern version land is a surplus which arises into differences between actual earning and transfer earning.

Features of Modern theory:

- Rent can be a part of the income of all factors of production.
- Amount of Rent depends on differences between actual earning and transfer earning.
- Rent arises when the supply of the factor is either perfectly inelastic or simply inelastic.

Determination of rent of land:

- Modern economist opine that rent arises due to scarcity of land which means that demand for land exists its supply. Rent will be determined at a point where demand for land is equal to its supply.

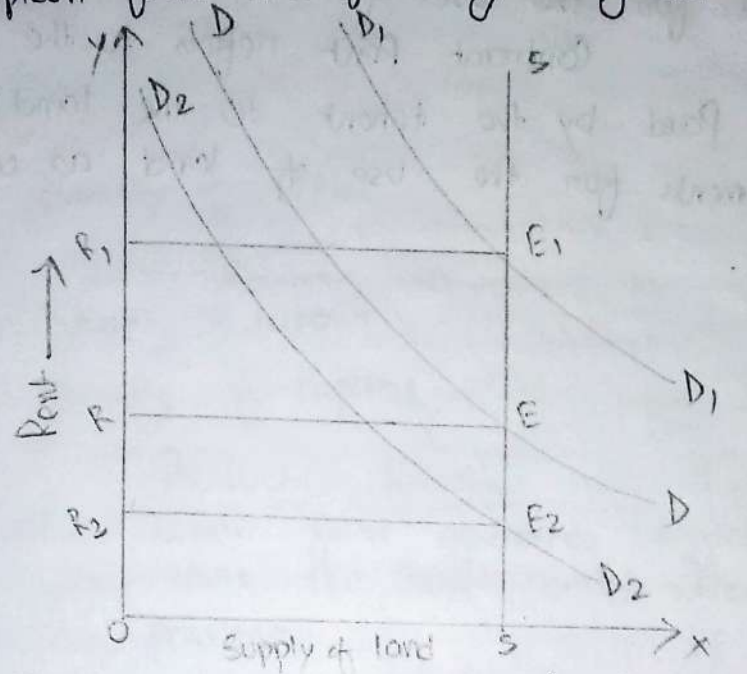
Demand for land:

land has derived demand which means that the demand for land depends on the demand for agricultural products. If demand for food grains increases, demand for land will also increases and vice versa. However demand for land is influenced by its marginal productivity.

Supply of land:

• Supply of land is fixed that is perfectly inelastic. It means that increase in the price of land will not lead to increase in its supply.

Diagramatic Explaination: The concept of equiberium rent can be explain from the following diagram.



In the above diagram "SS" is the supply curve of land which is shown on the x-axis indicating that the supply of land is perfectly inelastic. land will be determined at a point where the demand for and supply of land are equal to each other. Initially, DD is the demand curve which intersect the supply curve at point E. At this point Equiberium rent OR is determined.

Now if population increases and as a result the demand for food increases and as a result the demand for land shifts to D_1D_1 and equiliberium point is E_1. Again population decreases and demand for food decreases in that case the demand for land decreases. and the new demand curve is D_2D_2 and the Equilib-erium point is E_2.

24. What do you mean by distribution?

Ans:- In simple words distribution means to give each factor of production its share in the total produc-ction.

25. Difference between economic Rent and contract Rent?

Ans:- Economic Rent refers to that part of the Payment made by a tenent to the landlord which is made for the use of land.

Contract Rent refers to the total amount of Rent Paid by the tenent to the landlord. It inclu-des payments for the use of land as well as capital invested.