Theory of Distribution

= The theory of factor prices is popularly known as the theory of distribution.

= The distribution may be ==functional or personal.== Personal distribution of national income means the distribution of national income among various individuals in a society. As is well known, the national income is not equally distributed among various individuals in the country. Some are rich and others are poor. There is are great inequalities of income between various individuals.

= In the theory of functional distribution we study how the various factors of production are rewarded for their services in the production process. [LLCE] →

→ Rent, wage, Interest & Profit — known as functional distribution.

==Micro- Macro Theories of Distribution.==

Functional Distribution —— Micro— Macro.

The micro theory of distribution explains how The rates of reward for various factors of production are determined.

= It studies how the wage rate of labour, how The rate of rent on land, the rate of interest and profit are determined.

Macro theory of distribution deals with the problem of the determination of aggregate rewards of various factors in the total national income.

→

Marginal Productivity Theory

The origin of Marginal Productivity can be traced to Ricardo and West. But both Ricardo and West applied the marginal productivity doctrine only to land.

= MP theory was first put forward to explain the determination of wages but later on prices of other factors of production were also explained with marginal productivity.

= In 19th century it was re-discovered by economists like, J.B. Clark, Jevons, Wicksteed, Walras and recently Marshall and J.R. Hicks have popularised the doctrine of marginal productivity.

The marginal productivity theory of distribution is an attempt on the part of the economists to evolve a general theory which will explain the determination of factor prices such as rent, wage, interest and profit.

= According to this theory the key to the pricing of factors of production lies in marginal productivity. A firm employs a factor of production because of its productivity or the contribution it makes to output. The remuneration which the firm is willing to pay to the factors depend upon its productivity. The greater the productivity of the factor higher will be its price or reward.

? = The firm will employ different units of factor up to the point at which the reward paid to the marginal unit of that factor is equal to the contribution made by that unit to total output. The reward ~~marginal~~ of that factor unit at the margin, is equal to its marginal productivity.

the concept of Marginal physical productivity is developed with reference to the factor of production, labour.

= Thus the price of labour (wages) depends upon the marginal productivity of labour on demand side.
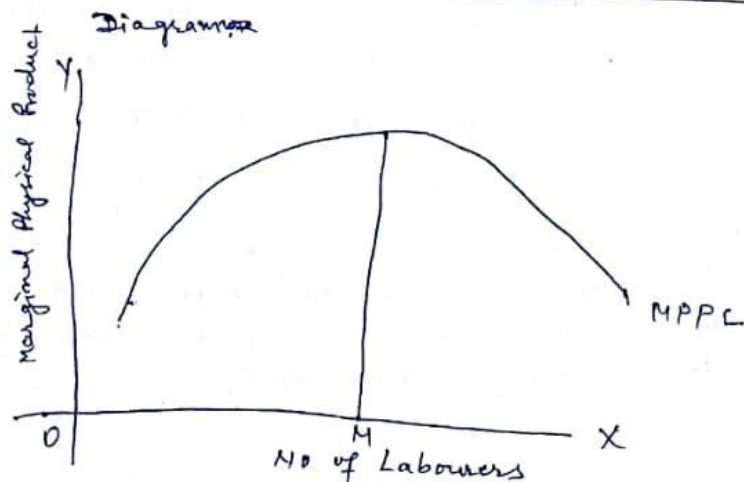
= Just as a firm its profits when it equals its marginal revenue (MR) with marginal cost (MC), in the same manner the employer of labour can maximise its production by equating the marginal productivity of labour with the marginal cost. (MP = MC)

Assumptions

1. Existence of Perfect competition in labour market.
2. Existence of perfect competition in product market.
3. All units of the factor labour, are homogeneous.
4. Labour is the only variable factor, all others are fixed.

Table!:

Labourers Employed	—	Total Product		Marginal Phy. Pro
1	—	5		5
2	—	12		7
3	—	24	—	12
4	—	44	—	20
5	—	64	—	25
6	—	99	—	30
7	—	126	—	27
8	—	151	—	25

Diagramme

MPPL

Marginal Physical Product — Y

No of Labourers — X

Poverty — Causes and Remedies

किसी भी समाज में गरीबी एक गंभीर समस्या है। गरीबी और असमानता एक दूसरे के पूरक है। In the third world countries the level of income is meagre and inequality and distribution of income is the root cause.

= No doubt India has developed in several sectors after Indepedence but the problem of poverty still exists in the country.

गरीबी एक सामाजिक समस्या है जिसमें समाज का एक हिस्सा अपनी मूलभूत आवश्यकताओं को पूरा करने में असमर्थ है, जिसके कारण उसका जीवन स्तर निम्न है। (Low standard of living)

= They are not in a position to satisfy his basic needs leading a low standard of living. His health and ability to do not permit him to increase their level of production. They live in the vicious circle of poverty.
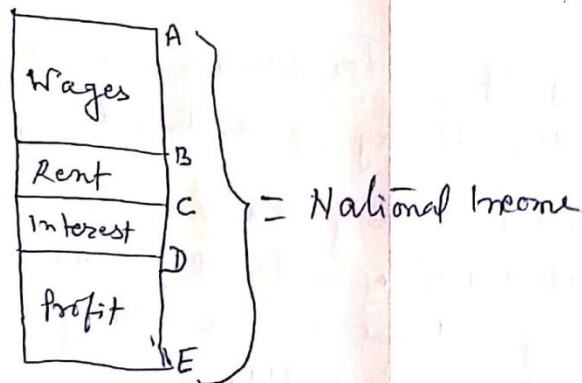
Poverty line

In India poverty line is determined by the level of minimum consumption. The poor people do not have the minimum consumable goods as their low purchasing power.

= ~~In the year 1999-2000 ₹328 is in the rural areas and ₹459 in the urban areas have been fixed for poverty line~~

= Those who recieve Rs 328 in rural areas and ₹ 459 in urban areas come under poverty line.

= Macro- distribution means the relative shares of various factors in national income.

= It explains how the share of rent, profit, interest in the national income are determined.

In this diagram, the length AE represents the total national income. This total national income is equal to the total sum of wages (AB) rent (BC), interest (CD) and profit (DE).

Criticisms

1. Units of a factor of product is not homogenous but they are heterogeneous. Lands are not equally fertile.

2. Not mobile (except labour others factors are not mobile.

3. Divisibility — Assumption

4. Factor proportions can be changed

5. It is not possible under certain circumstances to measure the MP of a factor. If it is so how can the factor be priced.

Causes

1. Low level of National Production.
2. Low rate of Eco. development
3. Population Growth
4. Inflation (Price rise)
5. Continuous unemployment problem
6. Insufficient capital formation
7. Able and efficient labour and entrepreneur
8. Lack of infrastructure.

      Social infrastructure

      Economic Infrastructure.

9. Inequality in the distribution of income

Remedies

1. Raise the level of economic development.
2. Reduce inequality of income.
3. check Population growth
4. Development of Agriculture.
5. Stability of price / control inflation.
6. Reduction of poverty level.
7. Change production technique.

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