

Rent (Ricardian Theory)

Ricardo defined rent as "that portion of the produce of the earth which is paid to the landlord for the use of original and indestructible powers of the soil."

Marshall - Rent refers to the income derived from the free gift of nature.

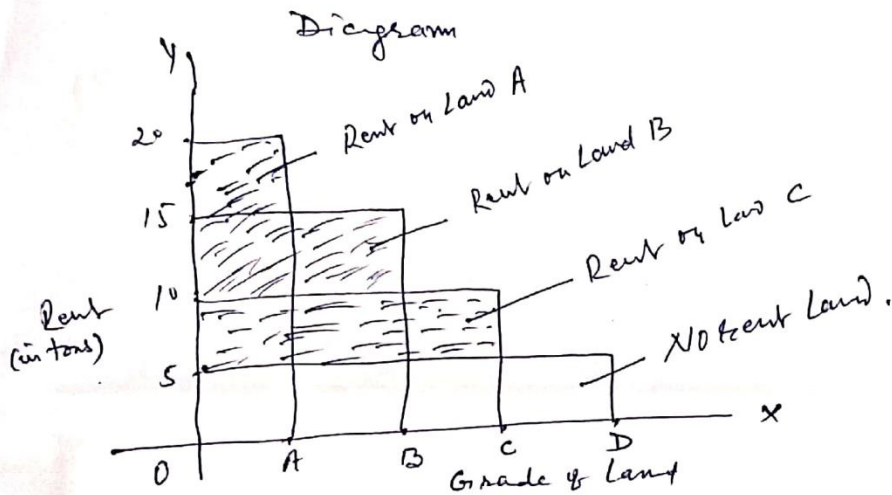
Both the definitions state that rent is the amount or income which is derived from land and other free gift of nature.

- = There is difference between true economic rent and contractual payment popularly known as land rent.
- = The contractual payment / rent includes interest on capital investment besides the payment for the use of land.
- = The rent which is paid for a house or a farm also includes besides economic rent, the interest on capital invested by the landlord in the house or in the farm.
- = The true economic rent is only a payment for the use of land. It excludes interest on landlord's capital investment.

The Questions (Three)

1. What is ?
2. Why ?
3. How ?

Grade of Land	Production (in tons)	Surplus (Rent in tons)
A	25	$25 - 10 = 15$
B	20	$20 - 10 = 10$
C	15	$15 - 10 = 05$
D	10	$10 - 10 = 0$ (zero)



Assumptions

1. Supply of land is perfectly fixed and inelastic
2. Land is specific to only one crop - i.e. corn
3. Land differs in quality
4. Perfect competition in market for land

Criticisms

1. NOT possible to identify land
2. No marginal land in practice.
3. No historical evidence
4. Rent element in all factor earnings.
5. Rent is a cost entering price.