B.com-I

Principle of Eco

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(2.) Critically examine/explain the modern theory of Rent?

Ans.

modern theory of rent is an amplified version of Ricardian theory of Rent. It was first of all discussed by 'J.S. Mill' and after that developed by economists like Jevons, Pareto, Marshall, Joan Robbinson etc.

According to Joan Robbinson-" The essence of the conception of Rent is the conception of a surplus earned by a particular part of a factor of Production over and above the minimum earning necessary to induce it to do its work."

According to Hibdon," Rent is the difference between actual payment to a factor and its supply price or transfer earnings."

Rent = Actual Earning - Transfer Earning

"The amount of money which any particular unit could earn in its best paid alternative use is sometimes called its transfer earnings." suppose a piece of land can earn Rs. 100/- when it is used for producing wheat and the same amount if it is used for cotton. There is no extra earning because there are no transfer earnings. If however, the same piece of land could earn Rs. 60/- when put to the use of cotton.

Its transfer earning would be Rs. 40/- and the extra gain of Rs. 40 which is surplus could be called Rent.

* Features of modern theory of Rent:-

(i) Rent can be part of the income of all factors of production.

(ii) Amount of Rent depends upon the difference between actual earning and transfer earning.

(iii) Rent arises when supply of the factor is either perfectly inelastic or less elastic.

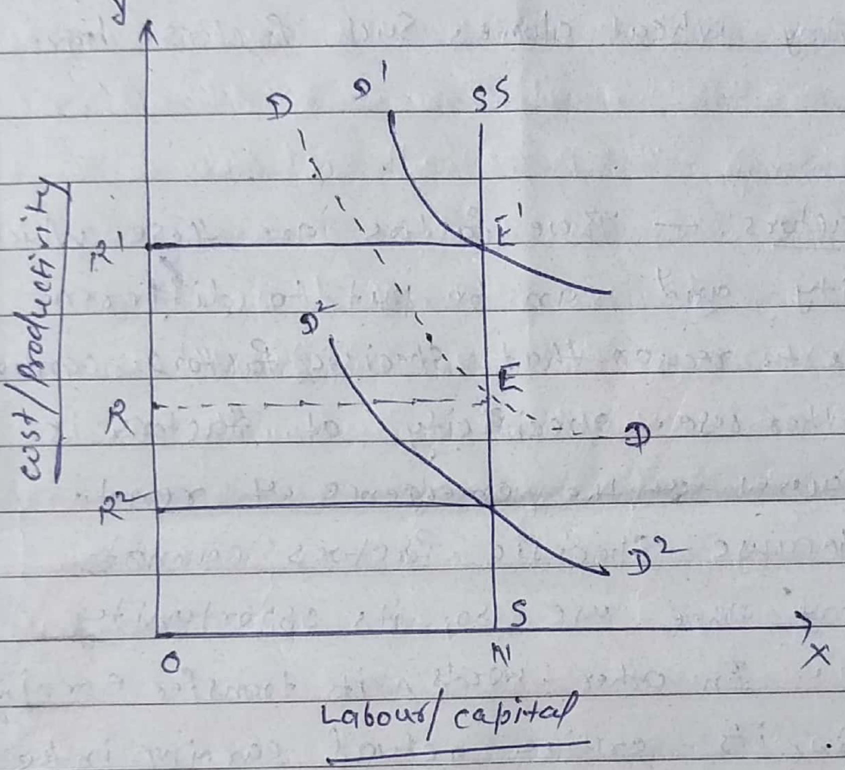
Rent arises due to scarcity of land. Supply of other factors like labour, capital etc. can also be scare in relation to demand. Therefore income earned by these factors in excess of their minimum income is called economic Rent.

* Determination of Rent:-

Modern economists opined that rent arises due to scarcity of land. Scarcity of land means that demand for land exceeds 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. It means that demand for land depends on the demand for agricultural products. If demand for good grains increases and vice-versa. moreover, demand for land is influenced by its marginal productivity. It mean as more and more land is used its MP goes on diminishing.

* Supply of land :— Supply of land is fixed. Its supply is perfectly inelastic. It means, increase in the price of land will not evoke and increase in its supply.



In this diagram 5 units of land have been measured on X-axis and rent on Y-axis. SS is the supply curve of land which is parallel to Y-axis indicating that the supply of land remains fixed. Rent will be determined at a point where the demand and supply of land are equal to each other.

Initially DD is the demand curve ~~of~~ which intersects the supply curve at point E. At this point, equilibrium rent OR is determined. Now, if the population rises which gives boosts to demand for food, the demand curve shift to D'D' and the equilibrium will be point E' and the rent will rise to the extent of OR.'

* Criticism : –

Prof. Wieser divided factors of production into two parts. : –

(a.) Specific factors : – These factors refer to those factors which have only one use. For example, a farm used for growing wheat alone. Such factors have no mobility.

(b.) Non-Specific factors : – These factors are those which have mobility and can be put to different uses. It is only due to reason that specific factors cannot be put to another use. Specificity of factors is the main causes of the emergence of rent. It is so because Specific factors cannot be put to any other use. So, its opportunity cost is zero. In other words, its transfer earning is zero. So, its entire actual earning in the existing use is rent.

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