

Welcome

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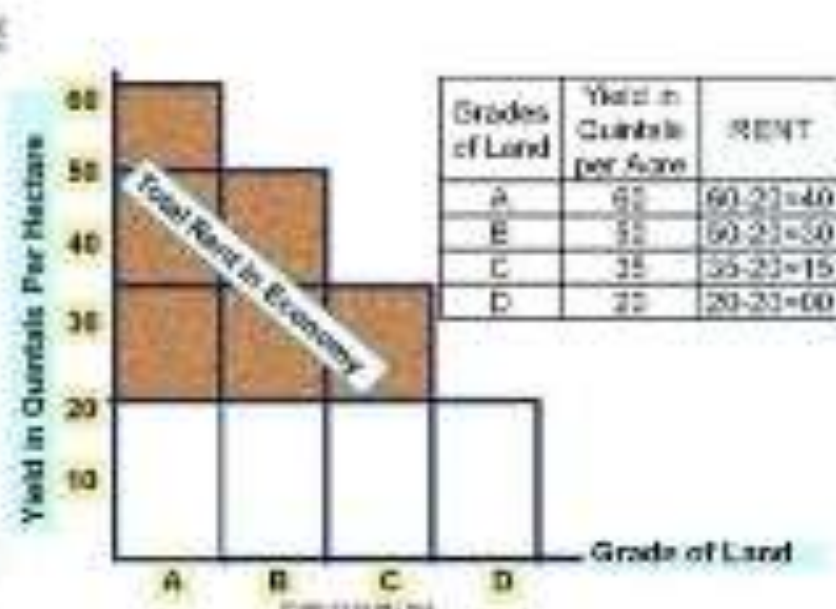
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RICARDIAN THEORY OF RENT



Definition of Rent

Ricardo - “Rent is that portion of the produce of earth which is paid to landlord for the use of original and indestructible powers of the soil.”

Prof. Carver - “Rent is the price paid for the use of land.”

- **Classical Definitions:**

“Economic rent is the payment for the use of scarce natural resources”. – Jacob Oser

“Economic rent is that portion of a landlord’s income which is attributable to his ownership of land.” – Anatol Murad

- **Modern Definitions:**

- “Rent is the difference between actual payment to a factor and its supply price or transfer earnings.” – Hibdon

Types of Rent

- **Economic Rent:** Economic rent refers to the payment made for the use of land alone.
- **Gross Rent:** Gross rent is the rent which is paid for the services of land and the capital invested on it.
- **Scarcity Rent:** Scarcity rent refers to the price paid for the use of the homogeneous land when its supply is limited in relation to demand.
- **Differential Rent:** Differential rent refers to the rent which arises due to the differences in the fertility of land. In every country, there exists a variety of land. Some lands are more fertile and some are less fertile.
- **Contract Rent:** Contract rent refers to that rent which is agreed upon between the landowner and the user of the land. On the basis of some contract, which may be verbal or written, contract rent may be more or less than the economic rent.

Ricardo Theory of Rent

- *Ricardo defined rent as, “that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil.”*
- According to Ricardo, rent is that portion of the produce of the earth, which is paid to the landholder for the original and imperishable powers of the soil. It is a surplus enjoyed by the super marginal land over the marginal land arising due to the operation of the law of diminishing returns.

Assumptions

- Rent of land arises due to the differences in the fertility or situation of the different plots of land.
- Ricardo assumes the operation of the law of diminishing marginal returns in the case of cultivation of land.
- Ricardo considers the supply of land from the standpoint of the society as a whole.
- In the Ricardian theory it is assumed that land, being a gift of nature, has no supply price and no cost of production. So, rent is not a part of cost, and being so it does not and cannot enter into cost and price.

According to Ricardo rent arises for two main reasons:

- Scarcity of land as a factor and
- Differences in the fertility of the soil.
- **Scarcity Rent:** Ricardo Considered that land had only one use to grow corn. This intended that its supply was fixed, Hence the price of land was totally determined by the demand for land. In other words, all the price of a factor of production in perfectly inelastic supply is economic rent—it has no transfer earnings. It is shown by diagram

In diagram supply of land is fixed.
If raise in price corn is cause of increasing demand of land

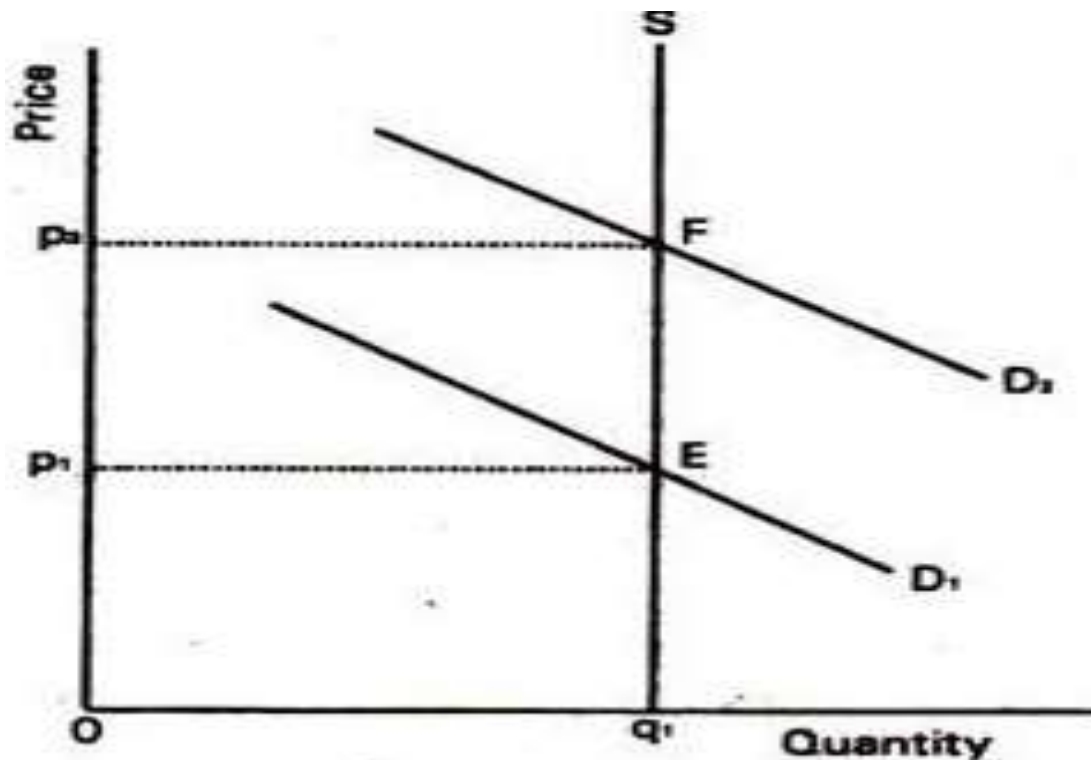
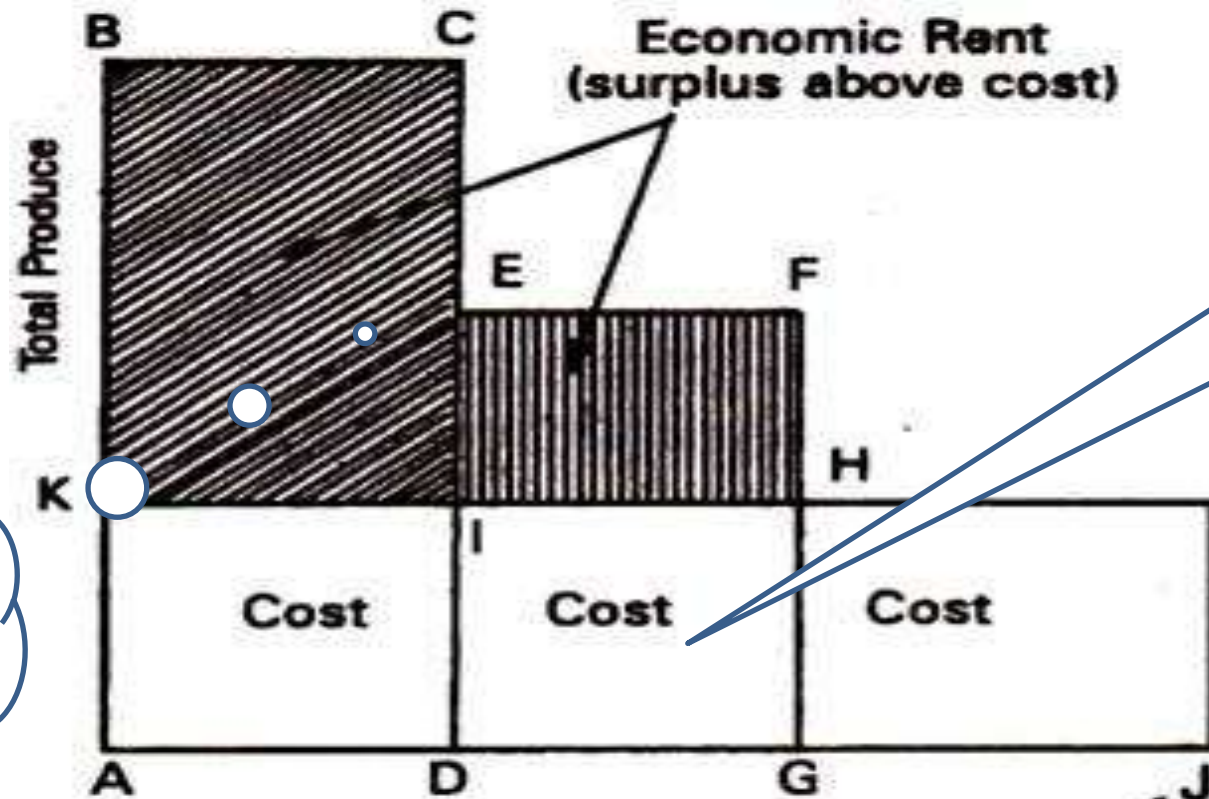


fig. 13.1. Earnings of a Factor in Fixed Supply

Differential Rent: According to Ricardo, rent of land arises because the different plots of land have different degree of productive power; some lands are more fertile than others. Differential rent explain by a diagrammatically



**AD, DG
and GJ**
Three
Plots of
Land

Shaded
area
shows
the rent

Criticisms

1. Ricardo considers land as fixed in supply.
2. Ricardo's order of cultivation of lands is also not realistic.
3. The productivity of land does not depend entirely on fertility
4. Ricardo's assumption of no-rent land is unrealistic as, in reality
5. Ricardo restricted rent to land only, but modern economists have shown that rent arises in return to any factor of production, the supply of which is inelastic.

Thank You