

MODERN THEORY OF RENT (INTRO)

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MODERN THEORY OF RENT

Ques: Why rent arises?

Ans: According to modern theory, rent arises due to scarcity of land. Supply of other factors like labour, capital etc. can also be scarce in relation to demand. Therefore, income earned by these factors in excess of their minimum income is called economic rent.

Prof. Wiser divided factors of production into two parts viz.; specific factors and non-specific factors.

- **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.

- **Non-Specific Factors:**

These factors are those which have mobility and can be put to different use.

Determination of Rent:

Modern economists studied the determination of rent in two forms as:

1. Rent of Land
2. General concept of Rent

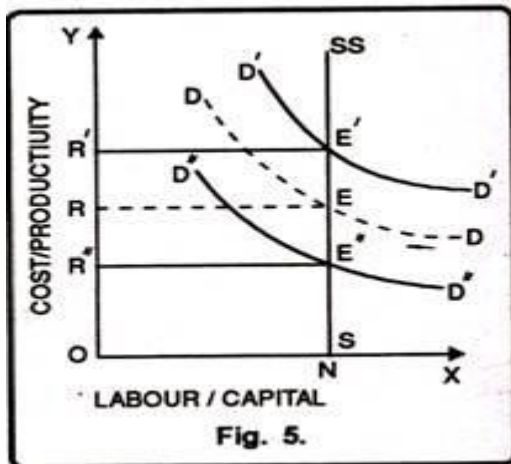
Determination of Rent of Land or Scarcity Theory of Rent:

Modern economists said/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.

Land has derived demand. It means that demand for agricultural products (food grains) increases, demand for land will also increase and vice-versa.

Supply of Land:

Supply of land is fixed. It means its supply is perfectly inelastic (increase in the price of land will not evoke any increase in its supply).



In Fig. 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 which intersects the supply curve at point E. At this point, equilibrium rent OR is determined. Now, if the population rises which gives boost to the demand for food, the

demand curve shifts to $D'D'$ and the equilibrium will be at point E' and the rent will rise to the extent of OR' .

Similarly, if the demand curve shifts to $D''D''$ and labour /capital the new equilibrium point will be E'' and the rent will fall to OR'' .

Rent as the Difference between Actual Earnings and Transfer Earnings:

According to modern economists rent is the difference between actual earning and transfer earning. Rent can be a part of income of factors of production. But, these factors will earn rent only when their supply is less than perfectly elastic.

- Thus, from elasticity point of view, there are three possibilities, i.e.:
 1. Supply of factors of production is perfectly elastic.
 2. Supply of factors of production is perfectly inelastic.
 3. Supply of factors of production is less than perfectly elastic.