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Topic- Quasi Rent

Quasi Rent

Quasi literally means ‘almost’. Quasi- rent is, therefore, a payment which is almost rent but is not exactly economic rent.

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From the Ricardian theory of rent, a person might conclude that rent is a kind by itself and does not resemble any other payment. But this is not so. The peculiarity of land after all is that all its stock is fixed for ever. Rent arises from this peculiarity. That is why Benham defines rent as “a surplus accruing to a specific factor, the supply of which is fixed.”

Now no other factor is permanently fixed like land. But whenever the supply of any other factor is fixed even temporarily, its return resembles rent and is called quasi-rent. Thus, an element of rent is present in interest, wages and profits, and is called quasi-rent. It lasts only for a short period of time and disappears when conditions become normal.

This concept of quasi-rent was introduced in economic theory by Marshall. It is an extension of the Ricardian concept of rent to the short-run earnings of capital equipment (such as machinery, buildings), which is in inelastic supply in the short-run, that is, whose supply cannot be increased in the short period. For example, during the last war merchant shipping became scarce. New ships could not replace the lost ones quickly as ships take long to build. As a result, the existing vessels began to charge high freights and earned exceptional profits.

These profits were temporary, because had the need lasted long enough, new- ships would have been constructed and profits reduced to normal. Such abnormal earnings, during the period the supply of machines or ships is fixed, are termed by Marshall as ‘quasi-rent’.

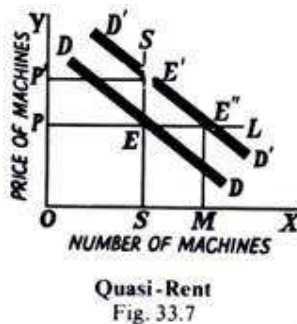
Quasi literally means ‘almost’. Quasi- rent is, therefore, a payment which is almost rent but is not exactly economic rent. Similar abnormal earnings or surplus may also arise in the case of other durable goods like houses and machines. Similarly, quasi-rent may also arise due to a temporary scarcity of a particular kind of skill which can be increased only if enough time is given.

It is the whole income and not extra income:

It may clearly be understood that quasi-rent stands for the whole of the earnings or income rather than the additional income. This income some agents of production yield when demand for them has suddenly increased, while their supply cannot be increased readily in response to that increase in demand.

Hence, quasi-rent is a short period concept. The adjoining diagram (Fig. 33.7) shows quasi-rent. Here SS, a vertical straight line, is the absolutely inelastic supply curve for machines. It cuts the demand curve DD at E. At the price OP (=SE), OS machines are supplied. If, in the short run, demand increases to D'D', the price will go up to OP' (=SE'), but the supply of machines remains OS.

Since the number of machines is fixed in the short-run, the transfer earnings are zero, the whole earnings OSE'P' are quasi-rent. But in the long run, the supply of machines will increase to OM, because the supply is inelastic only in the short-run; it is perfectly elastic in the long run, which is represented by PL so that any number of machines can be supplied at OP. The price now comes down to E''M (= OP). The quasi-rent has vanished, because the price E''M just covers the supply price OP.



Rent, Quasi-rent and Interest:

Rent, we know, is a payment for the use of land. Quasi-rent is yielded by machinery and capital equipment i.e. old invested capital or 'sunk' capital, and interest is the return on new investments of capital. They are all fundamentally similar in that they are all scarce in relation to demand for them. They all yield a differential surplus arising from limitation of their supply only the duration of the limitation of supply varies.

For instance, land is permanently limited and its supply is absolutely inelastic. That is why; it is put in a separate category. Since its supply is limited permanently, it is a perennial source of surplus income called rent. The supply of machinery, etc., is, however, limited for a short period because it takes some time to produce it. Its supply is, therefore, elastic but not so elastic i.e., it is less than perfectly elastic.

It also yields a surplus but only in the short-run. In the long run, more machines can be produced and the surplus will disappear. This is quasi-rent. On the other hand, the supply of new capital which yields interest is perfectly elastic. It cannot, therefore, yield any surplus. Thus, we find that rent, quasi-rent and interest are practically the same. They are derived from assets which differ only in the duration for which their supply is limited. The difference between them is only a matter of degree and not of kind.

As Marshall observes, "that which is rightly regarded as interest on free or floating capital or on new investments of capital is more properly treated as a sort of rent—a quasi-rent on old

investments of capital. And there is no sharp line of distinction between floating capital and that which has been sunk for a special branch of production, nor between new and old investments of capital; each group shades into the other gradually.”

Rent is from land whose supply is inelastic absolutely, quasi-rent from sunken capital whose supply is inelastic temporarily and interest from floating capital whose supply is perfectly elastic. But all these differential surpluses are fundamentally similar. That is why it is said that “Rent is leading specie of a large genus.”

Incomes from investments, whether in permanent assets like land or in semi-permanent things like machines or in perishable articles, are absolutely alike from the point of view of working of economic principles. The principle of scarcity is the basic principle which is applicable in all cases. Hence, rent, quasi-rent and interest are essentially similar.

Rent Element in Wages and Profits:

We know that skilled labour producing essential goods earns abnormal wages in times of war. This is due to the- scarcity of trained labour. Such extra earnings, too, resemble rent. The case of organisation is not different. For instance, if a health resort becomes very popular all at once, the hotel-owners there will make good profits till new hotel-keepers are attracted, and profits are reduced to the normal rate. During this short period, organization will earn surplus income resembling rent.

Just as some lands are more fertile than others, similarly some people are superior to others. A Laurel or a Hardy differs from a wayside joker. A Raj Kapoor on the screen will earn much more than a second rate actor. AH trades make extra payment to really gifted people. Special incomes due to these gifts are called Rent of Ability or “Personal Rent”.

It, thus, follows from the above discussion that land rent does not form a separate class by itself. It is only a prominent example of its kind. Or, as Marshall describes it, “It is a leading specie of a large genus.” Element of rent is present at times in wages, interest and profits.