Semester V

MJC 8

Intermediate Microeconomics 2

Unit 2

Theory of Distribution

Concept of Marginal Productivity Theory of Distribution

The marginal productivity theory of distribution states that the income for each factor of production (like labor or capital) is determined by its marginal product, or the additional output created by using one more unit of that factor. Under conditions of perfect competition, a firm will hire a factor up to the point where its price (wage for labor, interest for capital) equals the value of its marginal product, which is also equal to its marginal revenue product.

Read through the links given below....

https://www.economicsdiscussion.net/marginal-productivity-theory/the-marginal-productivity-theory-of-distribution-with-diagram/12602

And

https://cec.nic.in/webpath/curriculum/Module/BUSECO/Paper05/8/downloads/script.pdf

And

https://www.scribd.com/document/488762018/Document-12

After having gone through the contents given in the above links you should be able to answer the following questions

1. **Explain the Marginal Productivity Theory of Distribution with the help of suitable illustrations and diagrams?**

2. **What are the key assumptions of Marginal Productivity Theory of Distribution? Use the wage determination as the example for illustration of Marginal Productivity Theory of Distribution.**