

RENT

FOR THE STUDENTS OF B.COM-2 SEMESTER, MICRO ECONOMICS, BY **DR RAZA SHABBIR**, DEPARTMENT OF APPIED ECONOMICS, SHIA P.G COLLEGE, LUCKNOW.

The classical economist believed that rent is the payment which is made to the landlord for the use of the land. But modern economist is of the view that rent can be earned on other factors of production also. The first theory of rent was given by classical economist, David Ricardo who was a British political economist born on 18 April, 1772. He gave his famous theory in his book 'PRINCIPLES OF POLITICAL ECONOMY AND TAXATION'.

RICARDIAN THEORY OF RENT

According to David Ricardo "Rent is that portion of the produce of the earth which is paid to the landlord for the original and indestructible power of soil". So for Ricardo rent is the payment made to the land lord for the fertility of piece of soil of land.

Over here, it is important to know that David Ricardo divides land into two parts.

1. Economic/Pure/Real Rent
2. Gross/Whole rent

The first one is the rent that is paid to the landlord for the piece of his land which has original and indestructible power. Second one includes the payment for the investment done on land by the landlord. This is because every landlord makes some expenditure on his land to make it worthy of being used.

David Ricardo clarifies that in economics we study only the first type of rent i.e. Economic/ Pure/ Real rent. He further clarifies that rent is a residual amount which is left after all other factors of production are being paid. Therefore rent belongs to the landlord and only he should get is amount. So rent was a residual amount according to David Ricardo.

ASSUMPTION OF THE THEORY

1. Ricardo assumed that only one factor of production, i.e. land, can only earn rent.
2. Rent accrues due to the fertility of soil which is original and indestructible.
3. Land is the gift of nature, and hence its supply is fixed or inelastic ($e=0$).
4. He assumed that land can be used to produce only corn and it has no alternative use.
5. Most fertile land will be used at first and then we move on to lesser fertile land.

6. There is a perfect competition in the land-lease market. This means that there are many landlords willing to rent out their homogenous piece of land.
7. It is a long term concept.

WHAT IS A MARGINAL LAND?

David Ricardo was of the view that a land can be divided into several categories on the basis of its fertility, called as grades of land. He was of the view the human beings at first uses the best quality of land and then he moves on to lesser fertile/quality of land. Then he said this process will continue till we reach that piece of land where the amount invested in it becomes equal to the revenue received on such piece of land there shall be no residual amount and rent will be zero. Such land shall be known as Marginal Land.

RENT ON DIFFERENT GRADES OF LAND

GRADE OF LAND	P	Q	R	S	T
COST INCURRED	300	300	300	300	300
VALUE OF OUTPUT	600	500	400	300	200
RENT	300	200	100	0	-

The above table shows that there are 5 grades of land P, Q, R, S and T. The cost incurred on the different pieces of land is same i.e. 300 rupees. The above table also shows that P grade of land is the highest quality of land available because the rent earned by it is the highest and as we move on to the next pieces of land we find that the quality of land is decreasing. This is visible from the amount of rent earned by different piece of land. Now after the R piece of land, which earns a rent of rupees 100. There is S piece of land where the cost incurred and value of output are same and hence the rent is zero. This will be called the Marginal Land. After the S piece of land which is the marginal land there is T piece of land on which cost incurred is higher than the value of output. Therefore T piece of land will not be used for cultivation. In this way we find is that rent is the produce of land over and above the Marginal Land.

CRITICISMS OF THE THEORY

1. Modern economist are of the view that rent doesn't arises on the land alone.
2. Rent is not paid on account of its fertility of the soil but due to its scarcity.
3. Ricardo said that the most fertile land is cultivated at first and then we move on to the lesser fertile land is also not accepted. In reality the land which is closest is cultivated at first.

4. Ricardo said rent is the residual amount left after other factors are paid. But in reality profit is the residual amount whereas rent is decided before any production activity.