

Determination of Rent:

Dr.Alok Kumar

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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:

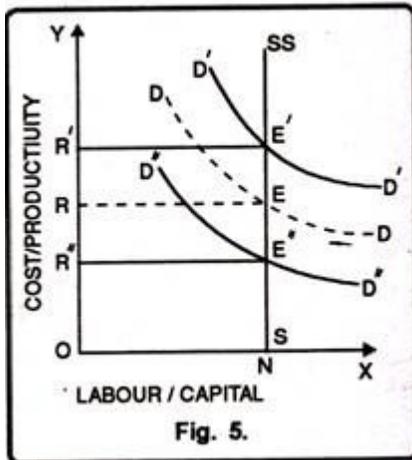
Modern economists opined that rent arises due to scarcity of land. Scarcity of land means that demand for land exceeds its supply. Rent will be determined at a point where demand for land is equal to its supply.

Demand for Land:

Land has derived demand. It means that demand for land depends on the demand for agricultural products. If demand for food grains increases, demands for land will also increase and vice-versa. Moreover, demand for land is influenced by its marginal productivity. It means as more and more land is used its MP_1 goes on diminishing.

Supply of Land:

Supply of land is fixed. Its supply is perfectly inelastic. It means, 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.