

## Ricardian & Modern Theories Of Rent

### **Modern Views:**

Modern economists like Lipsey, Pareto, and Mrs. Joan Robinson etc. observed that as per Ricardo's view, that rent does not enter the price from the entire economy's point of view; but from a firm or individual producer's point of view, rent is included in price. It is only due to this reason that the producer has to pay for the services of land he uses. Therefore, it is included in the cost of production, thereby affects the price. The views of modern economists regarding the relation between rent and price can also be studied from the following three angles:

### **From the Point of View of Society:**

The supply of land for the society as a whole is fixed in quantity or inelastic in supply. Its supply price or transfer cost is zero as it is provided free to society by nature. Moreover, land has no transfer price. Thus, rent is not included in the cost of production of goods for the society as a whole. But, when the demand for land rises, its supply being fixed, rent on land increases. Thus, rent is price-determined. Rent is not included in the cost of production of goods for the society since the supply cost is zero. According to modern economists, it is the supply price which is included into the cost of production.

### **From the Point of View of an Industry:**

In an industry transfer cost of land or the supply price of land is a part of the cost of production. Therefore, it enters into price. To an industry, the supply of land is less than perfectly elastic. To attract land from other uses, the industry will have to pay the owners of land at least what it would have earned in the next most profitable use. If the industry is not prepared to pay this much price of land, land will not be released.

Suppose with the rise in demand for sugar, the sugar industry needs more land for sugarcane cultivation. Therefore, to get land from rice cultivation, it must offer at least what a piece of land can get under rice cultivation.

Naturally, land requires a minimum transfer price to sugarcane growing. This transfer cost will enter into the cost of production of sugarcane. Thus, transfer cost or the supply price or supply cost of land is included in the cost of production of goods.