

Ricardian & Modern Theories Of Rent

From the Point of View of the Individual Producer or the Firm:

The supply of factor is perfectly elastic to firm or for the individual producer. The entire earnings of the factor are equal to the transfer cost of the factor. From the point of view of individual firm the whole payment made for a factor is part of the cost of production. Since the whole payment made to the factor or the entire earnings of the factor are equal to the transfer cost or the supply price of the factor and there is no excess over transfer earnings.

From the point of view of industry, only transfer earnings of a factor are part of the cost of production. For the economy as a whole, the transfer cost or the supply price or opportunity cost of the factor is zero, and no part of payment to the factor may be considered as cost.

Relation between Rent and Price

Area	Relation
From the point of view of economy.	Entire income will be called rent, but rent will not enter price.
From the point of view of industry.	Earning of land above transfer earnings is called rent.
From the point of view of firm	Rent enters into price.