JAGATPUR P.G. COLLEGE, VARANASI
(Affiliated TO M G K V P VARANASI)

SUBJECT	**:**	**COMMERCE**
CLASS	**:**	**B.Com**
YEAR	**:**	**I YEAR**
NAME OF THE PAPER	**:**	**BUSINESS ECONOMICS**
TOPIC	**:**	**INTEREST & WAGES**

Key Words : Theory of Interest & Methods of wage Payment

(Factors of Production)

Dr. Bali Ram Tiwari
Assistant Professor
Department of Commerce
Jagatpur P.G. College Varanasi-221302
E-mail : brtemailid@gmail.com
Mob: 9415269435

Interest is known to be the extra money returned to the lander alongwith the capital lent by him. In economics, Interest Means the payment made by the Borrower to the lander for the use of capital. The Borrower gives interest to the lander, because he derives the advantages out of the capital

According to Marshall, "Interest is the Price paid for the use of Capital in the Market."

Kinds of Interest – There are two kinds of Interest

1. Gross Interest
2. Net Interest

1. Gross Interest – Gross Interest is the whole Amount that Borrower has to pay. Thus gross interest is the total amount of interest paid by the barrower to the lender.

2. Net Interest – The Net Interest is the Price paid for the Services of Capital Employed. Net Interest is that last of the gross interest which is paid for the use of capital.

Theories of Interest

The following are the some important theories of interest :

1. Classical theory of Interest
2. Neo-Classical theory of Interest or loanable funds theory of Interest.
3. Liquidity Preference theory of Interest
4. Modern theory of Interest or Keynes theory of Interest.

1. Classical Theory of Interest

The theory of Interest as given by classical writers like Ricardo, Marshall and Pigau, is called the classical theory of Interest. This theory is also known as the time preference theory or saving investment theory of interest.

According to the classical theory, interest is a reward for waiting as saving and abstaining from present consumption.

2. Loanable Funds theory of Interest

The loanable funds theory recognizes, Besides Savings and Investment. The loanable funds theory regards rate of interest, as the function of four variables: Saving investment, the desire to hoard and the money supply.

According to Loanable funds theory, the Rate of interest is the price paid for the use of loanable funds, and is determined by the equilibrium between Demand for the supply of loanable funds in the credit market.

3. Keynes, Liquidity Preference theory

According to this theory, which is generally known as liquidity preference theory "Interest is the reward for parting with liquidity for a specified period." According to Keynes Interest is a monetary phenomenon in the sense that it is a price paid for the use of money, it is determined by demand for and supply of money.

4. Modern Theory of Interest

Modern theory of Interest is shows that income and the Rate of Interest are mutually determined by four factors :

i. The Investment Demand Schedule
ii. The consumption Function
iii. The liquidity preference Schedule and
iv. The quantity of money created by the monetary authority

In Conclusion it may be said that of all the current theories of Interest the modern theory may be regarded as the only integrated and determined theory of interest.

Wages

The term 'wages' means the reward paid to the workers as Agents of a factor of production called labour. According to Benham, "As a sum of money paid under contract by an employer to a worker for service rendered.

Theories of Wages

How is wage rate determined? Many theories have been propounded from time to time to explain this phenomenon. All the ancient theories of wages are defective and are no longer valid. We study them for Academic purposes as well as for a Scientific Perspective. The same theories of wages are as under :

1. Determination of wage in competitive market
2. Wages determination under perfect competition
3. Wage determination under imperfect competition.

Labour is demanded because of its productivity. The Employer can not pay wages higher than the marginal productivity of labour, Demand of labour depends upon the following there factors.

a. Technique
b. Demand for product
c. Price of other factors

Related Question:

1. Define wages & kinds of wages
2. Explain the various methods of wage payment
3. What is interest
4. What is difference between Gross interest and Net Interest?
5. Explain the concept of Liquidity Preference

References :

1. V.C. Sinha Business Economics
2. J.P. Mishra Business Economics

SELF DECLARATION

"The content is exclusively meant for academic purpose and for enhancing teaching and learning. Any other use for economic/commercial purpose is strictly prohibited. The users of the content shall not distribute-disseminate are share it with any one else and its use is restricted to advancement of individual knowledge. The information provided in this e-content is authentic and best as per my knowledge."

Dr. Baliram Tiwari
Assistant Professor
Department of Commerce
Jagatpur P.G. College
Jagatpur,
Varanasi-221302

THANK YOU