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	**:**	**IV- Business Economics**
NAME OF TOPIC	**:**	**Rent, Profit**

Key Words : Ricordian theory of Rent & Modern theory of Rent, Theory of Profit (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

Generally the rent means periodical payment for the use of a house, farm, durable goods such as refrigerators, furniture etc.

But in economics the term is used in a different sense. It is used in a very restricted or narrow sense and is usually referred to mean the price paid for the services of land and other free gifts of Nature (which, in fact, are included in land.

According to Ricorda, "Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil.

Kinds of Rent

There are two kinds of Rent :

i) Contract Rent
ii) Economic Rent

Contract Rent

It is amount paid to the owner of land as per the Agreement. The Agreement may be verbal or in writing. Contract Rent is also known as gross rent.

Economic Rent:

If we could deduct the payment for the services of other factors except land, we will arrive at what we can call economic rent.

Theories of Rent

There are two main theories of Rent :

1. Recordian Theory of Rent
2. Modern theory of Rent.

Recordian Theory of Rent

The Classical theory of Rent is Associated with the name of David Recardo. This theory was applied specifically to land. According to him 'Rent is a Differential surplus, The extra produce which a cultivator of superior plot of land gets over the cultivator of an inferior plot of land is known as Rent.

Main Feature of Ricordian Theory

The main features of Recordian theory May be put as under :

1. Rent Arises on land only
2. Rent arises on account of differences in the fertility of land
3. An account of increase in population, Demand for corn also increases and it forces to use such marginal lands also which have got no surplus.
4. Rent is an unearned income which accrues to the landlord alone.
5. Rent is due both to differential fertility as well as Differential situation.
6. Rent is price Determined and not price Determining.

Modern theory of Rent

Modern Economists have tried to modify and amplify the Ricordian theory of Rent. The modern theory of Rent is based on the following :

1. Rent arises due to scarcity of land
2. Rent is a generalised surplus-earned by all factors
3. Rent as a surplus, earned by a Factor

Theories of Profit

Profit is the fourth Component of factor Pricing. This profit can be called as the remuneration to the Entrepreneur for his services rendered in the production process. Some Important theory of profit are as under.

i) Risk theory of Profit
ii) Uncertainty Bearing theory of profit
iii) Innovation theory of profit

1. Risk theory of Profit

F.B. Howley emphsised risk taking as the function of the entrepreneur for which he needs the inducement of profit. Every business involves some Risk. He becomes entitled to profit. If risk is not properly rewarded. Nobody would be willing to undertake risk higher the risk, the greater must be the possibility of profit.

II. Uncertainty Bearing theory of Profit

Prof. knight in his work risk. Profit is the reward of uncertainty bearing. Profit Accrues to entrepreneur, because he bears uncertainty in Business.

III. Innovation Theory of Profit

Prof. J.A. Schumpeter propounded a dynamic theory of profit in which he attributed profit to the introduction of innovation in the production process. According to him, profit is the reward far innovation.

According to Schumpeter Innovation consist of all these changes in the production process as Sale conditions of the product which aims at reducing the cost of production.

Innovation may take any of the following forms :

- Introduction of a new Product
- Improved production Technique
- Involving new Machine or plant
- Changes in the internal organisation of a firm
- Use of new Sources of raw Material.
- Change in the shape and quantity of the product or its sales.

Related questions :

1. Explain the term 'Rent' as used in Economics.
2. Explain the modern theory of Rent
3. What is Ricordian theory of Rent?
4. What is profit & theories of profit?

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