

BA Part 1 (Paper - 1)

Economics (Hons)

Topic : Law of Return

Laws Of Return

1. LAWS OF RETURNS

2. INTRODUCTION In order to increase the production, a producer has to increase the proportion of its fraction of production. However, the returns due to variations in factors are not fixed. In some cases, return due to each successive unit is increased, sometimes it decreased and sometimes the production return is constant. These variations in returns were studied by PROF . MARSHALL, and he propounded these results in three laws which was altogether named as LAWS OF RETURNS . Basically there are three laws of returns: 1. LAW OF INCREASING RETURN 2. LAW OF DIMINISHING RETURN 3. LAW OF CONSTANT RETURNS

3. When the return due to each successive unit is increased, then that tendency is known as LAW OF INCREASING RETURN. This law states that : "An increase of labor and capital leads generally to improved organization, which increases the efficiency of the work of labor and capital". According to this law whenever a new dose of labor and capital is applied it yield increasing returns. Also the cost of production decreases. LAW OF INCREASING RETURNS:

4. When the return due to each successive additional unit, the production goes on diminishing. It is known as diminishing returns and is explained through LAW OF DIMINISHING RETURNS . It states that : "An increase in the capital and labor which leads to a less proportionate return and increases the cost of production". According to this law whenever a new dose of labor and capital is applied it yields decreasing return, and the cost of production is increased. LAW OF DIMINISHING RETURNS:

5. When the increase in productive unit keeps the production constant, then the tendency is known as LAW OF CONSTANT RETURNS. It states that: "When an increase or decrease in output of a productive unit makes no alteration in the cost of production . In other word, when fresh doses of productive resources results in an equal return, the law of return is said to be operated". LAW OF CONSTANT RETURNS:

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