BA Part 1(Paper-1)

Economics (Hons)

Topic : Modern theory of Rent

## Modern theory of Rent

Modern theory of rent is an amplified and modified version of Ricardian theory of Rent. It was first of all discussed by J.S. Mill and after that developed by economists like Jevons, Pareto, Marshall, Joan Robinson etc.

According to modern theory, economic rent is a surplus which is not peculiar to land alone. It can be a part of income of labour, capital, entrepreneur.

According to modern version rent is a surplus which arises due to difference between actual earning and transfer earning.

That is:

Rent = Actual Earning-Transfer Earning.

## What is Transfer Earning?

In this universe, each factor of production has varied uses. When we transfer one factor from one use to another, we have to sacrifice the income earned by it from its earlier use. Sacrifice of earning is called transfer earning.

Basically, the concept of transfer earning in economics is introduced by Prof. Benham. According to him, “The amount of money which any particular unit could earn in its best paid alternative use is sometimes called its transfer earnings.” A similar idea was developed by Pigou. Different economists consider transfer earnings as that amount of money which any particular unit could cam in its best paid alternative use.

Thus, what a person, piece of land or capital can earn in the next best alternative use is known as transfer earnings. Thus, according to Mrs. Robinson, “The price which is necessary to retain a given unit of three factors in a certain industry may be called its transfer earning.”

Suppose a piece of land can cam Rs. 100/- when it is used for producing wheat and the same amount if it is used for cotton. There is no extra earning because there are no transfer earnings. If, however, the same piece of land could cam Rs. 60 when put to the use of cotton.

Its transfer earning would be Rs. 40 and the extra gain of Rs. 40 which is surplus could be called

Rent. So, according to this theory, we can define rent as a payment of excess of the transfer earnings. In the words of Benham, “In general the excess of what any unit gets over its transfer earnings is of the nature of rent.” In the above example, true rent is Rs. 10 and transfer earning Rs. 40. Continued.....

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