Dr.Alok Kumar Class-M.A.Sem-II

Modern Theories Of Rent:

(iii) When the Supply is Less than Perfectly Elastic:

Less than perfectly elastic supply means that the transfer earnings of all the factor units are not equal. Mrs. Joan Robinson used the concept of 'Transfer Earnings' to explain the amount of rent earned by a factor unit in a particular use. She defines transfer earnings as the price which is necessary to retain a given unit of a factor in a certain industry.

This can be shown with the help of the following table 2:

Table 2

Demand for Labour	Actual Earning	Transfer Earning	Rent
20	20	20	20–20 = 0
35	25	20	25–20 = 5
40	30	20	30–10 = 10

The above table shows that when demand for labourer is 20, their transfer earning and actual earnings are equal. Therefore, Rs. 20 is the minimum wage rate below which there will be no supply of labour. Now, if demand for labourer increases to 35 but supply does not increase to the same ratio, wage rate will rise. As a result actual earning of labourer will rise to 25 while transfer earning will be Rs. 20 per labourer. Similarly, if the demand for labourer increases to 40 but supply does not rise, wage rate of labourer will further rise. Actual earning will go upto Rs. 30 per labourer. Thus, every labourer will earn rent equal to Rs. 10.

In Fig. 8 labour has been measured on X-axis and price on Y-axis. SS is the somewhat elastic but not perfectly elastic supply curve indicating that what quantity of the factor will be available at various prices. The transfer earning of X_1 unit of factor is AK_1 while the price is OK.

Thus the surplus or rent is AL. In the same fashion, the other unit earns surplus or rent. The transfer earnings of each factor units are less than the price. All units except the last unit Kg are earning profits which are more than their transfer earnings i.e. they are earning economic rent. The total earnings are OK_6E' K and the transfer earnings are OK_6E'. If we take away the transfer earnings, we get KE'S as surplus or rent.

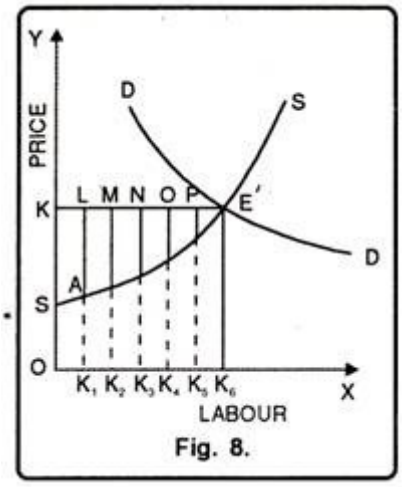

Fig. 8.