# Ricardian & Modern Theories Of Rent

Firstly, according to Ricardo, rent is a producer surplus beyond the full cost of production. Rent is enjoyed only by the gift of nature, i.e., land. But modern economists have shown that rent is not to be tied to land only. Rent is an income that may be enjoyed by all the inputs.

In other words, rent is not a specific income. Labour, capital and organization may also earn income. Every input has the minimum supply price below which no services will be available. Earning above the minimum supply price is rent. There is a rent element in wages, interest and profit.

Secondly, Ricardo considered scarcity rent and differential rent. However, he emphasized more on differential rent. Land may differ qualitatively due to two reasons: one is the difference in productivity and other is the difference in location of land. But modern economists have demonstrated that rent arises due to the inelasticity in the supply of any input. Greater the inelasticity in supply of an input higher is its rent.

Thirdly, and most importantly, the difference between Ricardian and modern theory centres around the relationship between rent and price. According to Ricardo, rent is price-determined but not price- determining. This implies that rent depends on the price of corn.

As price of corn rises, rent rises. This Ricardian view holds only when land is viewed from the society's point of view. As land is fixed in quantity its elasticity of supply is zero. Further, land, being a gift of nature, has no alternative use; thus its opportunity cost is zero. So rent does not enter into price or cost of production.

But modern economists argue that land is not limited in supply. When it is considered from the point of view of a firm or an industry, supply of land is rather elastic. Further, land has alternative uses. A particular land may be used for either paddy production or wheat production. If that land is used for paddy production it earns a surplus of, say, Rs. 100, and if it is used for wheat production it earns a surplus of, say, Rs. 80.