ANJUMAN ARTS, SCIENCE, COMMERCE COLLEGE AND P.G. CENTRE, BHATKAL.

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Valid

ANJUMAN ARTS, SCIENCE, COMMERCE COLLEGE AND P.G. CENTRE, BHATKAL.

DEPARTMENT OF ECONOMICS

CERTIFICATE

This is to certify that Mr./Miss. Mohtesham Mauriya is the bonafied student of our college studying B.A. IV th Sem semester has carried out field visit as prescribed by the syllabus Karnatak University Dharwad & submitted the report for the partial fulfilment of **Intermediate Micro Economics** for the academic year 2022-2023

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Examiners 1)

Examiners 2)

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The General Theory of Distribution

Introduction

The concept Marginal productivity has been primarily developed with reference to Labour. But what is true of Labour is also true of other factors of production like land, capital & organization.

How much should each factor of production be paid? When factor should be taken into account while distributing the national divident among the factor of production? The answer was given by the classical economist with the help of the theory known as the marginal productivity theory of distribution.

Assumption of the theory

The classical Economist assumed the following condition to explain the factor-pricing.

* There is perfect competition in the factor-market & commodity Market
* All the units of each factor are identical, homogeneous or uniform.
* The aim of every entrepreneur is to get Maximum amount of profit.
* There is full employment in the Economy. All the units of each factor of production are employed & no unit of a factor is willing to work for a reward lower than that prevailing in the Market.
* Substitution of one factor for another is possible so that the production can be increased or decreased by changing ~~the~~ factor units by small quantities
* It is possible to change the qualities of the factors of production & such a change will not disturb the production.
* The factors of production are completely mobiles as between different region & employments.

* The theory assume a longe period to prove that the remuneration paid to a factor will be equal to both average & Marginal production.

only under these assumption, the Marginal production theory hold good.

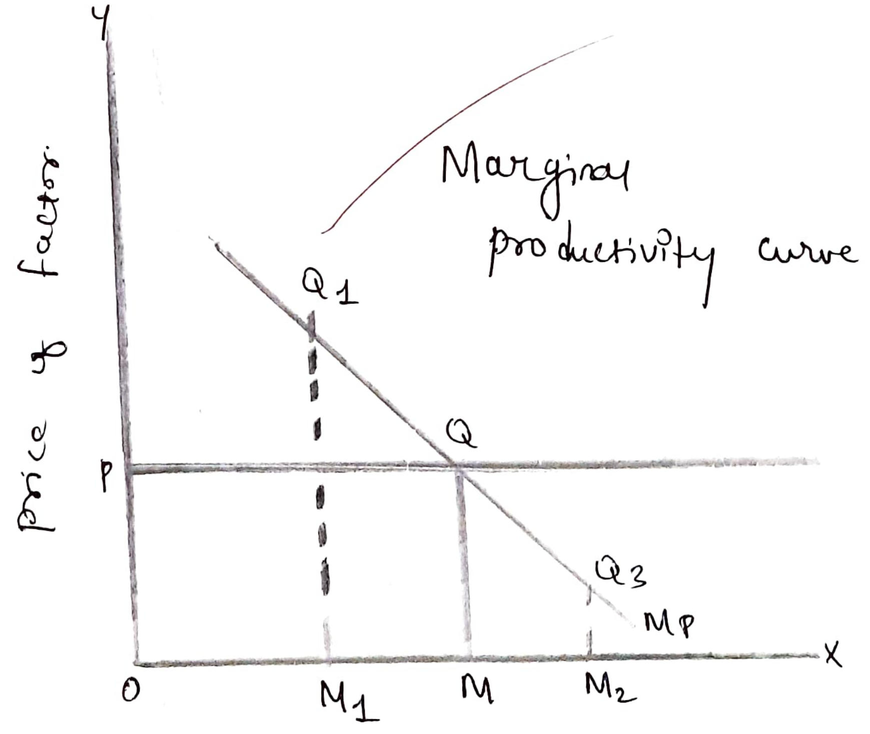
The theory states that in equilibrium each factor is rewarded according to its marginal productivity. What is meant by Marginal productivity of a factor? The Marginall productivity of a factor mean the addition made to the total prodution by the employment of one more unit of that factor, which the enterpreneur output must be equal to the price paid for the service of that factor. In other words, ~~the~~ enterpreneur employs various factor & pays each factor a rewards which is just equal to the contribution made by each of them in production.

Therefore, at the margin, the payment made to each to the value of the addition made to the total output by the addition unit of each factor. If, for example, the payment to labour i.e wage rate is less then the value of the marginal productivity of labour, then the employers finds it profitable to employ more labour & produce more, The demand for labour increases & therefore, the wage rate rises to the level of marginal productivity.

(c) Illustration

This is illustrated in the diagram. MP is the marginal productivity curve. At OP price, the quality of the factor employed is OM. At that level of employment, marginal productivity is equal to price (MQ=OP). If more of ~~that~~ factor is employed say OM_2 the ~~marginal~~ productivity will be fall & it will be Q_2M_2 which is less than the price OP. Therefore the entrepreneur loses by employing more than OM.

Thus, under competition, every enterpreneur employs & pays each factor according to the marginal productivity of each factor. He pays neither more nor less. He goes on employing more & more unit of a factor until a point where payment made to the factor is equal to the value of the marginal productivity of that factor. Therefore, under competition, the price paid to each factor is equal to its marginal productivity. Further, the marginal productivity of each factor will be the same in all the employments & in all the places, and the marginal productivity of all the factor will be proportional to their respective prices.



criticism of the theory

The theory hold true only under certain assumption which are unrealistic & impractical. Therefore, it loses all its practical value since it cannot be applied to the actual condition; Therefore it has been criticized by the modern economist as follows.

1. It assume that there is perfect competition in the factor-market as well as product market & that all the unit of a factor are homogeneous or identical.
2. It assumes that factor of production can be substitude one for another until the price paid to each factor is equal to its marginal productivity.
3. It assume that production can be increase or decrease by Increasing or decreasing factors.
4. It also assume that the marginal productivity of a factor can be ascertained by employing onemor unit of that factor.

Conclusion

In spite of these defects, the theory contains an element of truth, Because every factor should be paid according to its productivity. But the modern economists have discarded this theory as unrealistic & practically unless. In this place, they have framed their own theory known as demand & supply theory.