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# DISTRIBUTION THEORY

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# Definition

Distribution theory, in economics, the **systematic** attempt to account for the sharing of the national income among the owners of the factors of production—land, labour, and capital



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# Definitions

‘Distribution’ refers to the sharing of the wealth that is produced among the different factors of production.

According to Prof. Nicholson – “Distribution refers to the sharing of wealth of a nation among the different classes.”

Prof. Chapman has said that – “The Economics of Distribution accounts for the sharing of the wealth produced by a community among the agents or the owners of agents which have been active in its production.”



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# Meaning

In economics, **distribution** is the way total output, income, or wealth is distributed among individuals or among the factors of production (such as labour, land, and capital).

In general **theory** and the national income and product accounts, each unit of output corresponds to a unit of income.



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# Functional Distribution

Functional distribution refers to the distinct share of the national income received by the people, as agents of production per Unit of time, as a reward for the unique functions rendered by them through their productive services



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# Personal Distribution

Personal distribution on the other-hand, is a 'Micro Concept' which refers to the given amount of wealth and income received by individuals in society through their economics efforts, i.e., individual's personal earnings of income through various sources.



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# FACTOR MARKET

In economics, a **factor market** refers to **markets** where services of the **factors** of production are bought and sold, such as the labor **markets**, the capital **market**, the **market** for raw materials, and the **market** for management or entrepreneurial resources.



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# FACTOR MARKET

A factor market is a marketplace for the services of a factor of production. A factor market facilitates the purchase and sale of services of factors of production, which are inputs like labor, capital, land and raw materials that are used by a firm to make a finished product.

A factor market is distinct from the goods and services market, which is the market for finished products or services.





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# Factor Pricing

Factor pricing is associated with the prices that an entrepreneur pays to avail the services rendered by the factors of production.

For example, an entrepreneur needs to pay wages to labor, rents for availing land, and interests for capital so that he/she can earn maximum profit. These factors of production directly affect the production process of an organization.



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# two aspects of each factor of production

## Price Aspect

Refers to the aspect in which an organization pays a certain amount to avail the services of factors of production. For example, wages, rents, and interests constitute the price of factors of production.



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## **Income Aspect**

Refers to another aspect in which a certain amount is received by a factor of production. For instance, rents received by a landlord and wages received by labor constitute the income generated from the factors of production.



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# Rent

**Economic rent** is an excess payment made to or for a factor of production over the amount required by the property owner to proceed with the deal.

“Rent is that portion of the produce of earth which is paid to landlord for the use of original and indestructible powers of the soil.” –Ricardo

“Rent is the price paid for the use of land.” –Prof. Carver



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**Economic Rent** :Economic rent refers to the payment made for the use of land alone

**Gross Rent:** Gross rent is the rent which is paid for the services of land and the capital invested on it.

**Scarcity Rent:** Scarcity rent refers to the price paid for the use of the homogeneous land when its supply is limited in relation to demand

**Differential Rent:** Differential rent refers to the rent which arises due to the differences in the fertility of land

**Contract Rent:** Contract rent refers to that rent which is agreed upon between the landowner and the user of the land



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# Wage

An amount of money that is paid, usually every week, to an employee for their work: a daily/hourly/weekly **wage**

A **wage** is monetary compensation (or remuneration, personnel expenses, labor) paid by an employer to an employee in exchange for work done.

In economics, the price paid to labour for its contribution to the process of production is called wages.



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**Piece Wages:** Piece wages are the wages paid according to the work done by the worker. To calculate the piece wages, the number of units produced by the worker are taken into consideration.

**Time Wages:** If the labourer is paid for his services according to time, it is called as time wages. For example, if the labour is paid Rs. 35 per day, it will be termed as time wage.

**Cash Wages:** Cash wages refer to the wages paid to the labour in terms of money. The salary paid to a worker is an instance of cash wages.

**Wages in Kind:** When the labourer is paid in terms of goods rather than cash, is called the wage in kind. These types of wages are popular in rural areas.

**Contract Wages:** Under this type, the wages are fixed in the beginning for complete work. For instance, if a contractor is told that he will be paid Rs. 25,000 for the construction of building, it will be termed as contract wages.



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# Concepts of Wages

**Money Wages or Nominal Wages:** The total amount of money received by the labourer in the process of production is called the money wages or nominal wages.

**Real Wages:** Real wages mean translation of money wages into real terms or in terms of commodities and services that money can buy. They refer to the advantages of worker's occupation, i.e. the amount of the necessaries, comforts and luxuries of life which the worker can command in return for his services.





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# interest

**Interest** is the charge for the privilege of borrowing money, typically expressed as annual percentage rate. **Interest** can also refer to the amount of ownership a stockholder has in a company, usually expressed as a percentage.

As Prof. Marshall has said – “The payment made by borrower for the use of a loan is called Interest.”



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# There are two types or kinds of Interest

**Net Interest:** The payment made exclusively for the use of capital is regarded as net Interest or pure Interest.

**Gross Interest:** Gross Interest is the payment made by the borrowers to the lenders is called Gross Interest or Composite Interest.



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# Profit

A financial gain, especially the difference between the amount earned and the amount spent in buying, operating, or producing something.

Profit simply means a positive gain generated from business operations or investment after subtracting all expenses or costs.

**profit** equals revenue minus costs. ... In economics, this is called “accounting **profit**,” which equals revenue minus the explicit costs, costs paid to others.



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