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*Shaping Lives...
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Lecture 4

Laws of Returns: Increasing, Constant and Decreasing



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In production one or a combination of the following relationships are commonly observed:

1. Law of constant marginal returns (productivity),
2. Law of increasing marginal returns (productivity) and
3. Law of decreasing marginal returns (productivity)



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1. Law of constant marginal returns (productivity):

It is said to operate when each marginal unit of variable input adds equal quantity of output to the total output. It is applicable over limited range, e.g. one tractor (plus driver) will almost give same output, other things remaining constant.



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2. Law of increasing marginal returns (productivity):

It is said to operate when each marginal unit of variable input adds more and more quantity of output to the total output. It is not common in agriculture, e.g. small increase in seed input given the fixed inputs.



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3. Law of decreasing marginal returns (productivity):

It is said to operate when each marginal unit of variable input adds less and less quantity of output to the total output. It is widely applicable in agriculture.