Class B.Com - I

Subject: Business Economics and Environment.

Paper : II

Unit : V

Topic : Factor Pricing. (Seperate theory of Distribrition).

Lecture sequence no: 2

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Why a Separate Theory of Distribution:

In distribution, we are concerned with factor pricing as distinguished from product pricing as distinguished from product pricing.

In general, we can say that the price of services of a factor of production is determined in the same way as the price of a commodity. That is why it is said that the general theory of demand and ~~the general theory of~~ supply which determines the price of a commodity can also be applied to the determination of factor pricing.

But the general theory of value is not applicable to distribution in its entirely. This is so because of some fundamental difference between a commodity and a factor of production:

(1) The cost of production of an agent of production cannot be ascertained. As a matter of facts, it looks rather odd to speak of cost production in the case of an agent of production, say labour

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(2) The demand for a factor of production is necessarily a joint demand. Two or more factors have to be jointly used with various degrees of substitutability and complementarity between them.

(3) Supply of a factor is different from that of a product. The supply of a product depends on its money cost of production while the supply of a factor depend on its money cost of production while the supply of a factor depends on its opportunity cost, the minimum earning which it can earn in the next best alternative use.

(4) The demand for a factor depends on its marginal productivity while the demand for a product depends on its marginal utility. It follows from the above that a factor to be demanded it must be productive and goods and services it can produce must have a market value.

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Theory of Distribution:

Distribution refers to the way total output income, or wealth is distributed among individuals or among the factors of production such as labour, land, and capital.

The theory of distribution is that incomes are earned in the production of goods and services and that the value of the productive factor reflects its contribution to the total product. Distribution refers to 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 account, each unit of output corresponds to a unit of income. It is the systematic attempt to account for the ~~systematic~~ attempt ~~to account for the systematic~~ sharing of the owners of the factors of production land labour and capital. Economists have studied how the costs of these factor ie rent, wages and profit and the size of their return are fixed.