

Ricardo's Theory of Rent

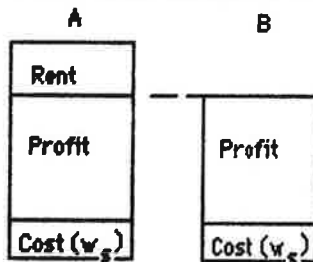
Assume:

Four plots of land of varying quality: A (highest quality) to D (lowest quality).
An equal amount of labor and equipment is employed on each plot.

Initially, the population can be fed by using the highest quality land. The capitalist/farmer hires as much labor as he can (given his capital fund) and produces corn. He generates an excess of revenue over cost -- his profit.

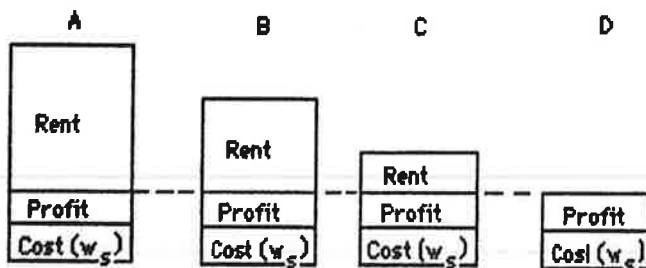


As population increases, farmers are forced to move to less productive land.



KEY: Competition among farmers will equalize profits and generate rent. Farmers compete by offering landlords rent on the more productive land.

As population increases, production moves to successively lower grades of land:



NOTES: Land that didn't earn rent begins to get rent and land that had rent earns even higher rent.
Profits are getting squeezed and rent is gaining an ever greater share (both absolute and relative) of total output.