

Nalanda Open University

Department of Economics

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- Course – BA Economics (Part – I)
- Paper – I (Micro Economics)
- Topic – Marginal Productivity of Distribution

Definition of Marginal Productivity Theory of Distribution

- ‘Under static condition, every factor including the entrepreneurs would get a remuneration equal to the marginal product’ by J. B. Clark
- ‘The marginal productivity theory contends that in the equilibrium each productive agents will be rewarded in accordance with its marginal productivity’. By Mark Blaug

Assumptions of Marginal Productivity Theory of Distribution

- Perfect competition in both commodity market and labour market
- All factors are homogenous in nature
- Profit maximization is the motive of the firm
- Law of Diminishing Return operates
- This theory is in the study of long run
- Full employment operates in the economy.

Concepts of Productivity

- PHYSICAL Productivity
 - Average Physical Productivity (APP)
 - Marginal Physical Productivity (MPP)
- REVENUE Productivity
 - Average Revenue Productivity (ARP)
 - Marginal Revenue Productivity (MRP)
- Value of Marginal Product (VMP)

Criticism of Marginal Productivity Theory of Distribution

- Full employment does not exist
- Perfect competition is a myth
- Homogeneity is not possible in all units
- Unequal distribution of wealth
- Ignores collective bargaining
- It is one-side theory.