MARGINAL PRODUCTIVITY THEORY OF DISTRIBUTION

AND

WAGE DETERMINATION

[Frequently Asked Questions]

Course Name	:	Commerce First Year Under Graduates
Paper No. & Title	:	BC 1.5, AF 1.5, BM 1.5, IB 1.5, BI 1.5, BEc 1.5 Business Economics
Topic No. & Title	:	Unit - 6 Introduction Basic Problems of an economy; Working of price mechanism

Frequently Asked Questions

Q-1 What is factor pricing ?

A-1 Factor pricing means understanding the issue of how factor prices (i.e. rent, wage, interest and profit) are determined.

Q-2 What does theory of distribution seek to explain?

A-2 Theory of distribution tries to find answer to the question – 'how is national income distributed among various factors of production'?

Q-3 State marginal productivity theory in respect of factor pricing.

A-3 'In equilibrium the factor price can neither exceed nor be less than the marginal productivity or marginal revenue productivity of the factor in question'

Q-4 Differentiate between the meanings of value of marginal physical product and marginal revenue productivity.

A-4 ***Value of Marginal Physical Product (VMPP)*** – The price or money value of marginal physical productivity is called VMPP of a particular factor. It is obtained by multiplying MPP of a factor with the market price of the product that it produces.

Marginal Revenue Productivity (MRP) – It refers to the change in total revenue of a firm due to the employment of an additional unit of a factor or it is also defined as the additional revenue which the firm would get by selling MPP. It is obtained by multiplying MPP of a factor by the marginal revenue (MR) that the firm earns when it employs one more unit of that factor of production.

Q-5 Explain the nature of demand curve for labor.

A-5 The demand curve for labor is downward sloping with respect to wage rate. This means as the wage rate falls, demand for labor increases and vice-versa.

Q-6 Explain the nature of supply curve for supply.

A-6 The supply curve of labor is upward sloping with respect to wage rate. This means as the wage rate increases, supply of labor too increases and vice-versa.