Economic Rents

Rent = Producer Surplus

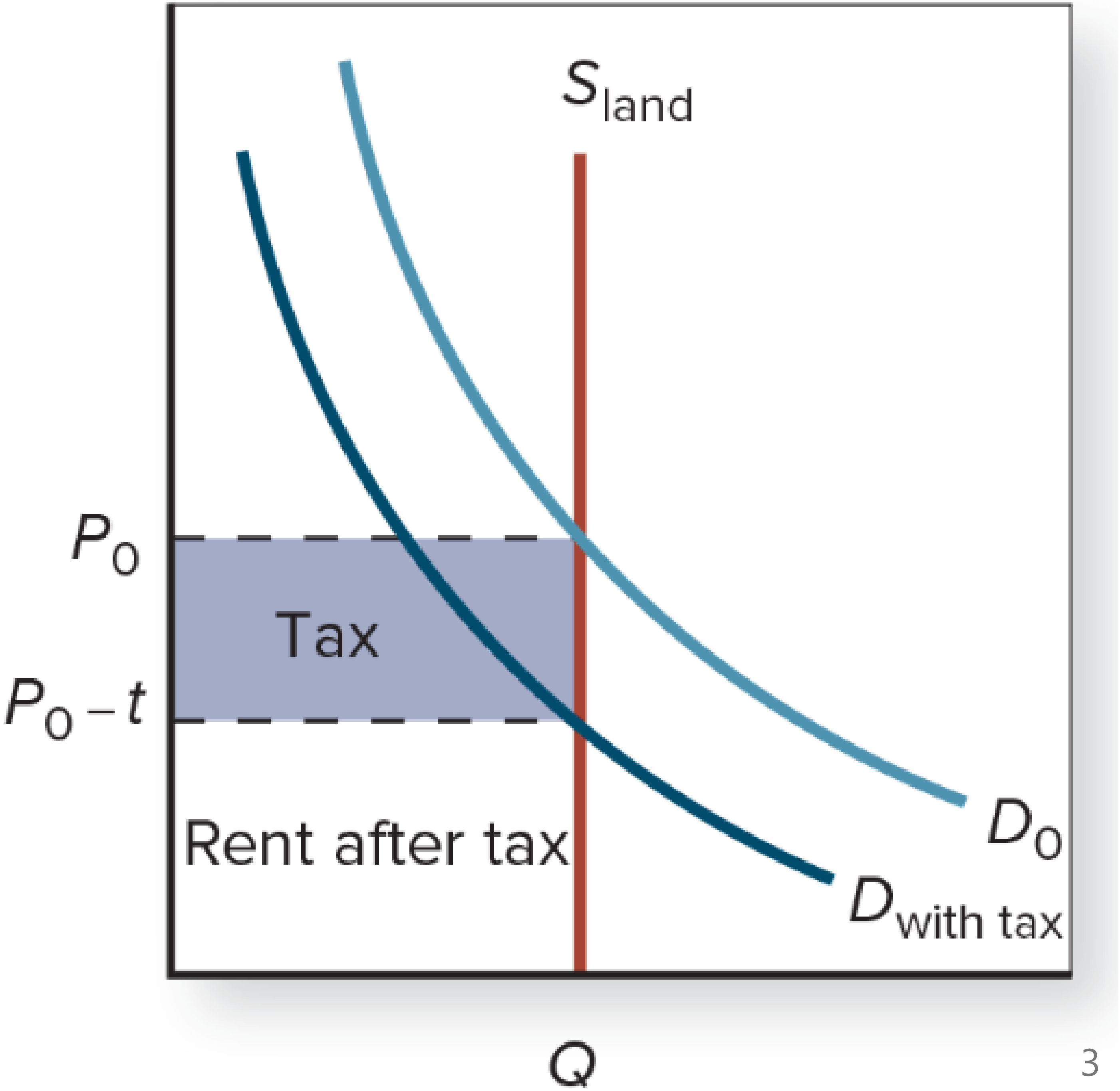
Supply is *perfectly inelastic* (fixed): rent

Supply is *elastic*: quasi-rent

Rent:

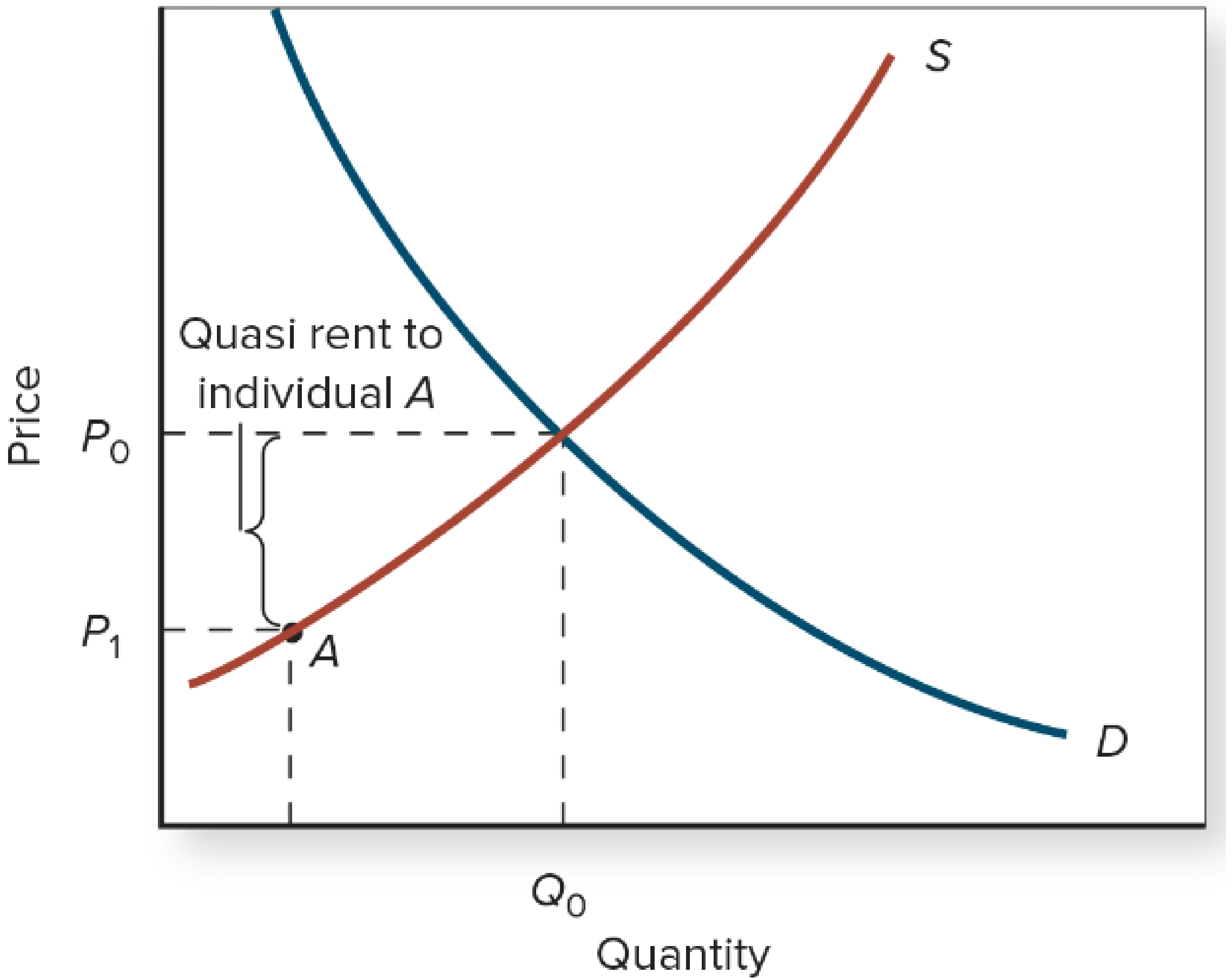
income from a factor of production in **fixed supply**

If supply is fixed, a tax falls **exclusively** on producers



Quasi-rent:

payments to a resource above its opportunity cost



Rent-seeking:

activities meant to **transfer surplus** from one group to another

Large Farmers Received Millions in Insurance Subsidies, Report Says

A nonpartisan watchdog found that some farmers received more than $3 million in federal crop insurance subsidies and that much of the program's funds were paid to insurance companies for administrative expenses.

David Ricardo

Rent-seeking landowners use **restrictions on food imports** ("Corn Laws") to enrich themselves

In the language of economics, rent is

1. the payment made to a landlord for the supply of housing
2. any revenue stream devoted to housing not made by a homeowner
3. a form of income which, if partially taxed, affects the supply of the input
4. one form of in-kind income for tenant farmers
5. income over and above what would be necessary to incentivize someone to do the job (or perform the task) he or she is being paid to do

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Consider two resource markets in which the demand curves slope downward. In market A, the supply curve is horizontal, equilibrium price is $6, and 100 units of the resource are hired. In market B, the supply curve is vertical, equilibrium price is $20, and 30 units of the resource are hired. Which of the following is true?

1. Total resource earnings are the same in both markets.
2. Total resource earnings are greater in market A.
3. Total resource earnings are greater in market B.
4. There is more economic rent in market A.
5. There is derived demand in market A, but not in market B.

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