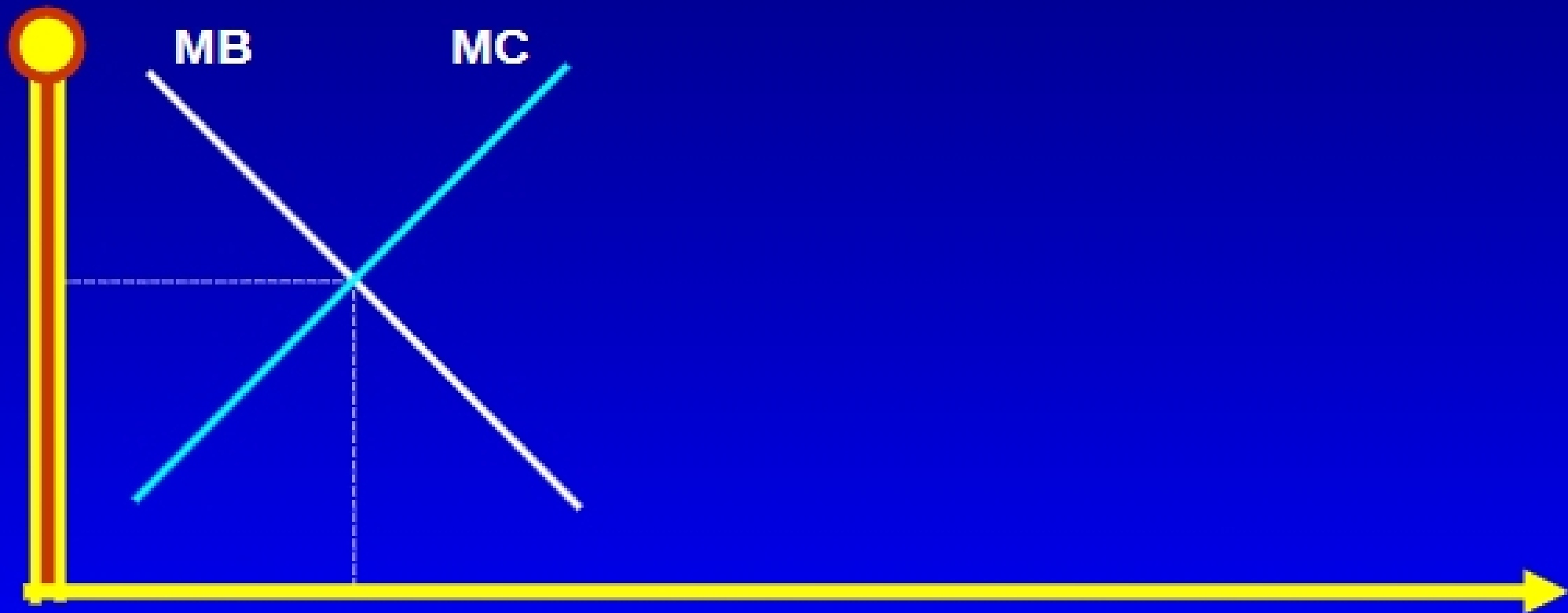
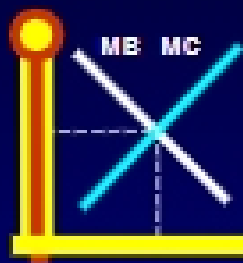


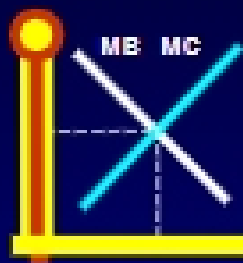
Economic Rent





What is rent?

- Unearned economic profit
- What is economic profit
 - Returns above and beyond a fair return to capital, labor and entrepreneurial skills
- What is economic profit in a perfect free market economy?
 - Zero
- Markets cannot not drive rent to zero



Three Types of Profit: 2

- Economic Profit = total revenue – explicit costs – implicit costs (opportunity cost of the resources supplied by the firm's owners)
 - E.g. Take farmers total revenue, subtract total costs, including money farmer could have made working elsewhere, money he could have made renting his land to someone else, etc.
- Payments to factors of production (explicit and implicit)
 - Payment to labor (human capital) = wage
 - to land (natural capital) = rent (unearned income)
 - to capitalists (finance and machinery/built capital) = interest