Marginal Productivity Theory of wages

⇒ Propounded by J.B. Clark, AC Pigou, A Marshall, etc.

⇒ Marginal Productivity theory of wage explains that under Perfect Competition a worker's wage is equal to marginal as well as average revenue Productivity

⇒ In other words marginal revenue Productivity & average revenue productivity of worker determine his wage.

⇒ Acc to this theory wage of a labourer is determined by his marginal Productivity.

⇒ This is also called (MRP).

⇒ If worker contributes more to production he is Paid more wages & if he contributes less, wages also will be low

⇒ Wages is determined based on the production contributed by the last worker. i.e marginal worker. His Production is called marginal Production.

⇒ As a result of competition between employers for labour & between workers for employment.

⇒ a wage-rate is determined that is equal to the marginal Productivity of the labour force.

⇒ The employers as a whole are willing to employ.

Assumption:-

1. All labourers are equally efficient
2. Constant technology.
3. Perfect Competition Prevails both in factor

and product markets.

4. There is full empt in the economy

5. Law of diminishing marginal returns apply on the marginal productivity of labour.

6. Labour is perfectly mobile.

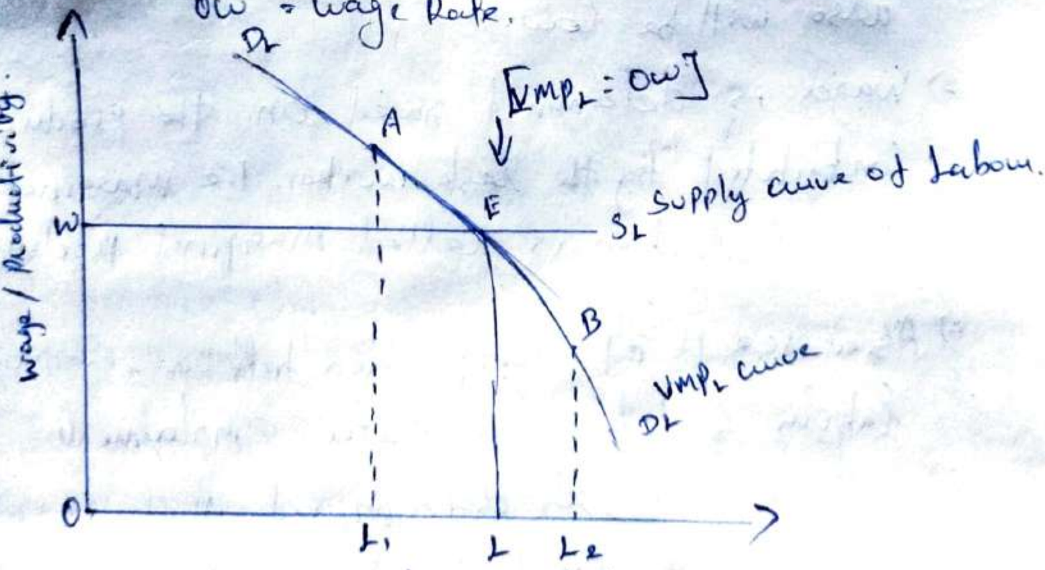
⇒ In the process of purchasing, a consumer does not pay a price more than the marginal utility of the commodity.

⇒ In the same manner, an employer does not pay wages to workers in excess of their marginal productivity. Therefore in equilibrium.

~~Vpm~~. $VMP_L = OW$ (price of Labour)

~~where VMP_L =~~ value of marginal product of labour

OW = wage Rate.



units of labour.

At point A, we find that = $VMP_L > OW$

At point B, we find that = $VMP_L < OW$

At point E, we find that = $VMP_L = OW$

- **Criticism of the Theory:**

1. The theory is Incomplete: The theory gives importance only to the demand for labour. The supply side has been completely ignored.

2. Based on perfect competition:- It is based on perfect competition. But perfect competition is a myth.

3. Based on Full Employment:- In case unempl workers may accept a rate of wage that is less than the M R Product

4. Long Run: only for the long run - determination of wages in the Short run.

5. Difficulty in Measuring Productivity:- It becomes difficult to find out the marginal Productivity of labour when the production is being carried out on a large scale.