

Diminishing Returns
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Article citation:
[Gaffney, Mason]. "Diminishing Returns." April 1995. Study guide.

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Diminishing Returns, 4/95

A. Review dim rets with fixed land, one variable (labor, stems, grazing cattle, fishing boats).

Reasons for taking land as fixed:

1, is likely to be so, to firm, in practice, esp. in short run. For many reasons.

2, is not homogeneous nor fungible, so cannot treat it as variable without standardizing the units somehow, which would be complex.

3, is fixed in space. Adding land to fixed labor would entail relocating labor, but adding labor does not entail relocating land.

4, is permanent in time, likely to be permanent, fixed base of firm operations, while labor and capital come and go. This lets us deal gracefully with replacement.

B. Next, introduce idea of MNP. Each new worker needs floor space, a workbench equipped with latest tools and machines, working capital, allocation of supervisory effort, paperwork, etc. They each need an allocation of the fixed land supply: parking space esp., causing crowding, some have to walk further, etc.

Example: compare math profs with agronomy profs., physicists with their labs, etc.

C. Make K the independent variable. The "Newark" model. Measure input in K x i; measure output in c.f. Thus, have comprehended many variables -- all except depreciation of K and appreciation of land.

Note how land rent is spun out as by-product.

D. Divide both Ki and c.f. by K, put it in % terms.

E. Introduce d in simplest way: add it to i. User cost is now K[i+d]. C.f. must cover both i and d.

F. Modify by using IPF instead of i+d.

10. Alternatively, can compare point values: compare K with DCF. Carry this to marginal increment of K: ΔK, compared with Δf

(where f is flow of cash or service).