



The Marginal Product as a Systems Concept

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The Marginal Product as a Systems Concept.

The increased product due to the last man added is not attached to that person individually. All units of any input are interchangeable, by assumption. It is not the individual as such, but the increase in quantity that causes added output. To make best use of the last input, the whole system must be adjusted, and that is what good managers do (bad ones may not). Thus, marginal adjustments are not marginal but systemwide.

The last individual produces the same AP as all the others. But he drags down the AP for all, and it is that decline that makes "his" MP lower than their AP. He does not drag it down because he is inferior, but because everyone is now more crowded.

Example of adding more trees/acre. MP of last tree is less than its own fruit yield by the decline in yield of all the other trees, which are now more crowded.

Example of adding 11th acre (here land is the variable). It draws its workers from the first 10, thus lowering their yields, so its MP is that much less than its apparent yield, i.e. the grain whose roots it holds physically.

Alternatively we could change the model to have more workers enter from outside. In this case we have to deduct their cost to get the net or "clean" marginal product imputable to the land (net means "clean" in French, and "produit net," originally applied to land, means "rent," and was central in the thinking of Dr. Francois Quesnay, one of the chief founders of economic science.) Deducting the money cost of these outside workers has the same effect as deducting the reduction from the first 10 acres caused by removing some of their workers, so that marginal net product, the second alternative, has the same value as the simpler marginal product, so long as the changes are small. Thus the marginal product of any input is net or "clean" of the contributions owed to other inputs, and measures its pure and sole contribution after deduction of associated costs. This makes it an extremely useful concept in practise.