Land

Land: is anything provided by nature which is used in the production of goods and services.

E.g. Agricultural land, oil, gas, forests, lakes, rivers, seas, fish stocks, mines, etc.

Land can be subdivided in two very broad categories.

1) Renewable Resources
2) Non-Renewable Resources

Renewable Resources: are those resources, the supply of which can be replenished.

E.g. Forests, solar power, fish stocks etc.

It is important to remember that when referring to renewable resources, there is an implication that these resources are only renewable if they are properly managed. If they are properly managed then their supply can be infinite in the long run and as such using some of these resources up today means that there is still an infinite amount of them left for future generations, but over exploitation of renewable resources can cause them to become non-renewable resources.

Non-Renewable Resources: are those resources which cannot be replenished.

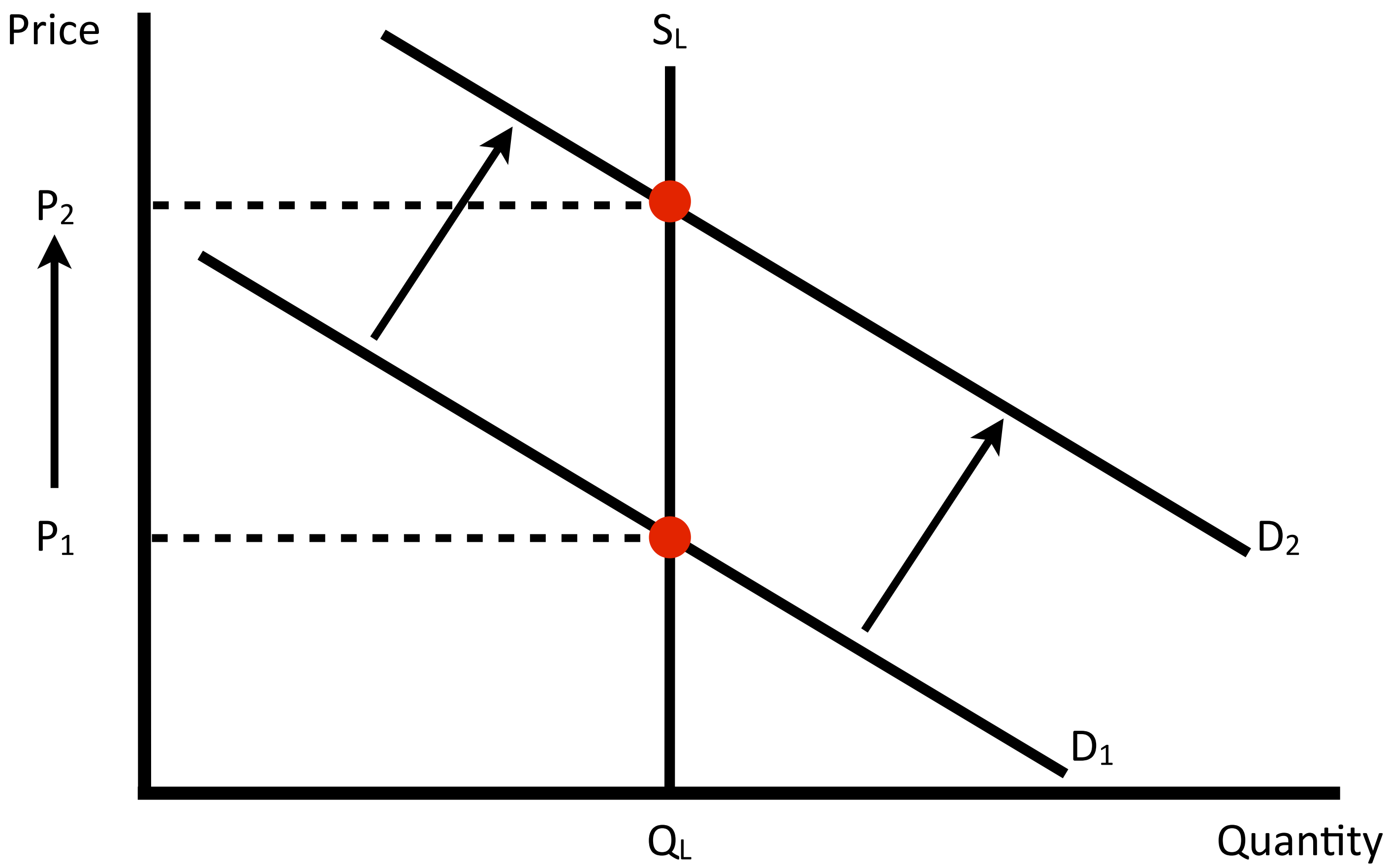
E.g. Oil, gas, mineral wealth etc.

It is implied in the definition that an increase in present the consumption of these resources means that there will be less of these available for future generations.

The Economic Characteristics of Land

1) **Land is Fixed in Supply:** Nature has provided only a certain amount of land and this cannot be increased by man.

The Supply of Land



2) **The Price of Land Does Not affect the Quantity Available:** This is unusual for factors. In the case of labour if wages fall the supply of labour may increase or decrease.
3) **Land has No Cost of Production:** This is because land is a gift of nature. and as such all earnings from land are an economic rent from society's point of view.
4) **Land is a Non-Specific Factor of Production:** This means that it is not confined to one specific use but its uses can change.

In economics we say that the return on land is **RENT.** This is the reward in economic terms to the owner of land being used in the production of goods and services.

Rent (Land Prices) is Price Determined not Price Determining

The return on Land (Rent) is determined by the Market Value of what can be produced by using that plot of land. When house prices in a city are high the price of land in general is also high as people are aware that if houses are built on that site then people will pay high prices for those houses. Therefore, property developers can afford to pay higher prices for that land as they will receive a high return when they sell them. When house prices are low the price of land is low as property developers know that they will not receive a high return when they go to sell them.

Example. The rent on cafés in Dublin city centre are far higher than the rent on cafés in the suburbs. The reason for this is that a café in the city centre could charge higher prices and receive more customers than one in the suburbs, and as such make a greater profit than a café in the suburbs.

This is what price determined means. It is the level of demand for what the factor produces that decides the price of that factor (in this case land).

During the building boom in Ireland, residential land was very valuable in Dublin. The council would zone land for a particular use, commercial, residential, greenbelt etc.

Many plots of land that were designated greenbelts could be worth €100,000. Due to the massive increase in the demand for residential housing many areas that were zoned as greenbelts were rezoned as residential land. This caused the value of land that was worth €100,000 before rezoning to be worth €1,000,000 after it.

The value of what could be produced on the land when it was zoned as residential (the price of houses) was far higher than what could be produced on the land when it was zoned as greenbelt (essentially nothing), thus causing an increase in the value/price of the land.

This is an example of the MRP of land increasing due to an increase in the selling price of houses, thus causing rents (the payments received by the owners of the factor of production land) to rise. But the price of land (rent) will rise faster than any other factor of production, given the same increase in demand, as the quantity of land is fixed.

We know that the demand for land is a derived demand and its MRP is the main factor governing its price. This is because supply doesn't change and the price for anything in a free market is determined by the intersection of the supply and demand curves (the demand curve for a factor of production is its MRP curve).

For a given MPP, changes in MRP will be related to changes in the selling price of the good produced on that land.

Therefore the higher the selling price of what is produced on that land the higher the MRP. The higher the MRP the more valuable the land.

And again, this leads to land prices or rent are price determined not price determining.

<u>Example 2</u>

If a builder sees a nice plot of land, how does he decide how much to pay for it?

1) Firstly, he decides what type of houses to build.
2) He then works out the number of these houses that he can fit on the site and their selling price.
3) He can then calculate his potential Total Revenue.
4) He then works out the building cost per house and from that he can calculate his profit margin.
5) This allows him to calculate the potential Total Cost of the project, excluding the cost of the land.
6) He then subtracts potential Total Costs from potential Total Revenue. The answer he got in point 5 from the answer he got in point 3.
7) The builder can pay up to the difference between the two for this plot of land.

The Price of Land can be Determined with the Following Formula

Potential Total Revenue

\- Potential Total Cost

= Maximum Price Payable for the Land

Again, Land is Price Determined not Price Determining

The demand for land is a derived demand. It is demanded for its contribution to the production process. The demand for land will decrease if there is a decrease in the demand for housing, commercial property etc.

Reasons why Prices of Land for Housing Development have fallen in recent years in Ireland.

1) **Deflation:** the general decrease in prices in Ireland has resulted in a decrease in land prices.
2) **Recession:** unemployment and falling incomes has reduced the demand for housing.
3) **Uncertainty:** about jobs in the future has stopped people from 'trading up' to larger houses.
4) **Credit Crunch:** difficulty in getting mortgages has resulted in a decline in demand for housing.
5) **Emigration is Rising / Immigration Declining:** has resulted in a drop in demand for housing.
6) **Reduced Speculation in Property:** the economic recession; introduction of the Property tax has resulted in a decline in demand for housing and a resulting fall in prices of land.
7) **Overcapacity in Housing Market:** supply now exceeds demand with many vacant properties existing and hence the demand for land has decreased.