Lecture 1

Ownership of land is highly unequal in the developing world, especially in Latin America.

$\Rightarrow$ people who work the land are often not the owners

There can be various arrangements between landlords and tenants

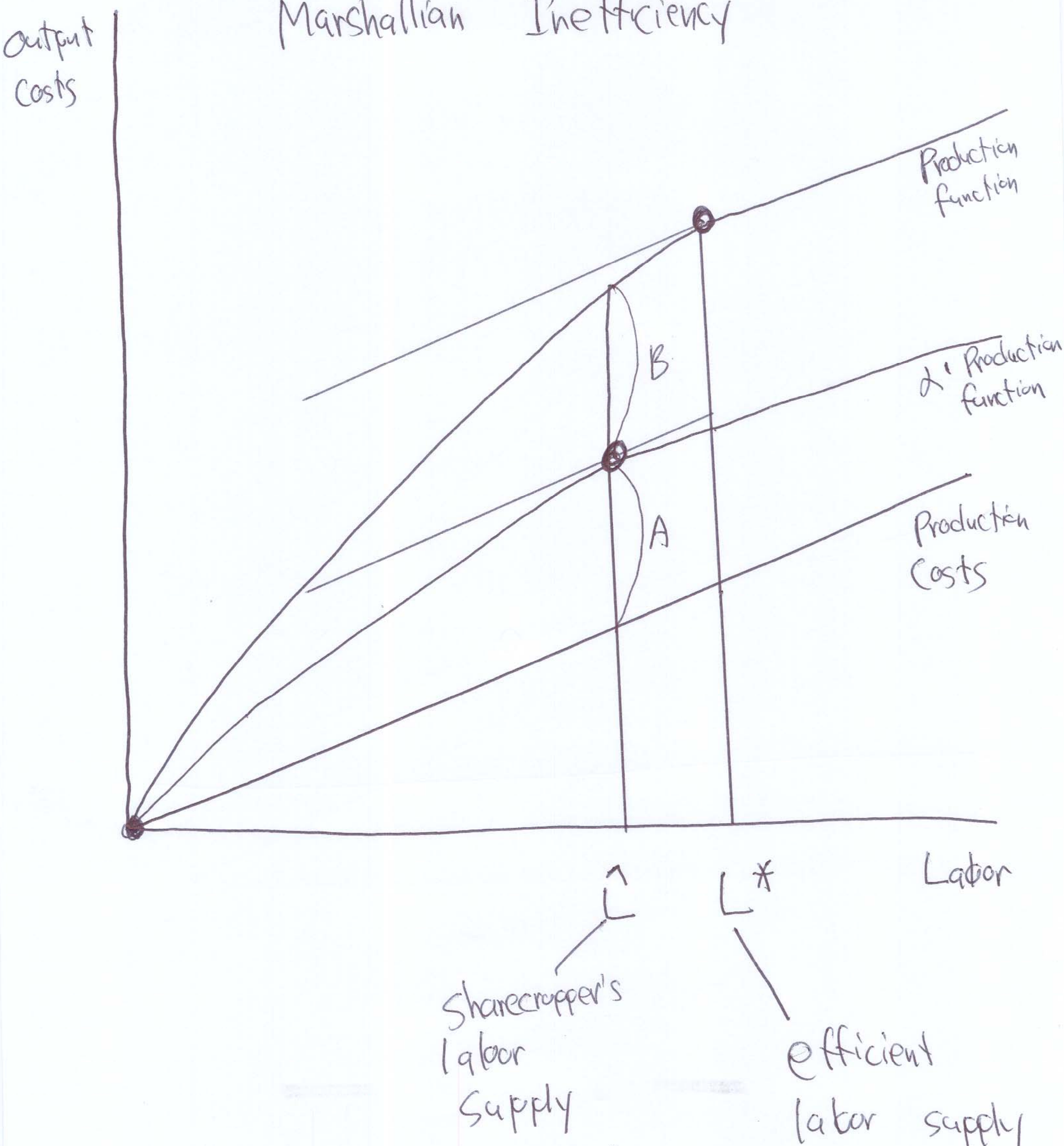
Y - output

R - rent paid by tenant

F - component of rent that does not depend on output

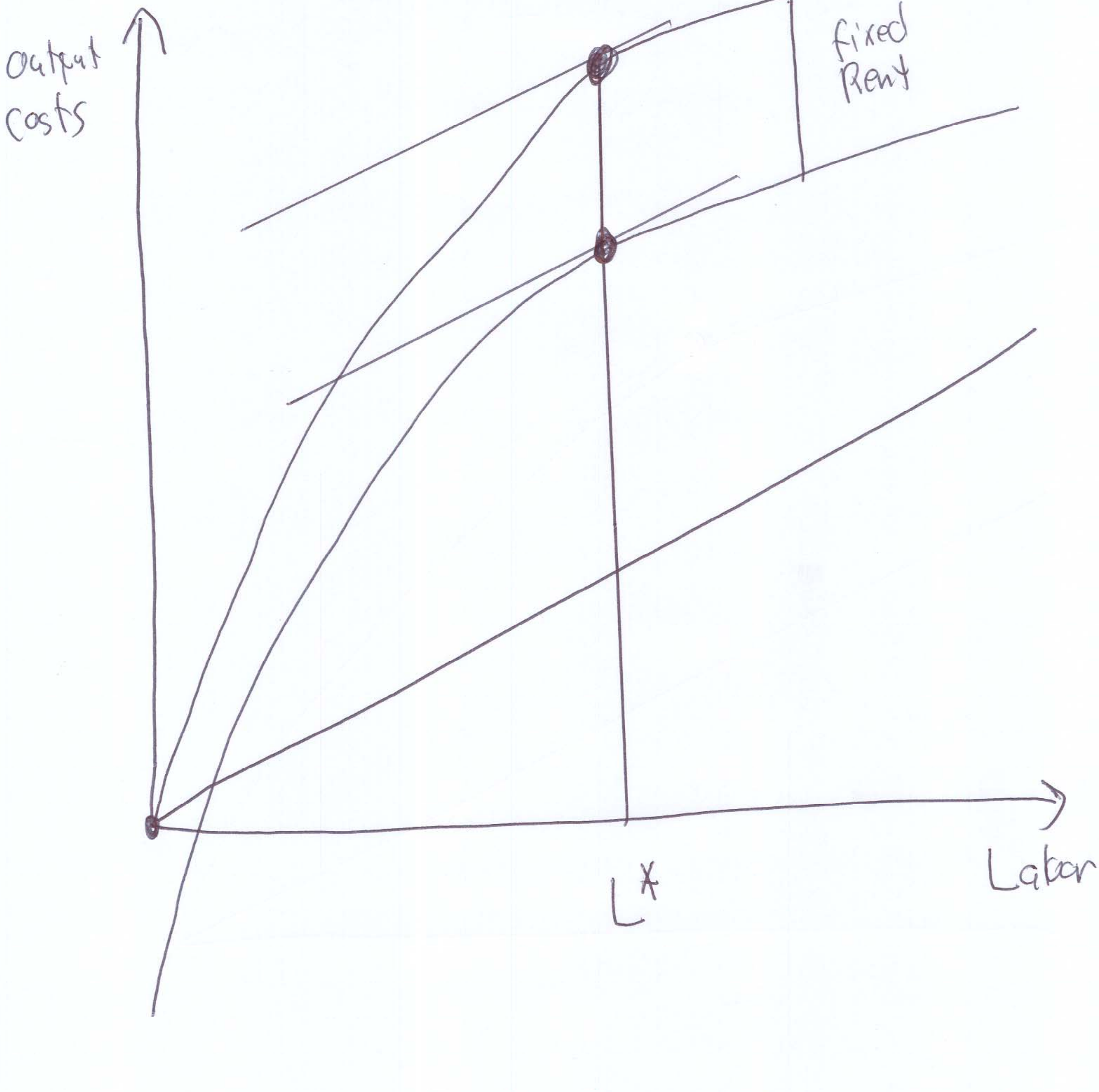
$$R = \alpha Y + F$$

Marshallian Inefficiency



A - sharecroppers profit

B - Landlord's income



You can achieve an efficient outcome with a fixed rent payment

Why do we see sharecropping if it is inefficient?

There have been many attempts to explain this puzzle.

1. Sharecropping provides insurance to tenants
2. If both landlords & tenants work the land then they both need incentives to provide inputs.
3. Sharecropping combined with cost sharing of inputs, like fertilizer, can make sense. For example, both costs & rewards might be cut in half.
4. Limited liability - Sometimes the tenant cannot pay back a fixed rent fully. The Landlord might prefer a small payment to a default.