

Rent, Interest, and Profit

In Chapter 15, we focused on the wages and salaries paid by firms to obtain labor. Here our attention is focused on the rent, interest, and profit paid by firms to obtain, respectively, land, capital, and entrepreneurship. Our analysis will provide answers to numerous practical questions, including:

How do *land prices* and *land rents* get established, and why do they differ from property to property? For example why do 20 acres of land in the middle of the Nevada desert sell for \$5,000 while 20 acres along The Strip in Las Vegas command \$500 million?

What determines *interest rates* and causes them to change? For instance, why were interest rates on 3-month bank certificates of deposit 1.3 percent in January 2003, 5.4 percent in June 2006, and 0.2 percent in November 2009? How does interest compound over time, and how does that compounding relate to the so-called present value and future value of a particular sum of money?

What are the sources of *profits* and *losses*, and why do they vary? For example, why did Walmart earn profits of nearly \$16 billion in 2011 while financial firm MR Global went bankrupt after losing over \$1.6 billion of its clients' money?