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## A New Approach to Testing Marginal Productivity Theory

by Martin Biewen, Constantin Weiser  
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### Abstract:

We address the long standing question of whether production factors are paid their marginal products. We propose a new approach that circumvents the need to specify production functions and to compare marginal products to factor payments. Our approach is based on a simple equation that directly relates firms' profits to discrepancies between factor payments and marginal products. Our empirical application using data on manufacturing firms suggests that capital receives more than its marginal product, intermediate inputs receive less, and labor receives about its marginal product. Although there are differences with respect to firm size, deviations from marginal productivity theory generally seem limited. Our results have important implications for the distribution of income, the presence of optimizing behavior, and the existence of market power.

**Text:** See [Discussion Paper No. 6113](#)



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