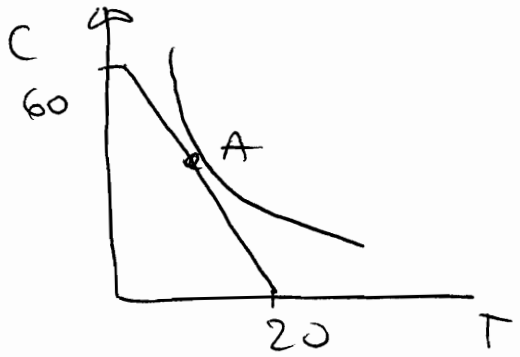
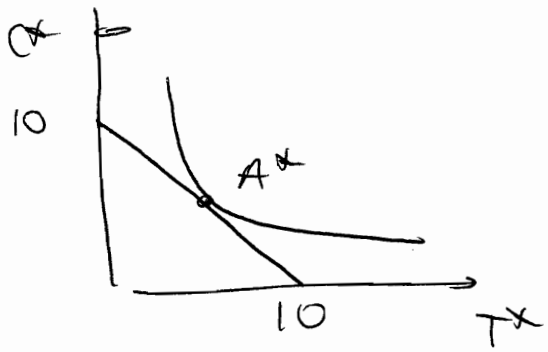
FALL 08
364

EX 1 KEY

(1) H



F(X)



(2)

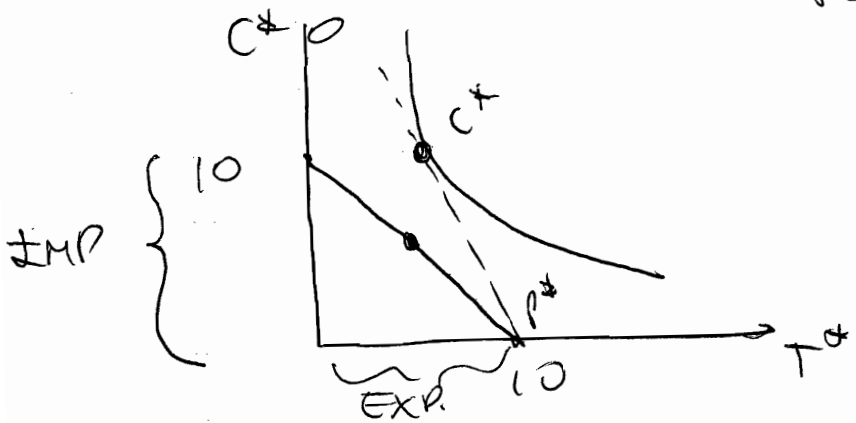
$$\left(\frac{P_T}{P_C}\right)^A = 3 \qquad \left(\frac{P_T}{P_C}\right)^{A^*} = 1$$

FOREIGN CA IN T

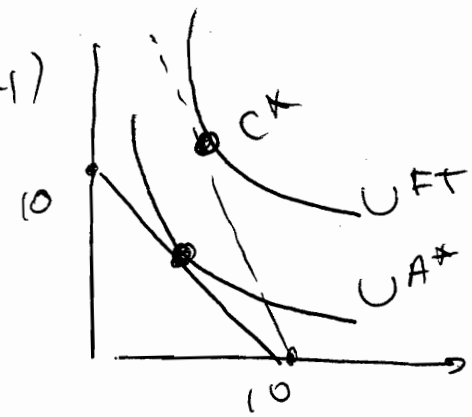
SINCE

$$\underbrace{\frac{6}{3}}_{\frac{Q^*_T}{Q_T}} < \underbrace{\frac{6}{1}}_{\frac{Q^*_C}{Q_C}}$$

(3) FT PRICES: $\frac{P_T}{P_C} = 2$



(4)



(5) UNDER FT FOREIGN PROD. ONLY TEXTILES ⇒

$$\frac{w^*}{p_T} = MPL_T^* = \frac{1}{a^*_T} = \frac{1}{6}$$

THEN

$$\frac{w^*}{p_C} = \frac{w^*}{p_T} \cdot \frac{p_T}{p_C} = \frac{2}{6} = \frac{1}{3}$$

$\frac{w^*}{p_T} = 1/6$; $\frac{p_T}{p_C} = 2$

(6) ASSUME $p_T = 1$ SINCE $\frac{p_T}{p_C} = 2$

$\Rightarrow p_C = 1/2$

HOME PROD. ONLY C UNDER FT

$$\Rightarrow \frac{w}{p_C} = MPL_C = \frac{1}{a_C} = 1$$

$$\Rightarrow w = 1 \cdot p_C = 1/2$$

$$\boxed{ACT} = w \cdot a_T = \frac{1}{2} \cdot 3 = \boxed{1.5}$$

($a_T = 3$)

(7) NO, SINCE H IS A MORE EFFICIENT COUNTRY WAGES REFLECT PRODUCTIVITY & H HAS HIGHER PRODUCTIVITY IN BOTH SECTORS

$$w^{FT} > w^{*FT}$$

(REAL WAGES ALSO HIGHER AT HOME

SINCE P_T SAME IN BOTH COUNTRIES

(8) NOW: $a_T^* = 3$

C.A. IS THE SAME AS BEFORE FOREIGN HAS C.A IN TEX SINCE

$$\frac{3}{3} < \frac{6}{1}$$

HOME HAS A CA IN CORN

$$\frac{1}{6} < \frac{3}{3}$$

$\Rightarrow$ PATTERN OF TRADE IS THE SAME

(9) THIS CHANGE P WORLD ALAICABICITY OF TEXTICES

(AT OLD PRICES TEXTICES IS RECATICECY MORE ABUNDANT)

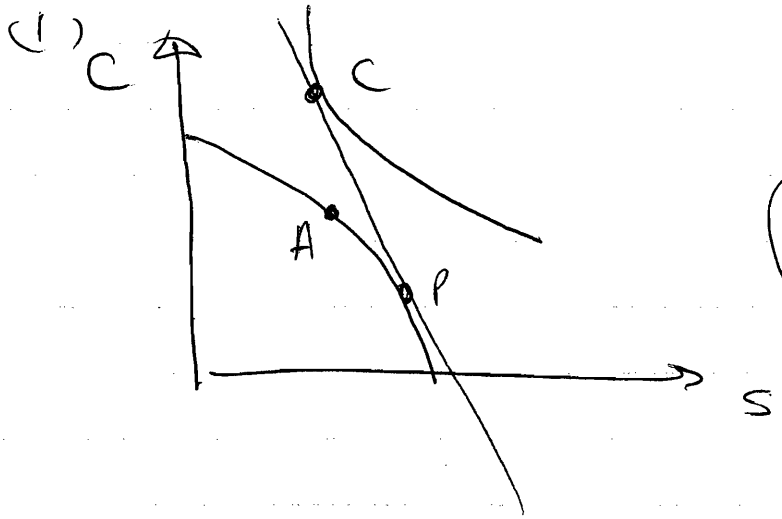
$\Rightarrow$ $\frac{P_T}{P_C} \downarrow$

i.e TEXTICES BECOME RECATICECY CHEAPER

II

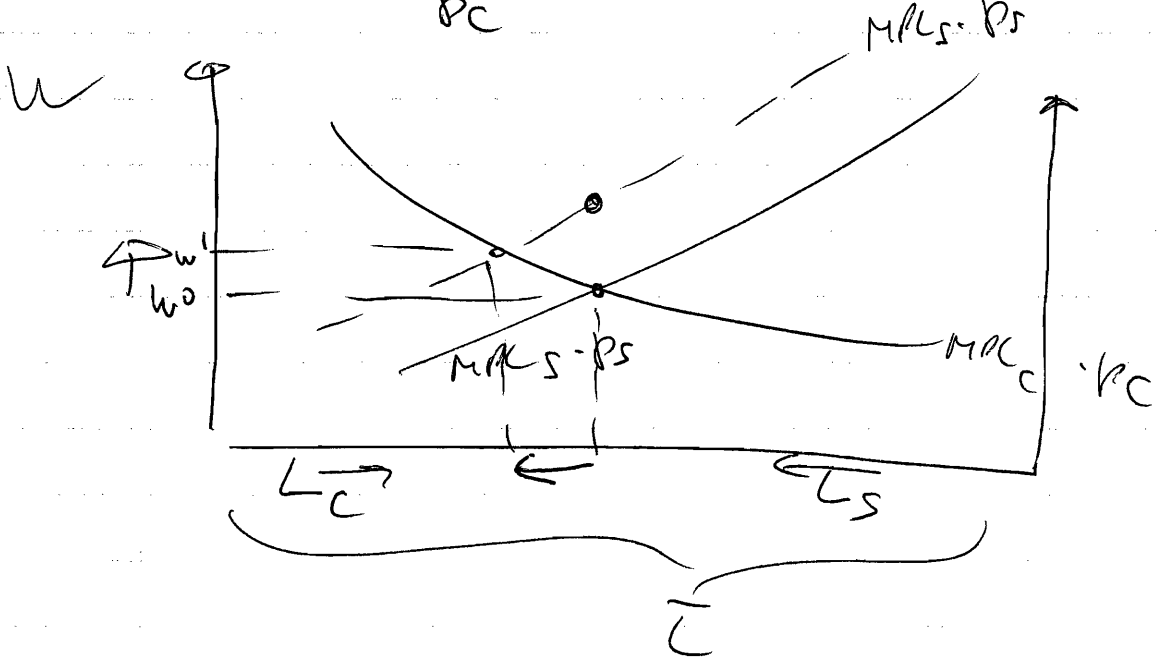
$C \nearrow^{K} \searrow L_C$ $\qquad$ $S \nearrow^{T} \searrow L_S$

(1)



$\left(\frac{P_S}{P_C}\right)^{FT} > \left(\frac{P_S}{P_C}\right)^{A}$

(2) $\uparrow \frac{P_S}{P_C}$, ASSUME P_C CONSTANT, $P_S \uparrow$



$L_S \uparrow$

$L_C \downarrow$

(3) SINCE $\bar{K}$, $\bar{T}$ FIXED

$L_S \uparrow \Rightarrow \uparrow$ SOY OUTPUT

$L_C \downarrow \Rightarrow \downarrow$ CORN "

(4) $W\uparrow$

FROM W_0 TO W_1,

SINCE

$\%\Delta W < \%\Delta P_S$

(BY GRAPH
CHARACTERISTICS)

$\Rightarrow \boxed{\frac{W}{P_S}\downarrow}$

SINCE $W\uparrow$ & P_C CONSTANT

$\Rightarrow \boxed{\frac{W}{P_C}\uparrow}$

SO WELFARE OF WORKERS DEPENDS ON WHAT THEY LIKE TO CONSUME (UNCERTAIN RESULT)

(5) CAPITAL OWNERS WORSE OFF

K CONSTANT

$L\downarrow$

$\Rightarrow \boxed{MPK = \frac{r_K}{P_C}\downarrow}$

SINCE P_C CONSTANT $\Rightarrow r_K\downarrow$

& THEN $\boxed{\frac{r_K}{P_S}\downarrow}$

BETTER OFF

(6) LANDOWNERS

T CONSTANT

$\Phi \downarrow L_S \Rightarrow$ $MPT = \frac{R_T}{P_S} \Phi$

$\Rightarrow$

$R_T \Phi$

SINCE P_C CONSTANT

$\Rightarrow$

$\frac{R_I}{P_C} \Phi$