

RICARDO 2 COUNTRIES 9-23-08

$$FT \quad AT \quad \left( \frac{P_S}{P_T} \right)^{FT} = 1.5$$

EXAMPLE  
FROM LAST CLASS

### PLAN

CHARACTERIZE FT EQUIL.  
FOR HOME.

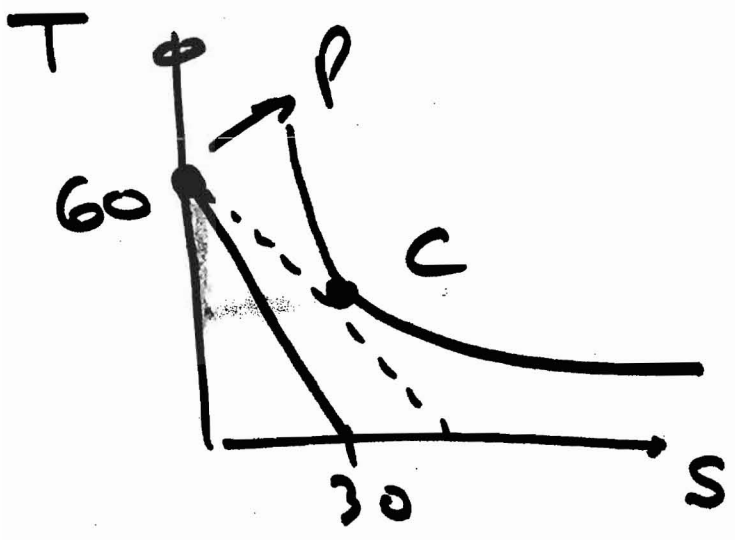
- CALCULATE PROD. POINT
- POSSIBLE CONS. POINT
- REAL WAGES
- CHOSE NUMERAIRE  
& CALCULATE NOMINAL WAGES
- CALCULATE AV. COSTS

② GIVE RESULTS FOR  
FOREIGN IN FT

③ SHOW DATA

④ COMPARATIVE STATICS  
(RESPONSE TO CHANGES IN  
 $Z$ , TECHNOLOGY, PREFERENCES)

Home



REAL WAGES

IN FT ONLY T IS PRODUCED

$$\Rightarrow \frac{w}{p_T} = MPL_T = \frac{1}{a_{LT}} = 1 \quad \text{①}$$

BUT  $\frac{w}{p_S} \neq MPL_S$

$$\text{So } \frac{w}{p_S} = \frac{w}{p_T} \cdot \frac{p_T}{p_S} = \frac{2}{3}$$

FROM ①

SINCE  $\left(\frac{p_S}{p_T}\right)^{FT} = 1.5$

ASSUME  $p_T = 1 \Rightarrow 1.5 = p_S$  (3)

SINCE  $\left(\frac{p_S}{p_T}\right)^{FT} = 1.5$

$$AC_T = a_T \cdot w = 1 \cdot 1 = 1$$

$$AC_S = a_S \cdot w = 2 \cdot 1 = 2$$

### REMARKS

- T IS PRODUCED  $\Rightarrow p_T = AC_T$
- SOY IS IMPORTED

$$\left(\frac{w}{p_S}\right)^A = \frac{1}{2} < \left(\frac{w}{p_S}\right)^{FT} = \frac{2}{3}$$

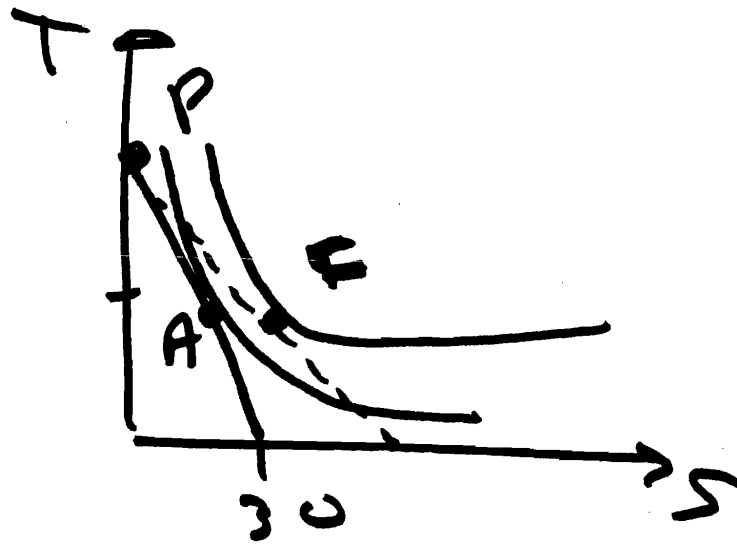
$\Rightarrow$  TRADE  $\uparrow$  REAL

WAGE IN TERMS OF IMPORTED  
COMMODITY -

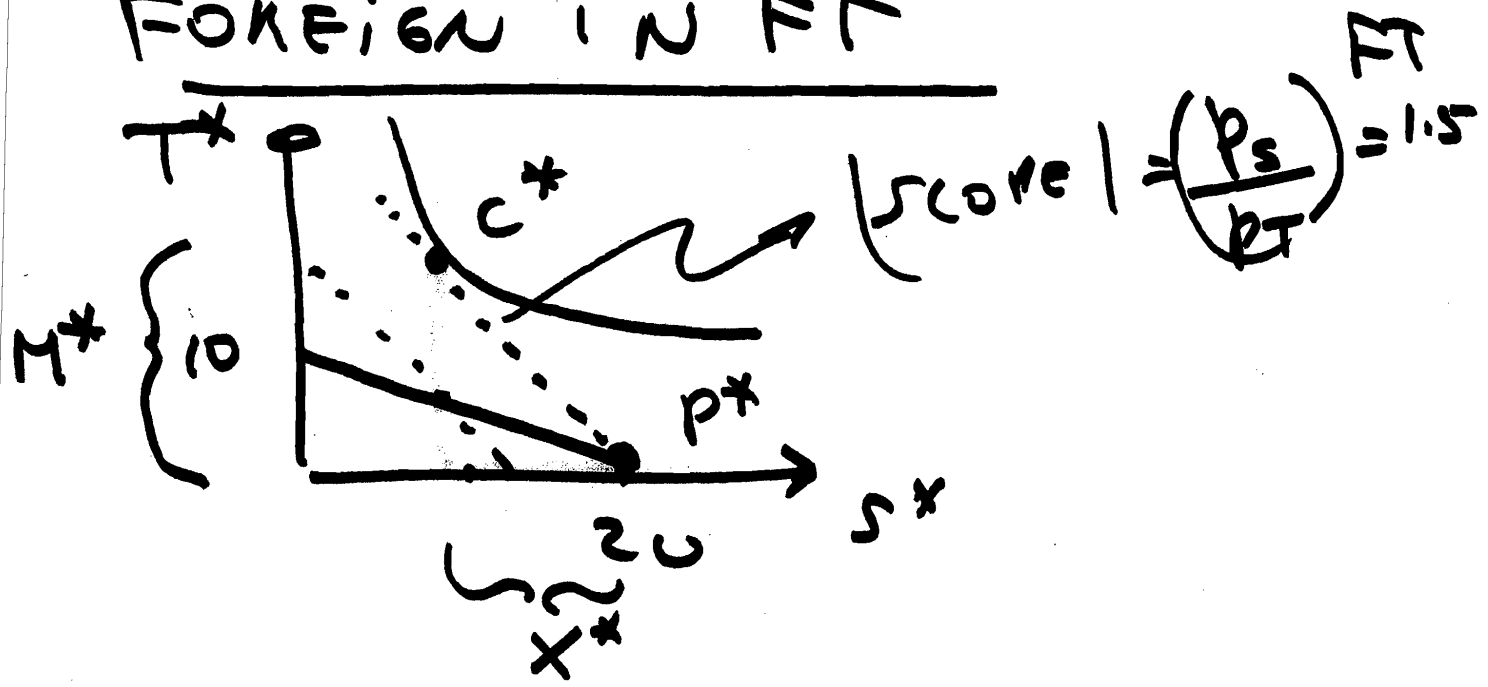
(i.e. GAINS FROM TRADE)

GAINS FROM TRADE CAN  
ALSO BE SEEN IN  
DIAGRAM

(4)



FOREIGN IN FT



- ONLY SOY PRODUCED

-  $\left(\frac{w^*}{p_s^*}\right)^{FT} = \frac{1}{3}$  ,  $\left(\frac{w^*}{p_T^*}\right) = \frac{w}{p_s} \frac{p_s}{p_T} = \sqrt{2}$

-  $p_T^* = 1$  ,  $p_s^{FT} = 1.5$   $\sqrt{\frac{1}{3}}$   $\sqrt{1.5} = \sqrt{0.5}$

-  $AC_s^* = 1.5$

-  $AC_T^* = 3$

# AC REMARK

(5)

EXPORTER CAN PRODUCE THE  
GOOD CHEAPER THAN  
THE IMPORTER.

⇒ LOWER WAGES  
DO NOT ALWAYS  
RESULT IN LOWER  
COSTS

EX: FT

HOME EXPORTS TEXTILES

$$\Rightarrow AC_T < AC_T^*$$
$$Q_T \cdot W^{FT} < Q_T^* \cdot W^{*FT} = 3$$

1                      1                      6                      1/2

i.e

$$\frac{Q_T}{Q_T^*} < \frac{W^{*FT}}{W^{FT}}$$

# FOREIGN EXPORTS SOY

6

$$\Rightarrow AC_S^* < AC_S$$

$$\begin{array}{ccc} Q_S^* \cdot W^{*FT} = 1.5 < Q_S \cdot W^{FT} = 2 \\ \parallel & \parallel & \parallel \\ 3 & 1/2 & 2 \quad 1 \end{array}$$

i.e.

$$\frac{W^{*FT}}{W^{FT}} < \frac{Q_S}{Q_S^*}$$

## PREDICTIONS OF MODEL

~~LOW~~  $\rightarrow$  PROD. & WAGES ARE POSITIVELY CORRELATED

# COMPARATIVE STATICS

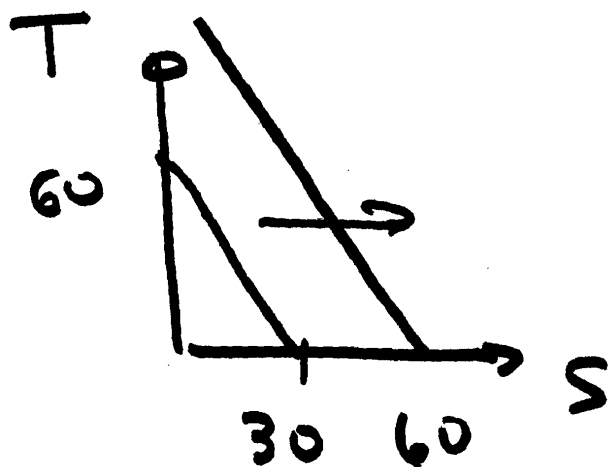
(7)

① EXAMPLE:  
LABOR PROD. DOUBLES IN  
HOME COUNTRY.

QUESTION:  $\left(\frac{P_S}{P_T}\right)^{FT} ? \downarrow P?$

	H	F(*)
S	1	3
T	1/2	6

$$\bar{L} = \bar{L}^* = 60$$



TEXT.  
RELATIVELY  
MORE ABUNDANT  
IN THE  
"WORLD AT OLD

WORLD PRICES"

(OR SOY RELATIVELY MORE SCARCE  
AT "OLD WORLD PRICES")  $\Rightarrow$

$$\left(\frac{P_S}{P_T}\right)^{FT} \uparrow$$

⑧

THIS CHANGE IN WORLD  
 PRICES BENEFITS FOREIGN  
 SINCE PRICE OF EXPORT  
 GOOD  $\uparrow$  (PRICE OF  
 IMPORT GOOD  $\downarrow$ ) THIS IS  
 CALLED AN IMPROVEMENT  
 OF TERMS OF TRADE  
 FOR FOREIGN

$$\frac{P_{\text{EXPORTS}}}{P_{\text{IMPORTS}}}$$

② EXAMPLE

HOME: ONLY SOY PRODUCTIVITY  
 DOUBLES

S	H
T	I

A *
3
6

$$\bar{L} = \bar{L}^* = 60$$

QUESTIONS :

⑨

$$\left(\frac{p_s}{p_T}\right)^{RT}$$

↓  $\varphi$  ON SAME?