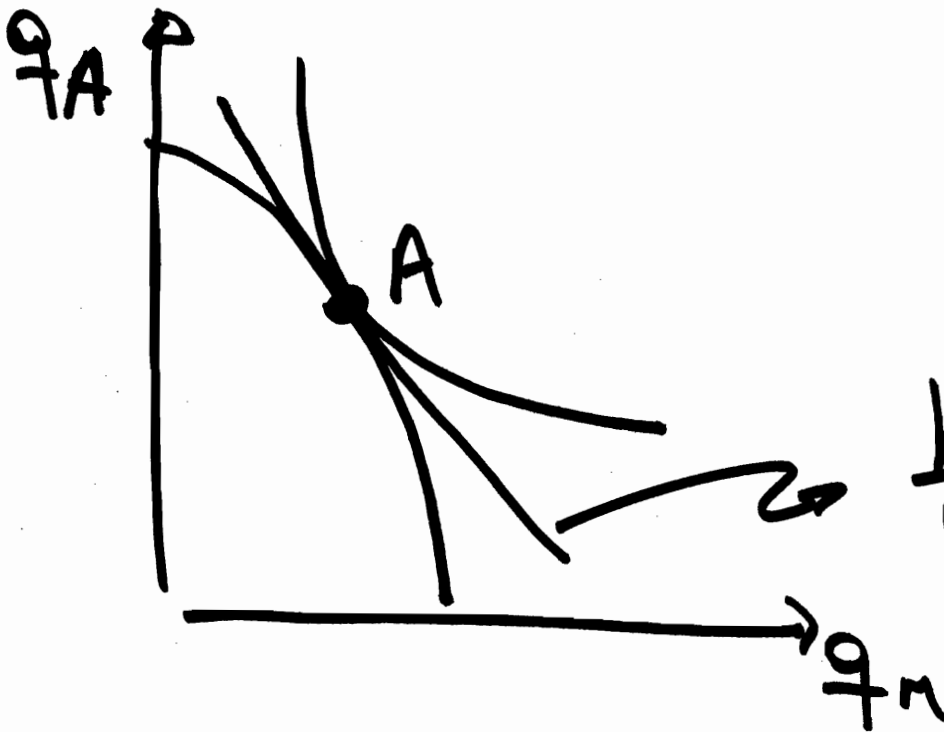


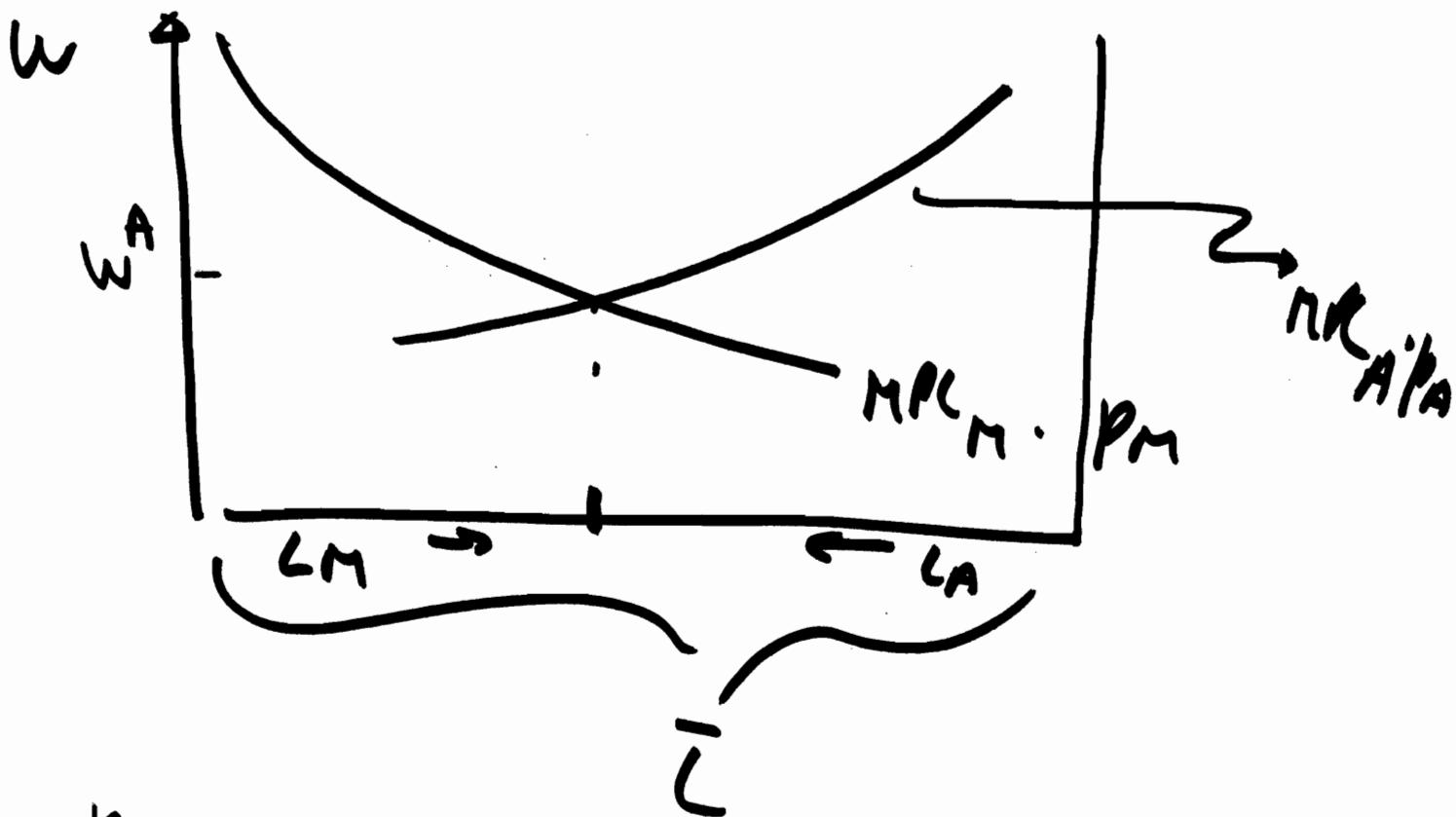
10-2-08

- S. FACTORS
REVIEW / EXAMPLES /
COMPARATIVE STATICS
- DATA / REAL WORLD
- REVIEW

S.F

AUTARKY





RETURNS TO k :

$$\frac{r_k}{PM} = MPK$$
 ↓ DEPENDS ON

$$\frac{K}{LM}$$

RETURNS TO LAND (T):

$$\frac{r_T}{PA} = MPT$$
 ↓ DEPENDS ON

$$\frac{T}{LA}$$

REMARK:

$$\uparrow LM \Rightarrow \frac{\bar{K}}{LM} \downarrow \Rightarrow MPK \uparrow$$

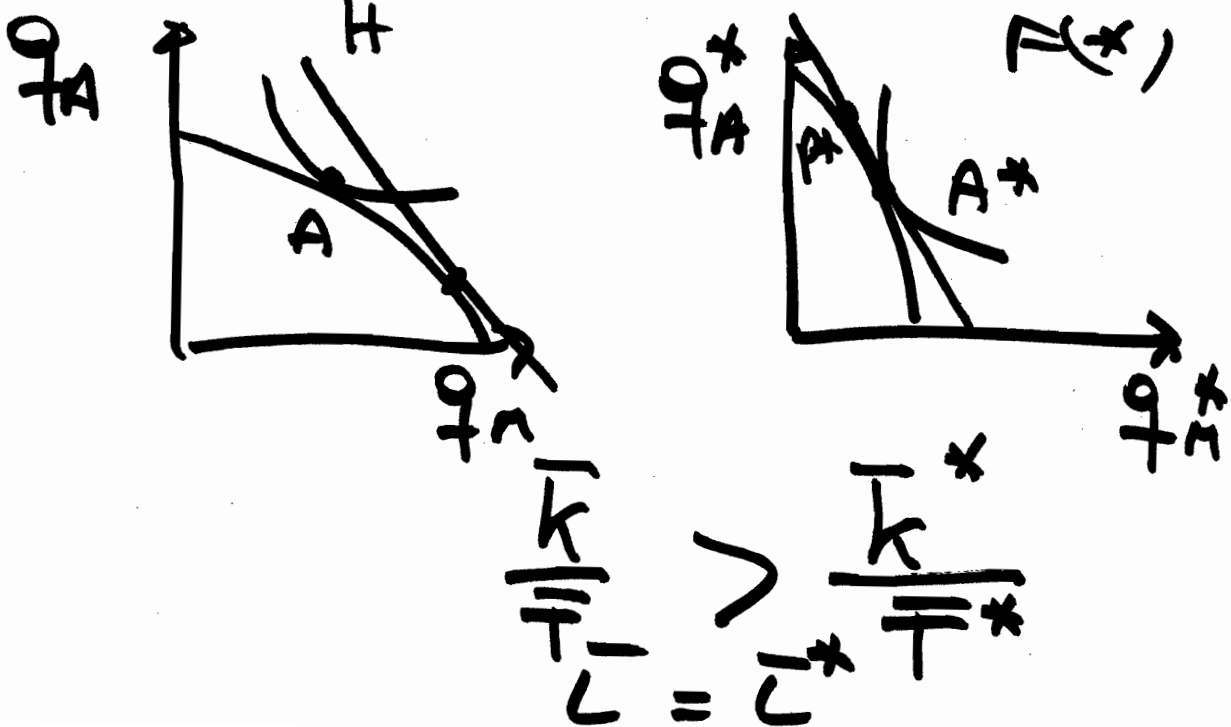
$$\left(\text{ON } \frac{LM \uparrow}{\bar{K}} \right)$$

$$\uparrow LA \Rightarrow \frac{\bar{I}}{LA} \downarrow \Rightarrow MPK \uparrow$$

$$\left(\text{ON } \frac{LA \uparrow}{\bar{I}} \right)$$

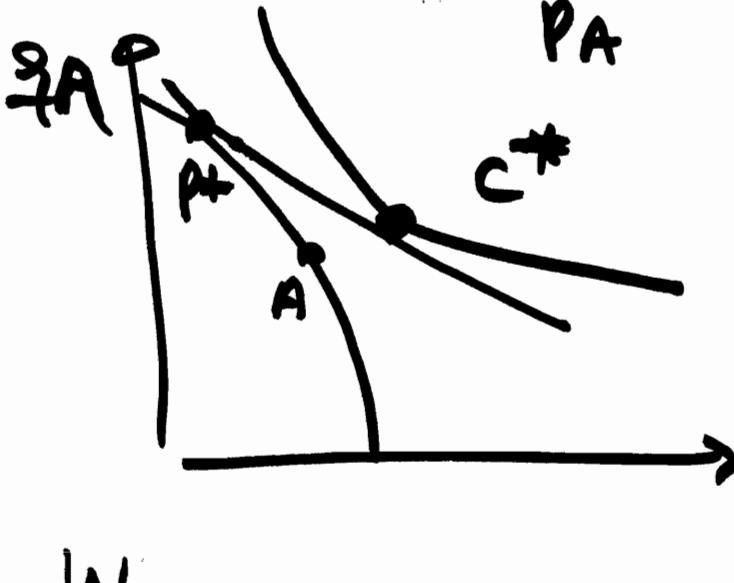
LAST CLASS

2 COUNTRY EXAMPLE

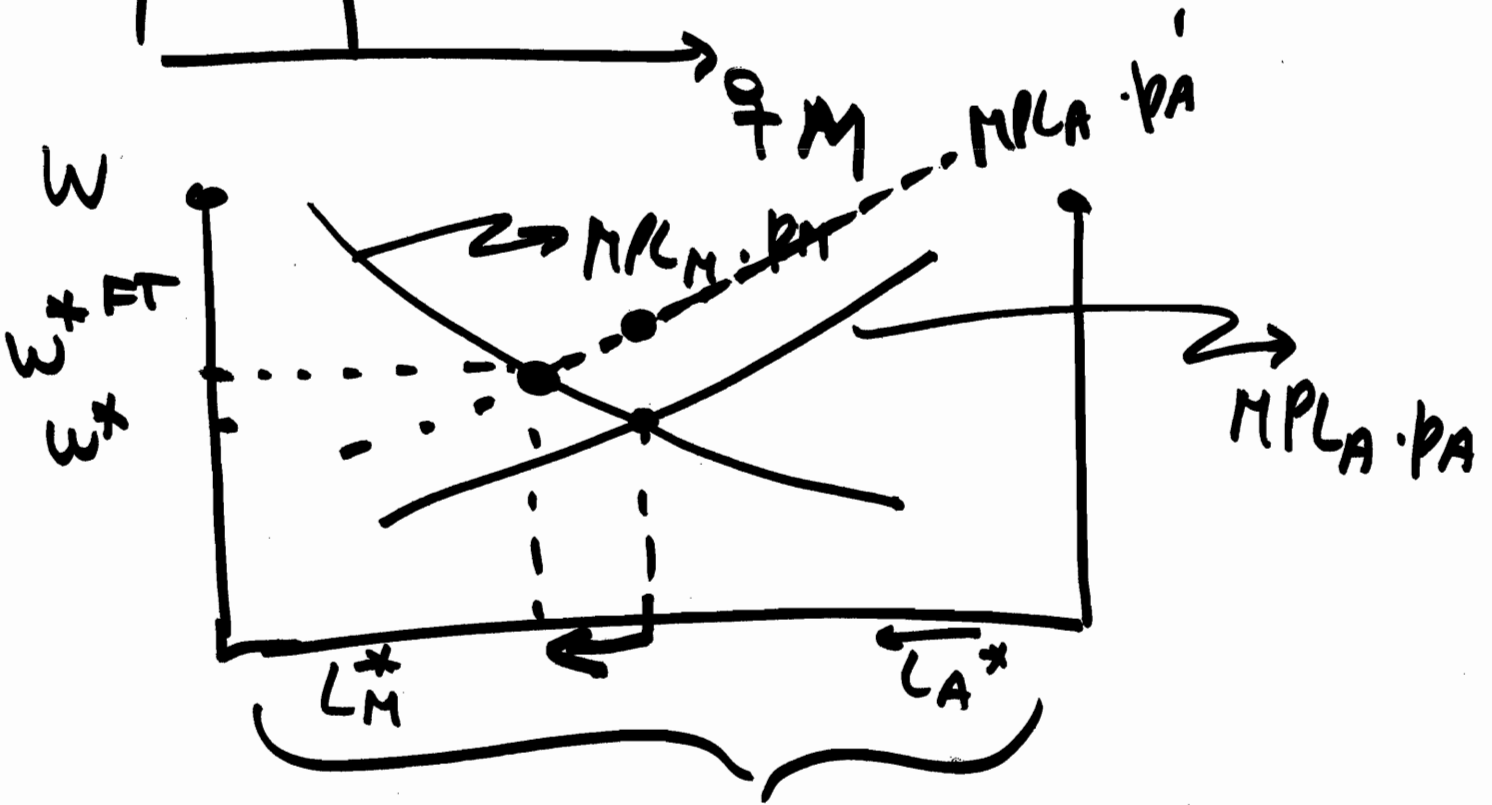


- 4 -
FOREIGN: $AUT \rightarrow AT$

$\Rightarrow \frac{P_M}{P_A} \downarrow$



ASSUME
 P_M CONST
 $P_A \uparrow$



w^* , $P_{L_A}^*$, \bar{L} , $\downarrow L_M^*$

$\% \Delta w^* < \% \Delta P_A$ CLAIM

⇒

$$\frac{w^*}{p_A} \downarrow$$

p_A

$$\frac{w^*}{p_M} \uparrow$$

p_M

BECAUSE $w^* \uparrow$

p_M CONSTANT

RETURNS TO SPECIFIC FACTORS

LAND:

$$\left. \begin{array}{l} \bar{T}^* \text{ FIXED} \\ L_A^* \uparrow \end{array} \right\} \Rightarrow \text{MPT} \uparrow$$

SINCE $\frac{r_T^*}{p_A} = \text{MPT}$

WE HAVE

$$\boxed{\frac{r_T^*}{p_A} \uparrow}$$

(NOTICE $r_T^* \uparrow$ BY A HIGHER % THAN p_A) →

MAGNIFICATION EFFECT

6 -

$$\frac{r_I^*}{PM} \uparrow$$

SINCE PM CONSTANT
& $r_T^* \uparrow$

CAPITAL OWNERS

$$\left. \begin{array}{l} K^* \text{ FIXED} \\ L_M^* \downarrow \end{array} \right\} \Rightarrow MPK \downarrow$$

SINCE

$$\frac{r_K^*}{PM} = MPK$$

WE HAVE

$$\frac{r_K^*}{PM} \downarrow$$

(NOTICE PM CONSTANT
THEN

$$r_K^* \downarrow$$

ALSO

$$\frac{r_K^*}{PA} \downarrow$$

SINCE $r_K^* \downarrow$
& $PA \uparrow$

DATA / MODEL / REAL WORLD

- MODEL: • SINGLE WAGE
- COSTLESS MOVEMENT OF WORKERS

≠ FROM REAL WORLD

FROM 1 SECTOR TO ANOTHER

- FULL EMPLOYMENT
- PREDICTS: PATTERN OF TRADE, SECTORS EXPANDING, CHANGES IN FACTOR RETURNS

OK WITH REAL WORLD