

SPECIFIC FACTORS PROBLEM

ANSWER KEY

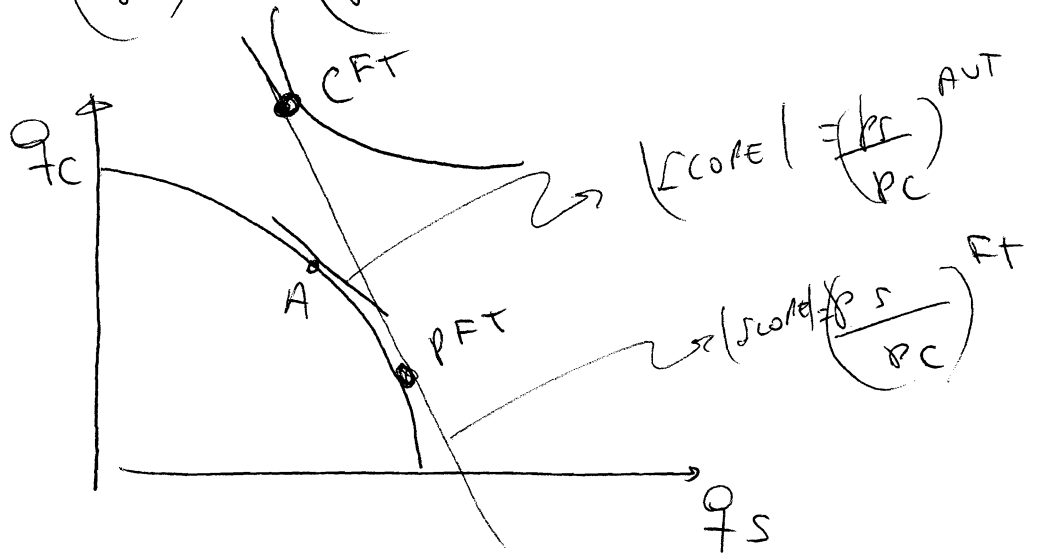
CLOTH \nearrow k
 \rightarrow L_C

WOOL \nearrow T
 \rightarrow L_S

$$L_C + L_S = \bar{L}$$

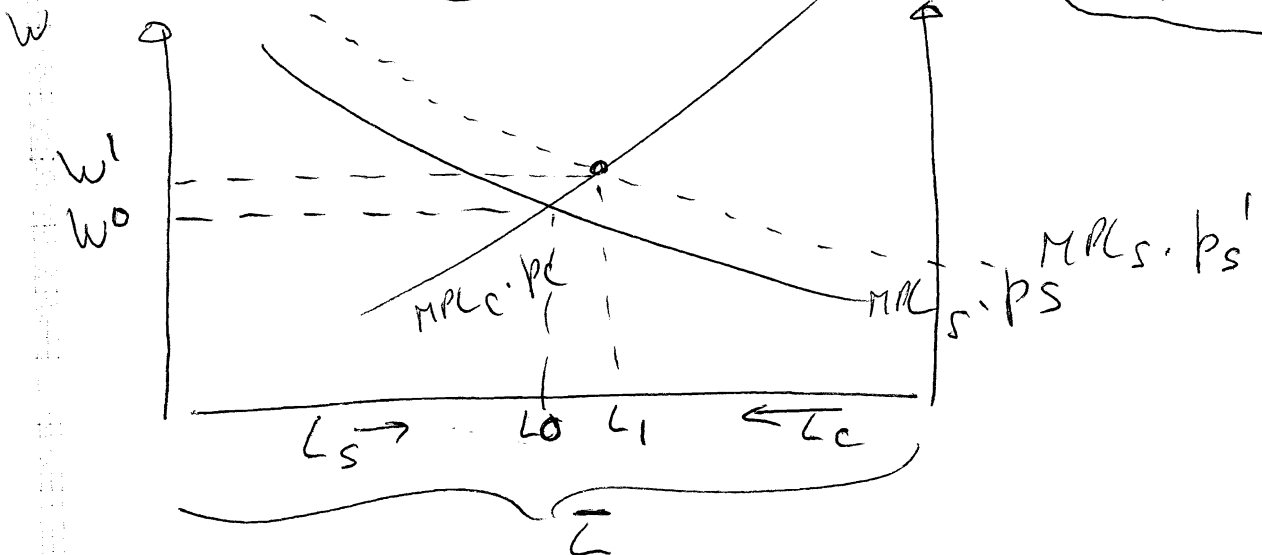
ASSUME : $\left(\frac{p_S}{p_C}\right)^{FT} > \left(\frac{p_S}{p_C}\right)^{AUT}$

(1)



(2) ASSUME $\left(\frac{p_S}{p_C}\right)^{FT} < \left(\frac{p_S}{p_C}\right)^{AUT}$

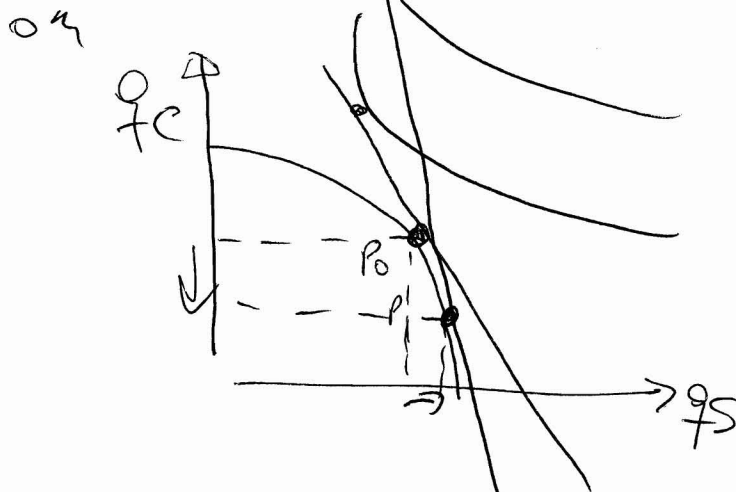
SUPPOSE : $p_S \uparrow$
 p_C CONSTANT



$w \uparrow$, $L_S \uparrow$, $L_C \downarrow$

(3) $q_S \uparrow$ BECAUSE \bar{K} CONSTANT & $L_S \uparrow$

$q_C \downarrow$ " \bar{K} " & $L_C \downarrow$



(4) since $L_S \uparrow \Rightarrow$ $MPL_S \downarrow$
 & \bar{K} CONSTANT

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

REAL WAGE IN TERMS OF $Q_C \downarrow$

since $L_C \downarrow$

& \bar{K} CONSTANT $\Rightarrow MPL_C \uparrow \Rightarrow$

$$MPL_C = \frac{W}{P_C} \uparrow$$

REAL WAGE IN TERMS OF $Q_C \uparrow$

CAN'T TELL IF WORKERS BETTER OFF OR WORSE OFF

(5) k-OWNERS:

$$MPK = \frac{r_k}{p_c}$$

SINCE $L_c \downarrow$ & \bar{K} CONSTANT
THEN $MPK \downarrow$

$$\frac{r_k}{p_c} \downarrow$$

SINCE p_c CONSTANT
 $\Rightarrow r_k \downarrow$

\Rightarrow

$$\frac{r_k}{p_s} \downarrow$$

BECAUSE $p_s \uparrow$

WORSE OFF

(6) LAND OWNERS:

$$MPT = \frac{r_T}{p_s}$$

SINCE $L_s \uparrow$ & \bar{T} CONSTANT
 $\Rightarrow MPT \uparrow$

BETTER OFF

$$\frac{r_T}{p_s} \uparrow$$

SINCE $p_s \uparrow \Rightarrow r_T \uparrow$ FOR EVEN A LARGER %

$$\frac{r_T}{p_c} \uparrow$$

(SINCE p_c CONSTANT)