

10-7-10

S.F

FINISH EFFECT OF TRADE ON

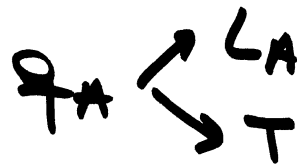
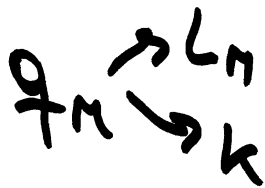
→ SPECIFIC FACTORS → GAINS
→ LOSERS

→ OTHER S.F. MODEL EXAMPLES

→ HELSHEN OLIN MODEL (H-O)

EXAMPLE LAST CLASS

$$\left(\frac{p_M}{p_A}\right)^{FT} < \left(\frac{p_M}{p_A}\right)^{AUT.}$$



$$\frac{r_K}{p_M}$$

$$\frac{r_K}{p_A}$$

$$\frac{r_T}{p_M}$$

$$\frac{r_T}{p_A}$$

AUT → FT : $p_A \uparrow$, p_M CONST
ADJUST

SHOWN BEFORE: $q_A \uparrow$ $q_M \downarrow$

- 2 -

LM ↓ LA ↑

REMEMBER: \bar{T} , \bar{k} CONSTANT

⇒ Agric. :

$$\frac{LA}{\bar{T}} \uparrow \Rightarrow MP_L(\cdot) \uparrow$$

SINCE $MP_L(\cdot) = \frac{r_L}{P_A}$

THEN

$$\boxed{\frac{r_L}{P_A} \uparrow}$$

LANDOWNERS

SINCE

$$P_A \uparrow \Rightarrow \underbrace{\% \Delta r_L}_{\text{POSITIVE}} > \% \Delta P_A$$

BETTER
OFF

THEN

$$\boxed{\frac{r_L}{P_M} \uparrow}$$

SINCE P_M
CONSTANT

MANUR :

$$\frac{LM}{\bar{k}} \downarrow \Rightarrow MP_K(\cdot) \downarrow$$

SINCE $MP_K(\cdot) = \frac{r_K}{P_M}$

THEN

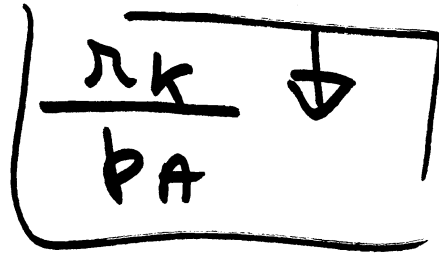
$$\boxed{\frac{r_K}{P_M} \downarrow}$$

k-OWNERS

WORSE
OFF.

SINCE P_M CONSTANT ⇒ $r_K \downarrow$

THEN



SINCE $P_A \uparrow$

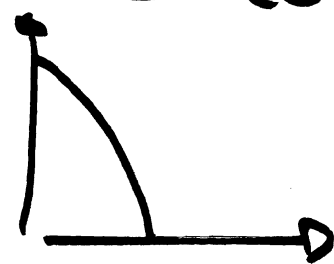
REMARKS:

SF MODEL USES

→ TO UNDERSTAND MANY CURRENT POLICY ISSUES

→ SCENARIOS:

- 1 SMALL COUNTRY: AUT → FT
- 1 " " " IN FT FACING CHANGES IN WORLD PRICES
- 2 COUNTRIES: AUT → FT



→ DISCUSSION OF AGRICULTURAL PRICES

LONG RUN MODEL

H-O MODEL → FACTOR RETURNS & TRADE

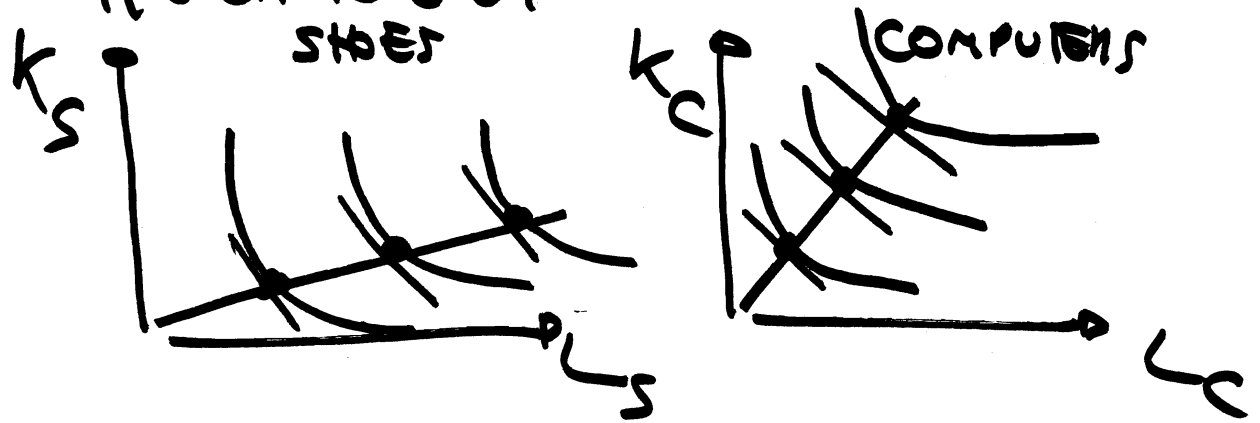
TECHNOLOGY:

2 GOODS
 2 FACTORS IN BOTH SECTORS
 USED BUT WITH
 DIFFERENT "INTENSIVITIES"
 "NICE" ISOPQUANTS (NICE
 SHAPE + LINEAR EXPANSION
 PATH)

EX: SHOES : L-INTENSIVE
 COMPUTERS : K-INTENSIVE
 2 FACTORS : L, K

i.e. AT THE SAME FACTOR PRICES
 ($\frac{R}{W}$), THE SHOE SECTOR USES

RELATIVELY MORE LABOR-
 SHOES COMPUTERS



FOR ALL $\frac{w}{r}$,

$$\frac{K_S}{L_S} < \frac{K_C}{L_C}$$

ASSUME FURTHER CONSTANT RETURNS
TO SCALE