

Homework 2: specific factors model, sweatshop labor

Motivation

1. How are the assumptions of the specific factors model different from the Ricardian model?
2. Why does this matter? What kinds of questions can we answer with this model that we can't answer using the Ricardian model?

Tools

1. Draw curves showing the total and marginal product of labor. Now, increase capital, what happens. Why?
2. Define marginal product of labor, total product of labor, diminishing returns
3. What happens to output if I double labor and hold capital fixed? What happens if I double both labor and capital?
4. Draw a PPF. Compare it to the PPF in the Ricardian model. Why is it shaped this way?
5. What happens to the PPF when labor increases? When specific capital for sector 1 increases? Explain why.
6. How are relative prices determined in autarky?
7. Suppose preferences for the first good increase, what does that do to relative prices and relative supplies of the two goods in autarky?
8. Why are autarky prices different across countries? What does this mean for relative supplies?
9. What determines a firm's demand for labor?
10. Suppose the price of one good rises, but hold the numbers of workers in each sector fixed. What happens to the marginal product of labor in each sector? What should firms be willing to pay workers in each sector? Now, set labor free to move across sectors. What happens and why?
11. Comparing factor returns across sectors: are wages equalized? are returns to capital equalized? In each case, why?
12. According to the specific factors model, are the gains from trade shared equally among all persons in an economy?

Problems

1. The prevailing wage in Indonesia is \$1 a day. What would happen if Indonesia's government set a minimum wage of \$10 a day?
2. What is a compensating differential? What role does information play in worker's calculating appropriate differentials? What role might unions play in this regard?
3. Provide an explanation for why different countries require different amounts of compulsory education.
4. Use the specific factors model to explain why some people might oppose movements to freer trade.
5. Compare the Ricardian model and the specific factors model. An economy doubles the quantity of y produced relative to x . What happens to the opportunity cost of producing y relative to x ? What happens to the price of producing y relative to x ? Why?