

Purchasing power parity, inequality and poverty, population growth essay examples

[Business](#), [Company](#)



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Question 1-1

A traded good is a good that is imported or exported, or a good manufactured for export. A nontraded good is a good that is neither exported nor imported. Nontraded goods are meant for local consumption and are not exported. A potentially tradable good may become nontradable if the import or export tariffs are pesky (high and unfavorable). Nontraded goods are generally cheaper in poor countries. This is because; labor costs are low in poor countries. This lowers the production cost which, in turn, lowers the prices of goods. In rich countries, the labor costs are high, which results in high costs of production, thus high prices of the non-traded goods. Governments of poor countries may also decide to fix the prices low. Because the prices of the nontraded goods are cheaper, their income would look better when measured by the Purchasing Power Parity method.

Question 1-2

The price of a Big Mac is based on the production cost in the local economy sectors such as labor, agriculture, rent, advertising, transportation, and so on. This means that the relative price of a Big Mac gives a guide to the overall cost of living in that particular region. On the other hand, the exchange rate may not reflect the actual cost of living since it's based on the commodity basket and the currency may be undervalued or overvalued.

Question 3 – 1

- a. Men earn more; however, this is dependent on the nature of work they do, their position (level), and how the physical labor and mental labor are paid. Men would handle both the physical and mental work, thus stand better chances of better pay.
- b. With time, the relative wage of men to women is likely to decrease. This is because; the increase in capital would raise the marginal product of mental labor faster. Men, with more physical labor power, would not benefit much since the marginal product of physical labor would not rise as faster.
- c. Since the relative wage of women is likely to increase, women would prefer to be part of the workforce. This would definitely lower the fertility levels in the population.

Question 3 – 2

- a. In order to maximize the benefits, Ram and Rani will have two children. The marginal benefit of each additional child decreases. For the second child, the marginal benefit is \$250; but, for the third child, it is \$90.

b. The marginal cost becomes \$50 if 50% of the costs are passed on. Each couple will now have four children.

Work Cited

Ray, Debraj. Development Economics. Princeton University Press, 1998.