

Laborer



**ASSIGN
BUSTER**

1. “ In the United States where land is cheap, the ratio of land to labor used in cattle raising is higher than that of land used in wheat growing. But in more crowded countries, where land is expensive and labor is cheap, it is common to raise cows by using less land and more labor than Americans use to grow wheat. Can we still say that raising cattle is land intensive compared with farming wheat? Why or why not? Perhaps, but the argument implicit above misinterprets the concept of factor intensity.

If a crowded country has a lower wage-rental ratio (w/r), then ALL of their industries should use a more labor-intensive production process than the same industry would use in the US, where w/r is higher. Remember that when we say industry C is land intensive relative to industry W, we mean this: “ For any given w/r , industry C uses a higher land/labor ratio than industry W. ” The cattle industry is land intensive in the United States. Cattle is land intensive in other countries too if the ratio of land to labor in cattle production exceeds the ratio in wheat production in that country.

2. A comparison between another country and the United States is not relevant. Can you use Figure 4-4 to explain the observation in the question above?

3. “ The world’s poorest countries cannot find anything to export. There is no resource that is abundant – certainly not capital nor land, and in small poor nations not even labor is abundant. ” Discuss. This argument misinterprets the concept of factor abundance. What matters is not the absolute abundance of factors, but their relative abundance. Poor countries have an abundance of labor relative to capital when compared to more developed countries.

4. The US labor movement – which mostly represents blue-collar workers rather than professional and highly educated workers – has traditionally favored limits on imports from less-affluent countries. Is this a shortsighted policy or a rational one in view of the interests of union members? How does the answer depend on the model of trade? ” In the Ricardian model, labor gains from trade through an increase in its purchasing power. This result suggests that, in the long run, labor union demands for limits on imports from less affluent countries, if successful, will make laborers (or their children) poorer.

Labor may gain or lose from trade in the context of the Specific (Immobile) Factors model. Purchasing power in terms of one good will rise, but in terms of the other good it will decline. The immobility of factors is a short-run problem. The Heckscher-Ohlin (HO) model directly addresses the effects of trade on the owners of factors of production. In the HO model, free trade will reduce the real income of unskilled U. S. laborers (the scarce factor loses).

The HO model predicts that labor unions (representing unskilled workers) will lobby for import restrictions. . “ There is substantial inequality of wage levels between regions within the United States. For example, wages of manufacturing workers in equivalent jobs are about 20 percent lower in the Southeast than they are in the Far West. Which of the explanations of failure of factor price equalization might account for this? How is this case different from the divergence of wages between the United States and Mexico (which is geographically closer to both the US Southeast and the Far West than the Southeast and Far West are to each other)? ”

Conditions necessary for factor price equalization include both countries (or regions) (1) produce both goods, (2) have the same technology of production, and (3) no barriers to trade. Wages in different regions of the United States differ because none of these three conditions are perfectly satisfied. Within the US, there are "natural" barriers to trade, i. e. , transportation costs. US trade with Mexico, by contrast, is also subject to legal restrictions. These, together with cultural differences that inhibit the flow of technology, may explain why the difference in wage rates is so much larger.

In the discussion of empirical results on the Heckscher-Ohlin model, we noted that recent work suggests that the efficiency of factors of production seems to differ internationally. Explain how this would affect the concept of factor price equalization. " If the efficiency of the factors of production differs internationally, the lessons of the Heckscher-Ohlin theory would be applied to " effective factors" which adjust for the differences in technology or worker skills or land quality (for example). The adjusted model has been found to be more successful than the unadjusted model at explaining the pattern of trade between countries.

Factor-price equalization concepts would apply to the effective factors. A worker with more skills (or access to better technology) could be considered to be equal to two workers in another country. Thus, the single person would be two effective units of labor. Thus, the one high-skilled worker could earn twice what lower skilled workers do and the price of one effective unit of labor would be equalized. 2. " Suppose that at current factor prices cloth is

produced using 20 hours of labor for each acre of land, and food is produced using only 5 hours of labor per acre of land. a.

Suppose that the economy's total resources are 600 hours of labor and 60 acres of land. Using a diagram, determine the allocation of resources. " The box diagram has 600 as the length of two sides (representing labor) and 60 as the length of the other two sides (representing land). There will be a ray from each of the two corners representing the origins. To find the slopes of these rays we use the information from the question concerning the ratios of the production coefficients.

The box diagram has 600 as the length of two sides (representing labor) and 60 as the length of the other two sides (representing land). There will be a ray from each of the two corners representing the origins. To find the slopes of these rays we use the information from the question concerning the ratios of the production coefficients. The question states that $a_{LC} / a_{TC} = 20$ and $a_{LF} / a_{TF} = 5$.

" What wSince $a_{LC} / a_{TC} = (LC / QC) / (TC / QC) = LC / TC$ we have $LC = 20TC$. Using the same reasoning, $a_{LF} / a_{TF} = (LF / QF) / (TF / QF) = LF / TF$ and since this ratio equals 5, we have $LF = 5TF$.

We can solve this algebraically since $L = LC + LF = 600$ and $T = TC + TF = 60$. The solution is $LC = 400$, $TC = 20$, $LF = 200$ and $TF = 40$. ould happen if the labor supply were to increase even further? " At constant factor prices, some labor would be unused, so factor prices would have to change, or there would be unemployment. 6. " Explain why the Leontief paradox and the more recent Bowen, Leamer, and Sveikauskas results reported in the text contradict the factor-proportions theory. " The factor proportions theory

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states that countries export those goods whose production is intensive in factors with which they are abundantly endowed.

One would expect the United States, which has a high capital/labor ratio relative to the rest of the world, to export capital-intensive goods if the Heckscher-Ohlin theory holds. Leontief found that the US exports seemed to be more labor-intensive than US imports. Bowen, Leamer and Sveikauskas found (for the world) a tenuous correlation between factor endowment and trade patterns. A pure HO model assumes no difference in technology. Only by relaxing this assumption, and building a model that incorporates elements of both the Ricardian and HO model, can economists accurately predict trade flows.