Microeconomics: economic rent, profit payments and interest

Economics, Microeconomics

1) a) Labor productivity would decline as labor won't be able to access proper health care. b) Labor productivity would be increase due to competition in the labor market.

c) Labor productivity will decline as some work depends on machines which require electricity.

d) Labor productivity will increase due to advancement in technology.

2) Economic rent, profit payments and interest attract resources from their present use to new opportunities that available. Economic rent is payment for the use of property so that it could be diverted from present operations to new opportunity. Similarly, profit payments are to attract entrepreneurial ability and interest payments are made to monetary resources, which is the return on investment. Many economists consider these payments as vital in attracting new resources and setting up a business. These payments play special part in coordination of these resources. Most of the times these payment perform their function efficiently, but sometimes they do not perform the functions well, when theses resources deem monetary motives as secondary and are working for some other aim for e. g. charity, safety of job, Maslow hierarchy etc.

3)

a) Country B has a comparative advantage in product calculator as it can produce 4 calculators by giving up only 1 computer, whereas Country A will gain only 2 calculators by forgoing 1 computer. Similarly, Country A has comparative advantage in producing computers as it will only have to forgo 2 calculators for producing 1 computer, whereas country B will have to forego 4 calculators for producing 1 computer.

b) It is imperative for the both countries to engage in trade, if they are to benefit their population and to lead their respective economies towards efficiency. As it is states that demand for calculators to computers is 3 to 1, there is no way Country will be able to meet the demand of its consumers if it decides to produce both computers and calculators. Similarly, Country B will also not be able to meet this demand; hence it is imperative for both countries to engage in international trade.

4)

a) Equilibrium Price Haiti = $1, Quantity: 100 Units

Equilibrium Price Dr = $1. 25, Quantity = 130 Units

b) Haiti will face neither shortage nor surplus as its prices are in line with world price. However, at this price Dominican Republic will import sugar as it can buy cheaper sugar from other countries and Haiti will export sugar as its production costs are less

c) If the markets of both the countries are combined and the current world market price is $1. Then, it will be beneficial for Haiti's producers to export sugar and earn a higher price on their sugar production. This will lead Haiti to export and Dominican Republic to import. The import/export price of sugar will be somewhere between $1 and $1. 25, where both countries benefit.

Market for the Price between Somewhere between $1 and $1. 25

1

> 1

1. 25

< 1. 25

Shortage

a) HAITI MARKET (Surplus) DOMINICAN MARKET (SHORTAGE)

The shortage and higher prices in DR, will means that sugar will be export from Haiti to DR and producers will earn a profit on a price which will be between $1 and $1. 25.