

Ec 410

Literature, Russian Literature



ASSIGNMENT EC 410 Part A: Outsourcing Questions a). Homes outsourced production activities will be higher on the value chain for a given product. Therefore, Homes will outsource production activities that are skilled-labor intensive because it will be cheaper than in the domestic market.

b). Increasing tariffs level may discourage imports making the goods and services outsourced to decreased. The slicing of the value chain will cause a shift towards the right. Further, the value of goods and services outsourced tends to reduce.

c). Supply and demand curves

Home supply foreign supply

Wages wages

Home demand foreign demand

Skilled/ unskilled labor Skilled/ unskilled labor

Source: Author

Production demand for skilled labor causes the demand for skilled labor in the home country to increase. On the other hand, the supply for foreign skilled labor increases.

2. a).

Assembly

Component Production

Office Services

R&D

Mexico

\$40

\$32

\$48

\$204

United States

\$75

\$55

\$70

\$260

Imported by U. S. from Mexico,

Trade Cost= 25%

\$10

\$8

\$12

\$51

Imported by U. S. from Mexico,

Trade Cost= 30%

\$12

\$9. 6

\$14. 4

\$61. 2

Imported by U. S. from Mexico,

Trade Cost= 50%

\$20

\$16

\$24

\$102

b). with the trade cost of 50%, the activities that are cheaper to import from Mexico include; production components, assembly, office services and R & D respectively. At 50% no activities that are cheaper to produce in the U. S as compared to Mexico.

c). At 30% and 25%, the activities that are cheaper to import are production components and assembly while those that are cheaper to produce include: office services.

Part B: Short answers

1). The main difference between outsourcing in manufacturing versus business service is that in manufacturing the company may be given the mandate to manufacture goods locally using the patent of the parent company. On the other hand, the parent company may enter into a contract with another firm whereby, that firm is given mandate to offer services either locally or in the foreign market (Avadhanam, para. 4)

2). Skill premium is where the wages earned by both skilled and unskilled labors who works in the same field increase relatively to each other. The skilled premium in the U. S has widened wage gap between skilled and unskilled labor for the past 30years (Kannan, p. 115).

3). The effects of outsourcing on workers' wages include; it reduces the wages earned by workers, skilled workers may obtain more wage benefits as compared to the unskilled. Finally, it causes suffering to workers who worked at outsourcing firms.

4). It is difficult to measure and establish casual effect of outsourcing on a worker because outsourcing varies with the characteristics of a worker.

5). It is true that U. S skilled workers fear the security of their jobs due to

possibility of outsourcing. This because a firm may find cheaper to outsource labor rather than utilize local labor (Kannan, p. 136)

Part C: Reading

- 1). The three factors that make Kenya an attractive site for Business Process Outsourcing include: availability of the 3 fiber optic cables, emergence of 4 undersea cables and availability of highly skilled labor force (The Economist, P. 3).
- 2). The reasons why there is higher trade costs associated with outsourcing business services in Kenya is because of unfair tax code, higher political risk and higher crime rates (The Economist, P. 4).

Works Cited

Avadhanam. S. Difference between Outsourcing and Offshoring. Web . 4. 2. 2014