

1. Suppose that at current factor prices cloth is produced using 4 hours of labor per acre of land, and food is produced using only 1 hour of labor per acre of land.

A. Suppose that the economy's total resources are 80 hours of labor and 40 acres of land. Using a diagram determine the allocation of resources.

B. Now suppose that the labor supply decreases first to 60, and then to 40 hours. Using a diagram, trace out the changing allocation of resources.

C. What would happen if the labor supply were to decrease even further?

International Trade in Services

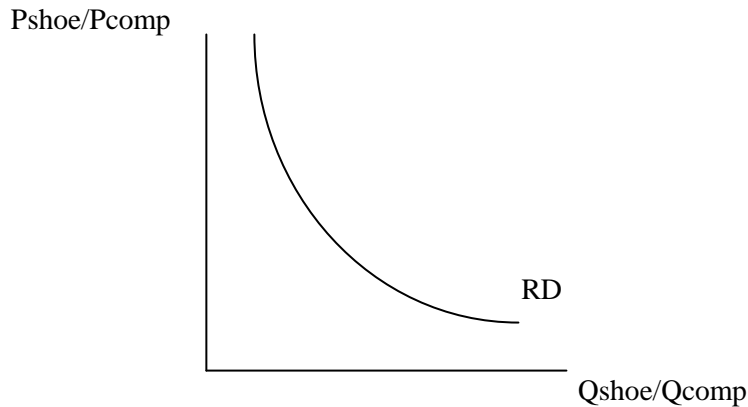
Exercise 3

Name:

2. USA is relatively abundant with skilled labor. China is relatively abundant with unskilled labor.

Computer is a skilled labor intensive good. Shoes are unskilled labor intensive.

Draw the relative supply of shoes to computers in each country before trade.



Draw the world relative supply after trade?

What happens to the relative price of shoes in terms of computers in each country after trade?

The production of shoes in USA _____ and its consumption _____ after trade.
Hence there is an excess _____ of shoes. USA exports _____ and imports _____.

The production of shoes in China _____ and its consumption _____ after trade.
Hence there is an excess _____ of shoes. China exports _____ and imports _____.

What happens to the unskilled-wage to skilled-wage ratio in each country?

What happens to the skilled/unskilled labor ratio in the shoe sector in USA?
in the computer sector in USA?

What happens to the skilled/unskilled labor ratio in the shoe sector in China?
in the computer sector in China?

Who wins and who loses from trade in USA? (think of MPL of unskilled and skilled labor)

Who wins and who loses from trade in China? (think of MPL of unskilled and skilled labor)