International trade: problem set 4

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For a small open economy that exports good X, analyse the effects on

i. output of X and Y

ii. real wage of labour

iii. real rental price of capital in industry X

iv. quantity of X exported

For the following scenarios:

1. Due to a technological improvement there has been a decrease in price of good Y while the price of X remains constant
2. A relaxation in immigration laws means an increase in labour
3. As a result of climate change a category 5 hurricane has destroyed part of country's capital employed in industry Y

Suppose that sales revenues in industry X was 150, payment to labour equaled 100 and payment to capital was 50. In the Y industry revenue was 150, payment to labour 50 and payment to land 100. We hold the price of X constant but increase the price of Y by 10% and wage by 5%.

4. What is the impact of the price increase on the rental to land and to capital?
5. What happened to the real rental on land and capital?
6. If the price of X decreases by 10%, who would be better of: capitalists or landowners? What is the effect on workers?