Sample Problem: Chapter 5

Movement of L and K

Suppose Home uses only capital and labor for production of two goods, computers and shoes. There are total 100 workers and 100 units of capital in the economy. Computers use 2 units of capital for each worker, so that Kc = 2 \* Lc, whereas shoes use 0.5 unit of capital for each worker, so that Ks = 0.5 \* Ls.

1. (10 points) Solve for the amount of L and K used in each industry.
2. (10 points) Suppose there is an inflow of 25 workers in the economy due to immigration, keeping total capital constant at 100. Solve for the amount of L and K used in each industry.
3. (10 points) Suppose instead there is an inflow of 25 units of capital in the economy due to FDI, keeping total labor constant at 100. Solve for the amount of L and K used in each industry.