

Poetry and Mathematics in Skillistan

Forrest Flesher, Vinh-Kha Le

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Skillistan is a simple economy with only one type of firm that requires two types of workers: those who can do math (M-types) and those who can write poems about math in addition to doing math (P-types). The P-types are more productive than M-types. Firms require some capital investment in the form of toys for the workers to play with while they work. Residents can always choose to not work and earn a reservation wage pondering the nature of reality. Note that the residents of Skillistan only derive utility from the wage they obtain and none from leisure: pondering the nature of reality is no more pleasant than doing math or writing poetry.

1. Write down a model for the firm
 - (a) How many M-types and P-types will the firm hire?
 - (b) What will be the wage offered to the M-types and the P-types?