



## **National Income and Factor Demand**

1. Immigration reform is one of the key issues facing the U.S. Congress and President. This is a complicated issue partly because there are competing interests that will lose and benefit from any reform. This question walks through some of these issues. The presumption here is that immigration reform would lead to a one-time increase in the labor-force in the United States.
  - a. Using the framework developed in class, describe how a change in immigration reform would affect the real wage. What is the “core principle” behind the production function that drives this?
  - b. How would immigration reform affect aggregate, real GDP? What is the “core principle” behind the production function that drives this result?
  - c. As an investor who receives returns from the ownership of capital, would immigration reform affect the returns on capital? Why or why not?
  - d. Do these answers depend upon the assumption that the supply of capital is fixed. Why or why not?



2. Burma is currently a closed economy and does not allow the free flow of capital (in or out). However, they are contemplating opening up their country to international capital flows.
  - a. If Burma's current rental rate of capital is 25 percent and the world equilibrium rental rate of capital is 10 percent, how would you expect capital to flow in or out of Burma---if at all?
  - b. Depending upon your answer to a., how would you expect the returns on capital in Burma to change overtime?
  - c. Depending upon your answer to a., what would happen to real wages in Burma? Why?