

Z_t

Island A

$\frac{N}{3}$ young

$\frac{N}{2}$ old

Island B

$\frac{2}{3} N$ young

$\frac{N}{2}$ old

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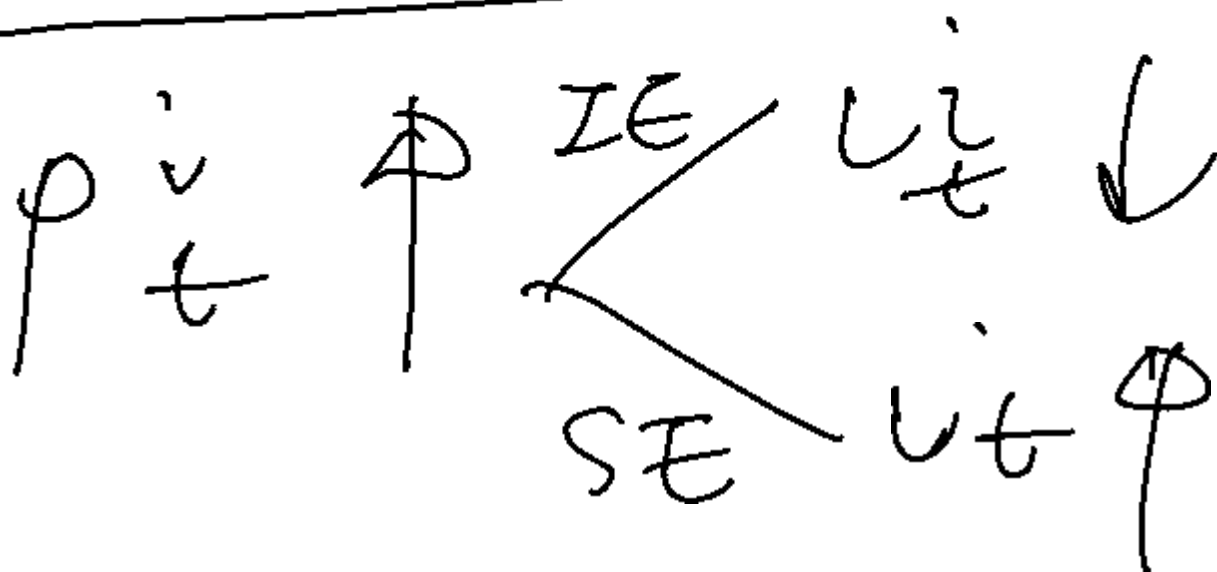
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↑ by 1 unit →

produce 1 more unit
of good → $\frac{1}{t}$

→ buy $\left(\frac{p_t}{p_{t+1}} \right)$ units

of goods when old



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$$Q_y = \frac{\% \Delta \text{ demand}}{\% \Delta \text{ income}}$$

> 0 : normal good

> 1 luxury good

< 1 necessity good

CO : inferior good

$$|SE| > |IE|$$

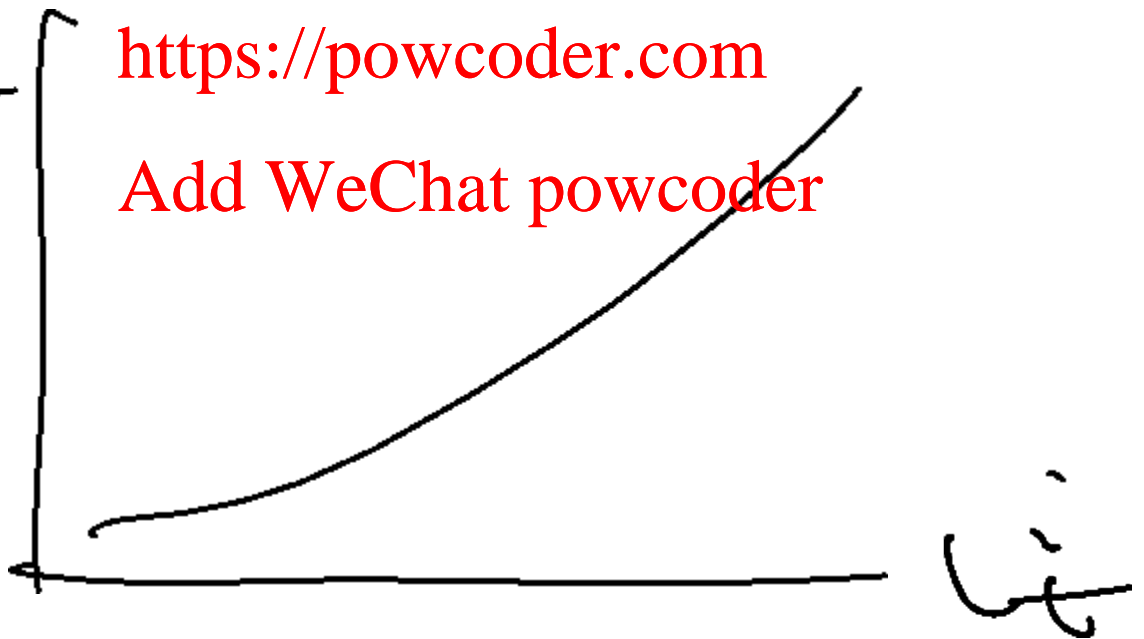
→ $U_t^i \uparrow$ as $P_t^i \uparrow$

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P_t^i

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$M_{t-1} = \$70 \text{ bio}$

$z = 1.1$

$$\rightarrow (M_t) = \$77 \text{ bio}$$

to prove $p_t^A > p_t^B$

SPS $p_t^A \leq p_t^B$

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the rate of
return to
labor

$$\frac{p_t^A}{p_{t+1}^A} \leq \frac{p_t^B}{p_{t+1}^B}$$

$$\therefore V_t^A \leq V_t^B$$

$$\therefore p_t^A \geq p_t^B$$

$$\begin{aligned}
 M_{t-2} &= 70 \text{ bio} \\
 M_{t-1} &= 70 \text{ bio} \\
 M_t &= 77 \text{ bio} \\
 M_{t+1} &= 77 \text{ bio}
 \end{aligned}
 \quad z=1$$

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$$M_{t-2} = 63.63 \text{ bio} \quad 10\%$$

$$M_{t-1} = 70 \text{ bio} \quad 10\%$$

$$M_t = 77 \text{ bio} \quad 10\%$$

$$M_{t+1} = 92.46 \text{ bio} \quad 20\%$$

$$\begin{array}{c}
 \textcircled{z\phi} \rightarrow \frac{p_t}{p_{t+1}} \downarrow \rightarrow
 \end{array}$$

$$\textcircled{v_t} \rightarrow \angle t$$

$$\angle t = \frac{1}{3} N \cdot \underset{\downarrow}{v_t^A} + \frac{2}{3} N \cdot \underset{\downarrow}{v_t^B}$$

$$z_t \rightarrow \angle \downarrow$$

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of young ppl

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z_t	$\frac{2}{3} N$	$\frac{1}{3} N$
$z_t = 1$	$p_t^A = \frac{M_t - 1/2}{\frac{2}{3} N \cdot v_t^A}$	$p_t^B = \frac{M_t + 1/2}{\frac{1}{3} N \cdot v_t^B}$
$z_t = 2$	$p_t^C = \frac{2M_t - 1/2}{\frac{2}{3} N \cdot v_t^C}$	$p_t^D = \frac{2M_t + 1/2}{\frac{1}{3} N \cdot v_t^D}$

$$p_t^i = \frac{z_t M A_{-1}}{N^i \cdot l_t^i}$$

$$p_t^a < p_t^b = p_t^c < p_t^d$$

$$l_t^a$$

$$l_t^b$$

$$l_t^d$$

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inefficient

$$z=1$$

one island w/
 $\frac{2}{3}N \rightarrow$ case a

one island w/
 $\frac{1}{3}N \rightarrow$ case b

total
Outputs $= \frac{2}{3}N \cdot C^a + \frac{1}{3}N \cdot C^*$

If $\gamma = 2$, one island
 $\sim \frac{2}{3}N \rightarrow \text{case c}$

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 one island w/

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 $\frac{1}{3}N \rightarrow \text{case d}$

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total
outputs $= \frac{2}{3}N \cdot C^a + \frac{1}{3}N \cdot C^d$

$\therefore C^a > C^d$

$C^a > C^*$

$\therefore L_2 > L_1$

Structural
Model

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