

ECON 136, Fall 2016
Homework assignment #3
Factors of production
Due Wed. Sep. 21

Write your answers on a separate sheet, preferably typed. Attach a copy of this question sheet. Be sure your name is on your paper.

- Question 6, p. 86. Support your answers with calculations.
- Continuing with steel and textiles as in question 6: Prior to opening of trade, capital is relatively cheap in Country C. Either country can produce steel or textiles. As trade opens up, what happens?
 - Country C produces more _____ and less _____.
 - Does the production shift increase or decrease Country C's demand for capital?
 - Does the change in demand for capital cause the price of capital in Country C to rise or fall?
 - By analogy, what must happen to the price of labor (wages) in Country B?
- Question 9
- Question 10, rephrased: Country A imports textiles, a labor-intensive good, from Country B.
 - Were textile workers' wages higher in Country A or Country B, prior to opening of trade?
 - Which country must have been capital-abundant relative to the other, prior to opening of trade?
 - When trade opens up, what happens to the demand for textiles produced in Country A?
 - What happens to the demand for the services of textile workers in Country A?
 - What happens to textile workers' wages in Country A?
 - What group in Country A would be likely to oppose free trade?
- Question 14. Explain how Leontieff's findings appeared to contradict factor proportions theory. Name two kinds of capital that are inherent in U.S. exports that but were missed by Leontieff's analysis.
- In reality, factors of production are seldom perfectly mobile or perfectly immobile. In each of the following pairs, mark the factor that is more mobile
 - A personal computer versus a milling machine
 - An acre of land in northern Canada versus an acre of land in Iowa
 - A graduate in economics versus a graduate in art history