

International Economics

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Exercise on: Stolper-Samuelson theorem and Factor prices

Suppose that the economy is endowed with two factors Labour (L) and Land (T) that are used in the production of Wine (W) and Cheese (C) according to the following factor shares:

$$W = 10L + 5T$$

$$C = 4L + 8T$$

a. If the unit price of Wine is 30 euros and that of Cheese is 16 euros, show that wage (w) to employ Labour and the rent (r) paid for the use of Land, CANNOT BE 2 and 3 respectively, in competitive markets.

b. If the unit price of Cheese is 16 and that of Wine is 30, graph the lines in which price equals marginal cost for each of the two goods. What are the equilibrium factor prices?



c. If price of Cheese increases to reach 24 euros, what happens to factor prices? Show it in a graph.



d. How purchasing power of workers is affected by the increment of the price of Cheese?