

## Factor Specific Model

### Problem 1

Let's assume that industrial goods (M) are produced in one country using labour and capital, and food (F) using labour and land. Let's take that at some point, industrial goods prices are rising by 10%, while food prices are rising by 5%.

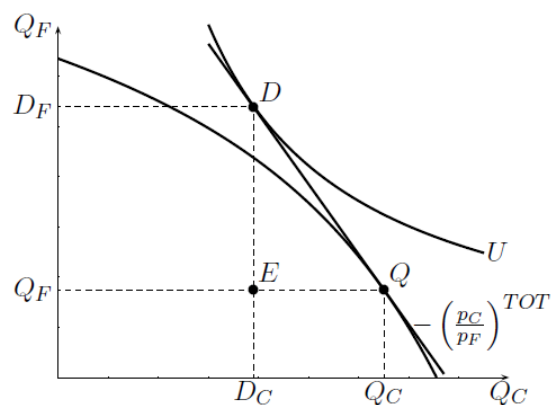
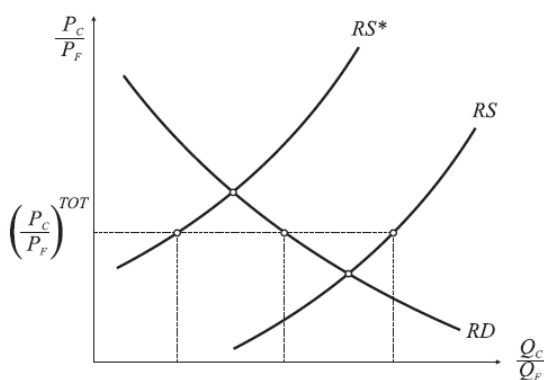
- How does this price change affect employment in each sector? Show these changes in the appropriate diagram.
- How is the production structure changing? Present it on the set of production possibilities frontier.
- What are the consequences for employees' wages? How do employees' real wages change?
- What are the consequences for capital and landowners?

### Problem 2

Let's assume that two countries - Country and Abroad - produce two goods, machines (M) and food (F), using three factors of production: capital (K), land (T) and labour (L). Capital is a specific factor for the production of machines and land for food production.

The charts below present the global balance (left chart) of the Country and Foreign Countries (marked with \*) using the relative demand (RD) and relative supply (RS) curves and the available balance (right chart) of the country's economy. Using the following drawings, explain what effects the following events will have on terms of trade and the well-being of the people of the country (and abroad):

- Increase in capital resources in the country
- Increasing land resources in the rest of the world
- Technical progress (equal) in the production of good F in the country and abroad



- How would act the landowners and the capital owners?
- Draw a general equilibrium