

INTERNATIONAL TRADE AND THE WORLD ECONOMY

CHARLES VAN MARREWIJK

Answers to * exercises in chapter 14 of the Study Guide

STEPHAN SCHÜLLER AND DANIËL OTTENS

The * exercises in chapter 14 are: 14.5 and 14.11.

Question 14.5

14.5A-B.

There are two types of equilibria in the geographical economics model: short-run equilibria and long-run equilibria. The short-run equilibrium establishes values for the endogenous variables in which supply is equal to demand (for food, each type of manufactures, and on the labour market) *given* the distribution of the manufacturing work force. The long-run equilibrium requires in addition equalisation of the real wage rate for all manufacturing labourers, which is established through migration of these labourers.

14.5C.

There are many endogenous variables in the geographical economics model. However, as shown in equations (14.3')-(14.5') the short-run equilibrium can be reduced to a simultaneous determination of three endogenous variables for each region: the regional income level, the regional price index, and the regional wage of manufacturing workers.

14.5D.

Equations (14.3')-(14.5') form a system of simultaneous equations that cannot be solved explicitly, that is you cannot express Y_1 , for example, as a function of the exogenous variables (the parameters).

14.5E.

The three examples in the book following the presentation of the equations show one way to solve the geographical economics model through a method of repeated

calculations. You will understand that repeating this procedure is quite laborious and boring. That's why we let a computer do this job.

Question 14.11

14.11A.

The report uses the theory of factor endowments (Heckscher-Ohlin) and the geographical economics theory to explain the location of European industry.

14.11B.

The report concludes that European industries are less concentrated than American industries. This could be explained by higher 'transport costs' in Europe as a result of cultural barriers, language differences or different legal systems