

Answer on Question #66848 – Economics - Macroeconomics

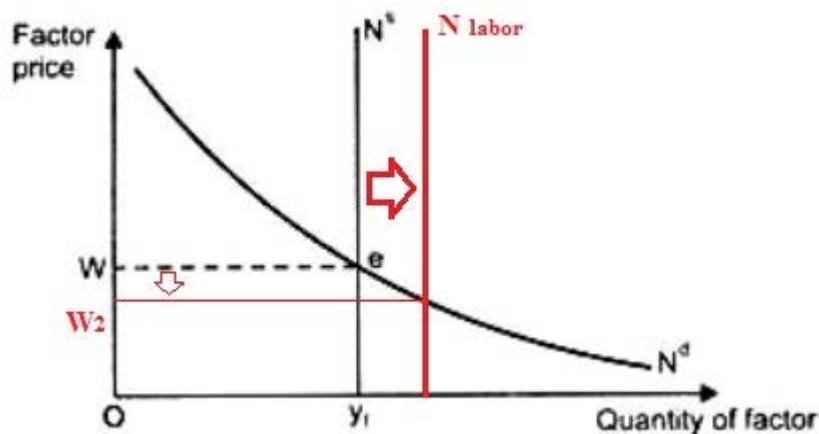
Question

Use the neoclassical theory of distribution to predict the impact on the real wage (w) and real rental price of capital (r) of each of the following events.

- (a) A wave of immigration increases the labor force.
- (b) An earthquake destroys some of the capital stock.

Answer

- (c) A wave of immigration increases the labor force.

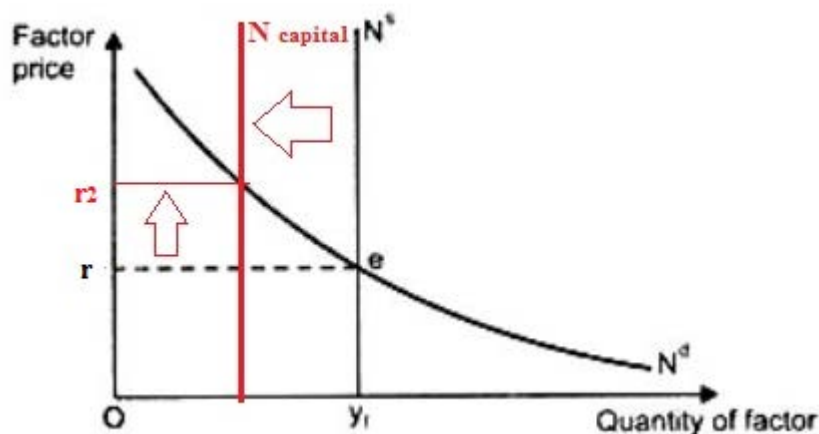


N^d – demand for factor

N^s – supply of factor

A wave of immigration increases supply of the factor. N^s shifts to the right and equilibrium factor price (wage) **decreases** from W to W_2

- (d) An earthquake destroys some of the capital stock.



An earthquake decreases supply of the factor. N^s shifts to the left and equilibrium factor price (rental price of capital) **risks** from r to r_2 .