

North-South trade and apparent comparative advantage with decreasing returns in the manufacturing sector

Redo the analysis of figure 1 but assume that there are decreasing returns to labor in the manufacturing sector. Assume still that under restricted property, the autarky price is equal to the world price for the small open economy. Compare all four equilibria regarding worker wages, national income and profits in both sectors, all in both nominal and real terms. Analyse the welfare implications of resource privatisation and trade openness and discuss how the different groups - workers, land owners and capitalists in the manufacturing sector - are affected.

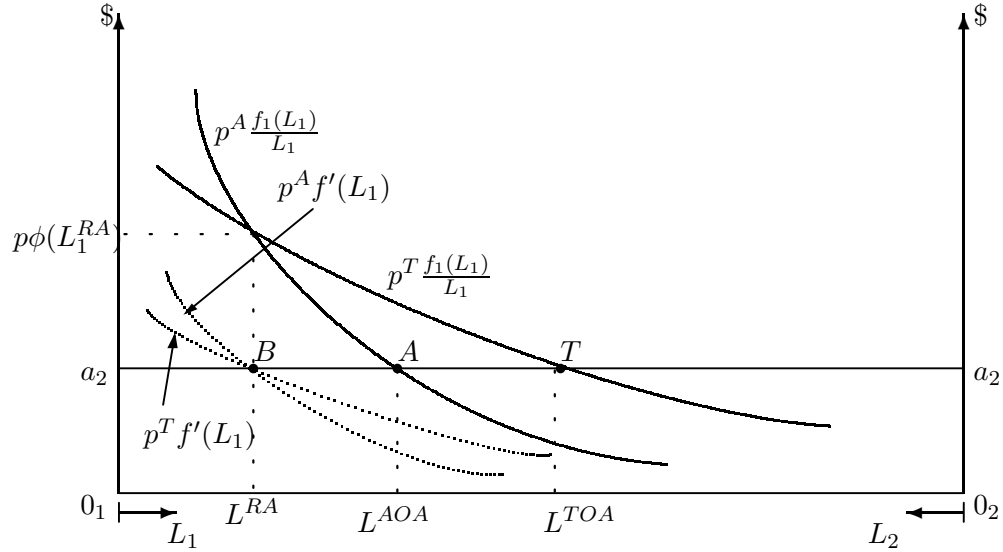


Figure 1: Open access and trade regimes