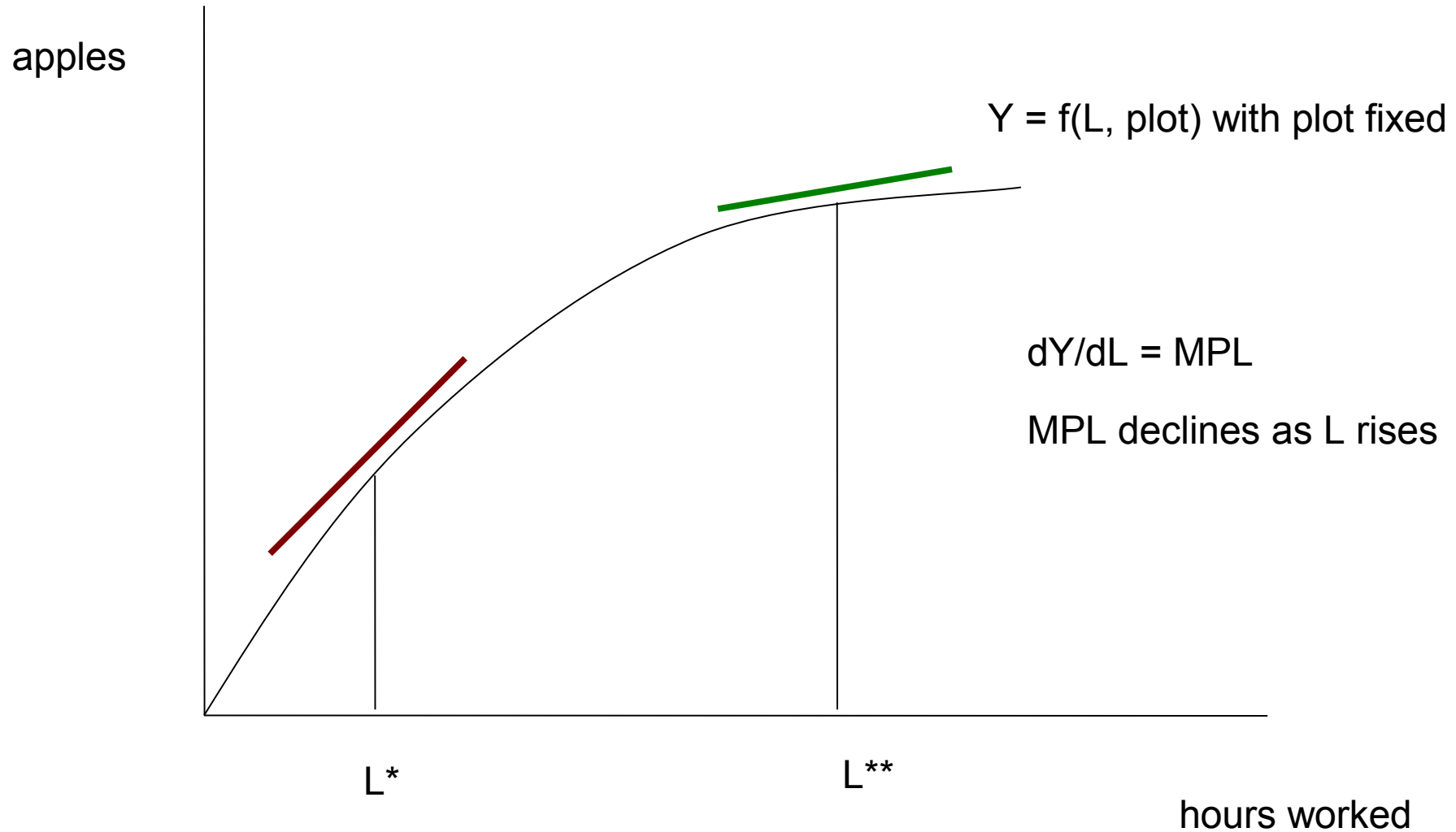# International Labor Mobility I

- Assumption: one-factor production
- Labor (and Land, fixed, non-tradable)
- Two-country world: home and foreign
- One homogenous good produced (output)

Literature: see Krugman/Obstfeld ch.7

(also on borrowing/lending and FDI)

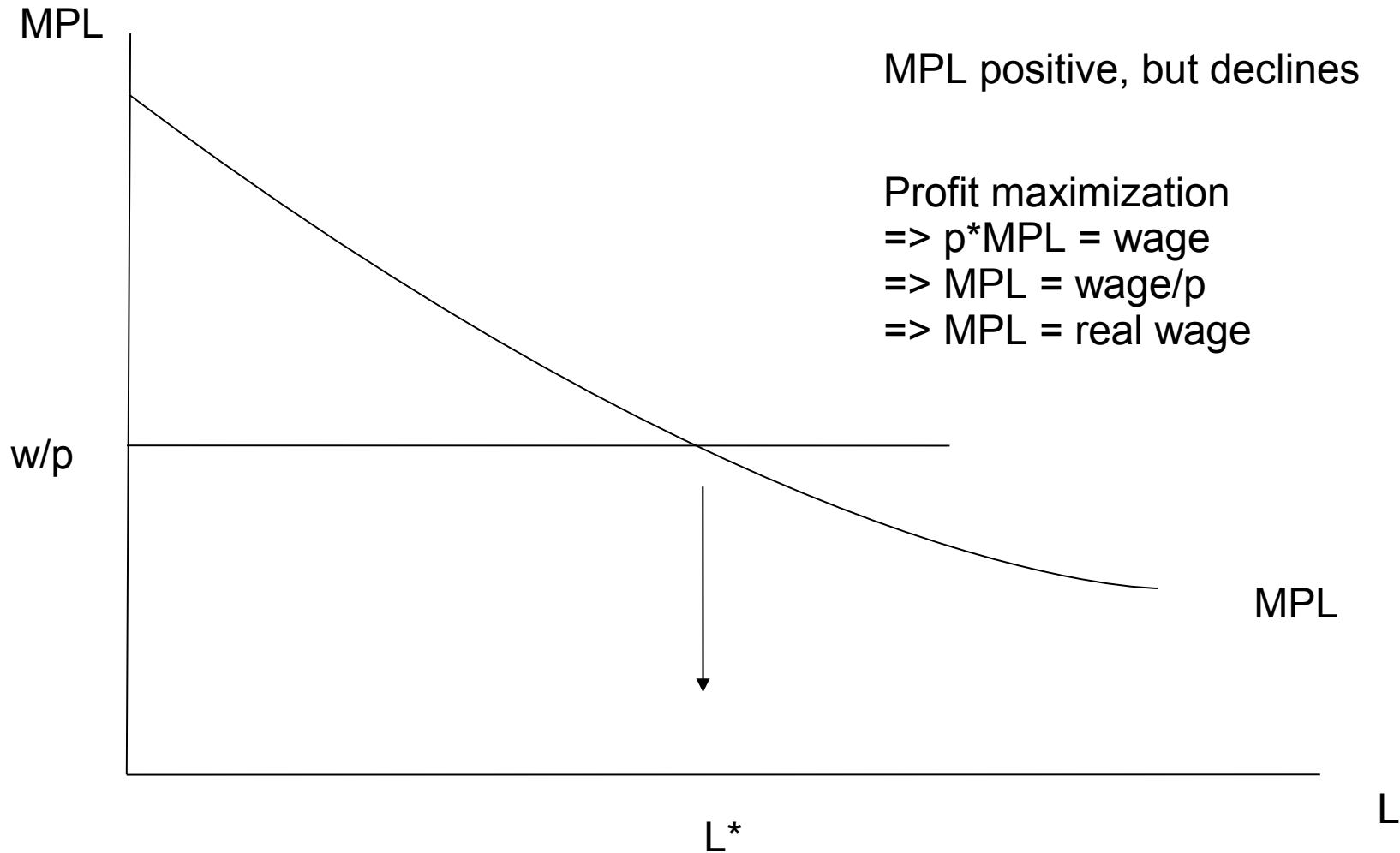# International Labor Mobility II

- Impact analysis of opening the economy
- Before-after analysis:
    - 1) analysis of country in economic isolation
    - 2) analysis of country after opening-up
    - 3) comparisons of state (1) with state (2)

    - => ´comparative statics´
    - => no dynamics, no adjustment paths
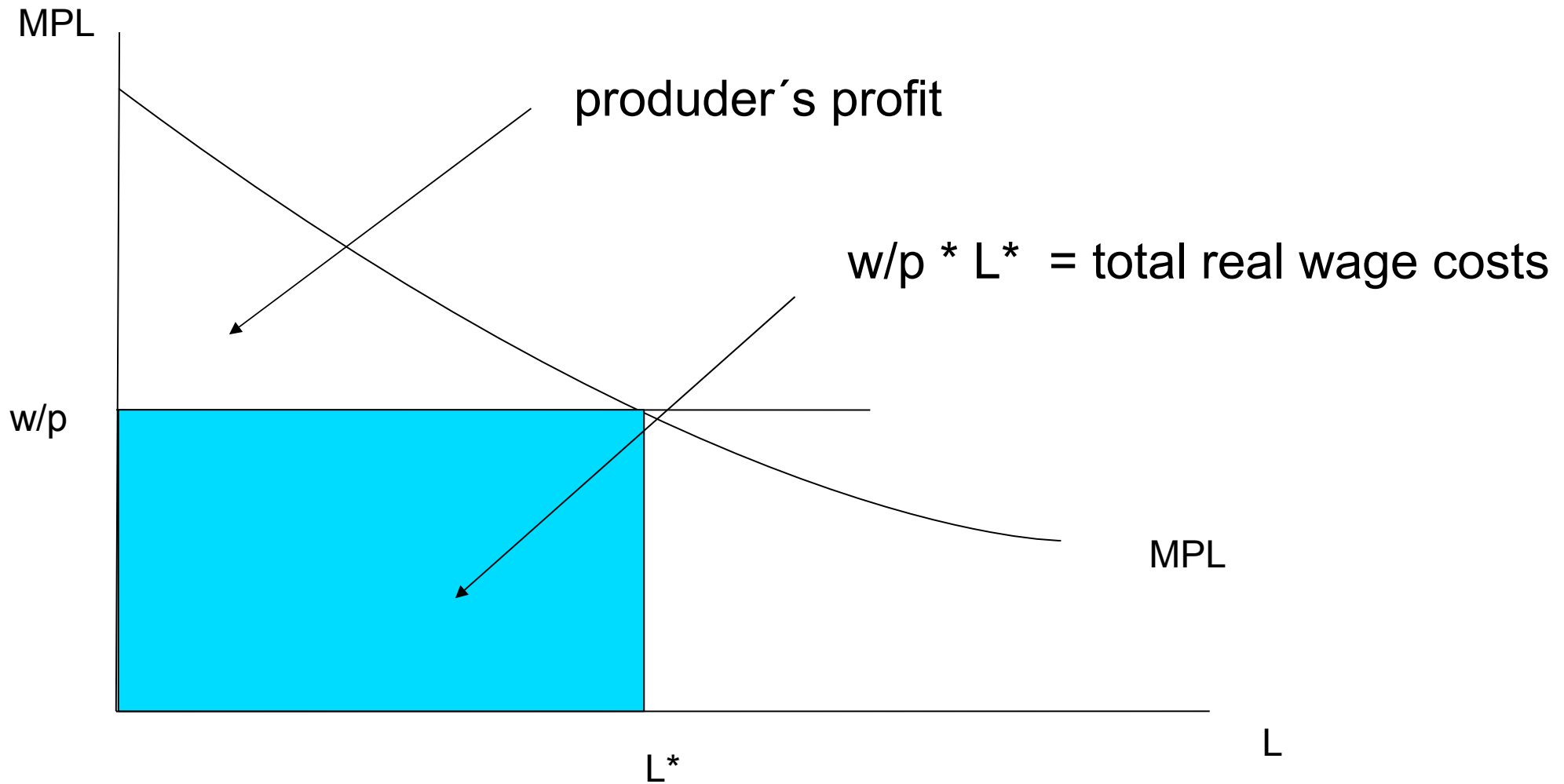
International labor mobility III

apples

Y = f(L, plot) with plot fixed

dY/dL = MPL

MPL declines as L rises

L*

L**

hours worked

International Labor Mobility IV

MPL-curve

MPL positive, but declines

Profit maximization
=> p*MPL = wage
=> MPL = wage/p
=> MPL = real wage

MPL

w/p

MPL

L*

L

International Labor Mobility V

MPL-curve

MPL

produder´s profit

w/p * L* = total real wage costs

w/p

MPL

L

L*

International Labor Mobility VI

- Profit maximization: real wage = MPL
- Total real wage costs: blue rectangle
- Profit = revenue – wage costs = triangle
- Producer takes w (w/p) as given

International Labor Mobility VII

- Further assumption:
- Country A rich in labor → low wage level
- Country B scarce in labor → high wage level
- (see part 3 on markets)
- (price increases in (expected) scarcity, see e.g. int´l oil prices development))

Excursus: scarcity and market price

Price increases as good becomes more scarce.

Reasons for world-oil price to rise:

* producer cartel (OPEC) restricts production of oil

* wars limit supply of oil (Iraq)

* increase in oil usage in countries with high economic growth (e.g. China, Turkey: growth rate: 8%)

* expectations of future booms in the world

Scarcity and market price II

Reasons for grain/corn price in food world market to rise:

* grain/corn used for bio fuel

* increase in meat consumption (1kg beef needs 7 kg corn)

* plots of land not cultivated (civil war, droughts)

* fertile land used for production of luxury goods (e.g. flowers, palm trees → cosmetics)

* problem: urable land fixed amount worldwide

International Labor Mobility VIII
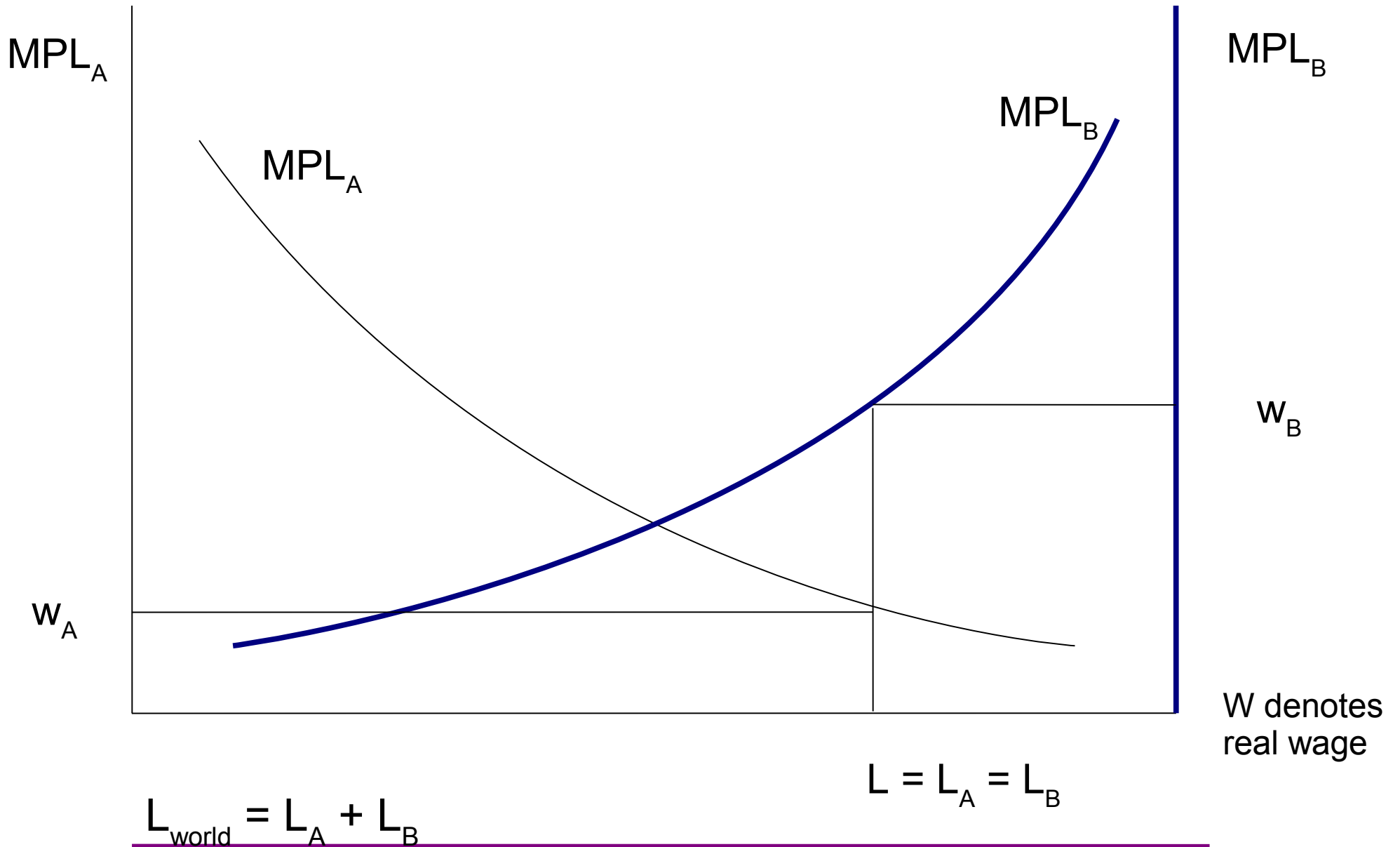
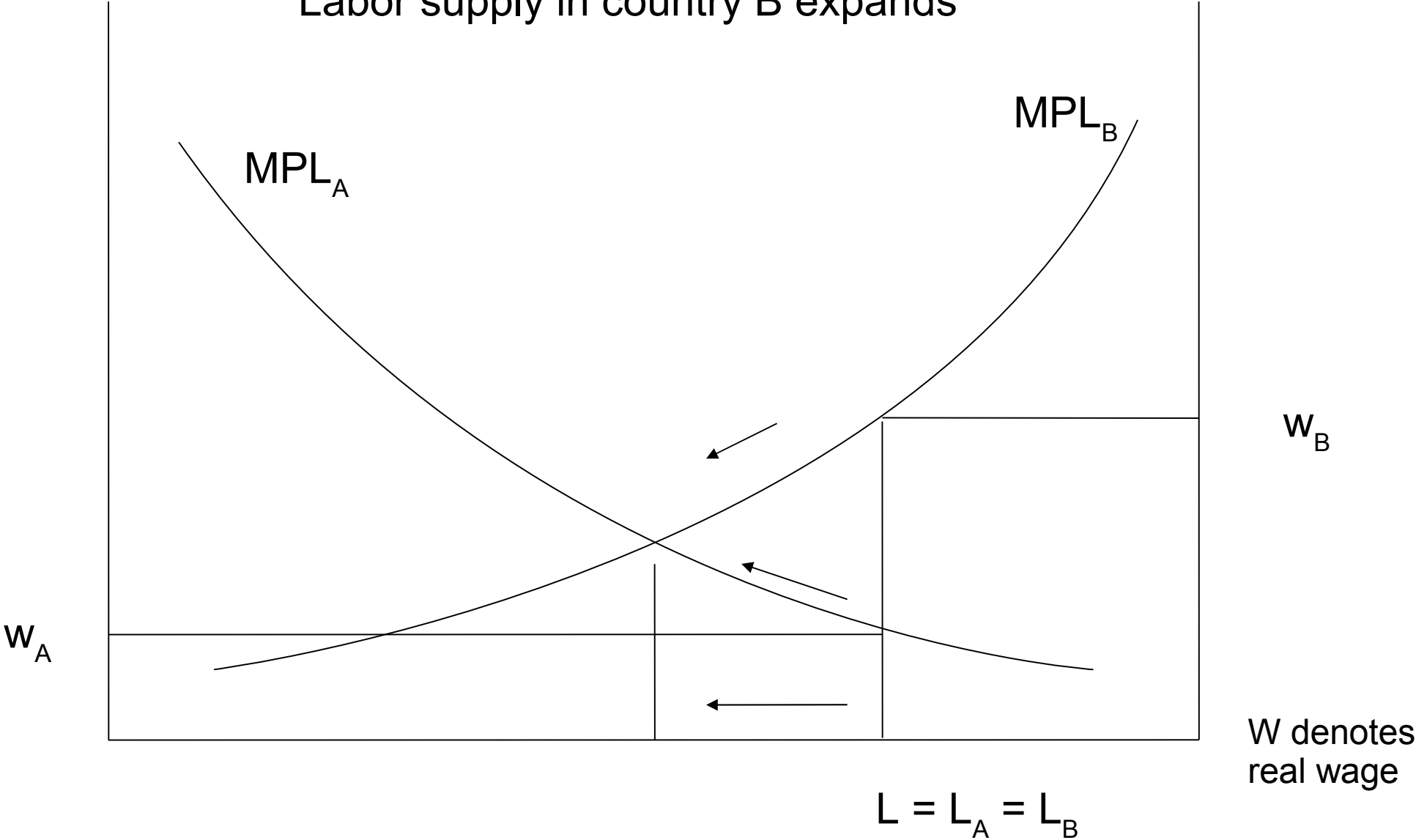# International Labor Mobility IX

Countries A and B in isolation:

- Wage (country B) > wage (country A)
- Wage gap between countries

(labor is homogenous)

- Allowing for international labor mobility

 => workers move to high-wage country B

Labor migration to country B

Labor supply in country B expands

MPL_B

MPL_A

w_B

w_A

$L = L_A = L_B$

W denotes real wage

Labor migration to country B

- Labor migrates from country A to country B
- Labor in A decreases, while it increases in B
- Wage in country B falls (as MPL declines in L)
- Wage in country a increases (as MPL increases in -L)

- Incentive to migrate as long as $w_B - w_A \neq 0$
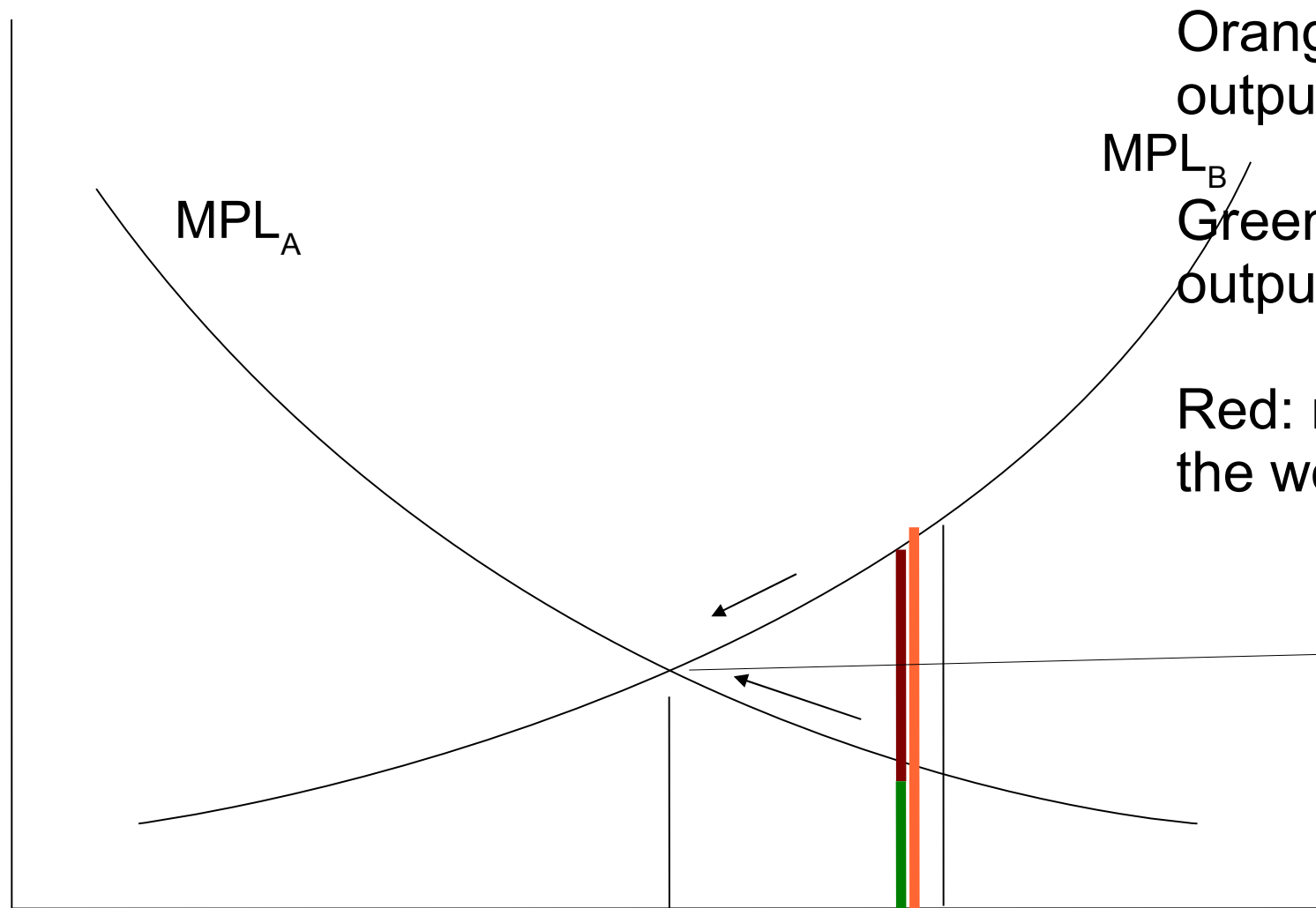
Orange: gain in output in country B

MPL_B

Green: Loss in output in country A

Red: net gain to the world

MPL_A

$L_A = L_B$

Labor migration to country B

- Country A
- Emigration of L
- Wage increases to real wage w*
- Output in A falls
- Workers at home gain
- Migrating workers gain
- Profits shrink

- Country B
- Immigration of L
- Wage decline to real wage w*
- Output in B decreases
- Domestic workers loose wage
- Profits increase

International Factor Mobility

- Real wages in the two countries become equalized
- world´s net output increases (growth!)
- Loosers:
    - Domestic workers in high-wage country
    - Producers in low-wage country
- Winners:
    - Workers both (1) in and (2) from low-wage country
    - producers in immigration country

LAW of ONE Price: Openness => price convergence