

ECON1910 Exam Spring 2024

Consider a dual economy with a manufacturing sector hiring labour in the city and an agricultural sector hiring labour in the countryside and where workers are free to migrate.

- a) Explain how wages are determined.
- b) Assume, from now on, that the wage in manufacturing is fixed at a high level. Show how this could result in unemployment (or informal self-employment) in the city.
- c) The government wants to alleviate poverty. What is the consequence for the employed workers in agriculture and for the unemployed of a cash transfer to the unemployed?
- d) Consider the case where manufacturing in the city expands and labour demand expands with it. What happens to unemployment in the city, and employment in the countryside?
- e) How would your answer to c and d change if workers are not free to migrate?
- f) Try at the end to compare the unemployment outcome when there is sharecropping in the countryside rather than hired labour.