Problem Set II

Tourism in Developing Countries (MTEE)

Due date: Thursday, April 15th.

1. Let us assume an economy with two sectors: the urban and the rural sector (Harris-Todaro's type economy). Each worker must decide whether remain in the countryside or migrate to the city. An institutional arrangement at the urban labour market guarantee that $w_m > w_r$. At the rural labour market, each individual worker willing to work is able to find a job. Meanwhile, in the urban labour market the probability of finding a job is given by the number of jobs (fixed) divided by the number of urban residents.

   a) Obtain the unemployment labour rate at the equilibrium as a function of the parameters of the model and of the labour force.

   b) How is affecting an increase in the number of urban jobs to the unemployment rate at the equilibrium? Why?

   c) Let us assume that the government pays an unemployment subsidy of S_u. What would be the expected value of migration to the city? How it would affect to the unemployment rate?

   d) Now suppose that the government gives a subsidy of S_r to each salary paid at the rural labour market. Describe how S_r would affect the urban unemployment rate.

   e) Now the government restrict migration from the rural areas to the cities introducing proportional taxes, τ to each salary paid in the urban labour market. What would be the expected value of migration to the city? How it would affect to the unemployment rate?

2. Consider the model presented in lecture 6 (Rodriguez, 1996). Explain why there is a coordination failure.

3. A developing economy, completely specialized in tourism, projects a growth objective to catch-up with a rich one (completely specialized in manufacturing). Given the usual assumptions regarding the income and price elasticities of demand and the population growth rates:

   a) How this economy will adjust the relative prices?

   b) What would happen if relative prices remain constant?

   c) Why the former can be a problem for the sustainability of the trade deficit?

4. Explain why there are externalities in Venables (1996) model:

   a) How an increase in the scale of the market of the final good will affect the price of the intermediate inputs?

   b) How and increase in the scale of the market of the intermediate inputs will affect the price of the final good?