Footloose Factor Model I

a) The home country produces only clothing, with a wage rate of $w = 1.5\$$. The foreign country produces only food with a wage rate of $w^* = 1\$$.

b) The home country produces only food, with a wage rate of $w = 1\$$. The foreign country produces both food and clothing with a wage rate of $w^* = 1\$$.

c) In this case, wages in the food increase in the foreign country. The clothing sector cannot pay these higher wages and the foreign country stops producing clothing.

Footloose Factor Model II

a) Country A

b)