

Assignment 7

1. Using Calculus, show what happens in the simplified Harris-Todaro Model to unemployment when rural wage increases.
2. Now modify the Harris-Todaro Model such that the urban area has an informal sector, which people can always work and earn a fixed wage of x . The workers in the informal sector is not counted towards “employed” persons, thus are considered unemployed.
 - a. Even if $x < m$, the rural wage, will people still migrate from rural to urban area?
 - b. Using calculus, show what happens to unemployment when the informal sector wage rises.
 - c. Discuss some implication of what you learn about informal sector in the urban area (keep it brief as usual).
3. Why do you think the developed economies have more urban areas than developing economies? (Again, keep it within half a page or so, or shorter)