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Complementarity in a Simple General Equilibrium Production Model

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Complementarity in a simple general equilibrium production model

HENRY THOMPSON University of Tennessee

Abstract. A simple three-factor, two-good general equilibrium model, allowing complementarity in production, is examined. Conclusions of general equilibrium economics with two factors must be reinterpreted and qualified when complementarity is possible. Sign patterns of how changing factor endowments affect outputs and how changing prices affect factor payments are uncovered for a small open economy. Results should prove valuable to a wide range of economists interested in extending general equilibrium analysis to include complementary factors of production.

La complémentarité dans un modèle simple d'équilibre général de la production. L'auteur examine un modèle d'équilibre général (deux biens, trois facteurs de production) qui postule qu'il y a complémentarité dans le processus de production. Les conclusions des analyses conventionnelles d'équilibre général avec deux facteurs de production doivent être réinterprétées et qualifiées quand la complémentarité est possible. On découvre des patterns de signes indiquant comment les dotations en facteurs affectent les niveaux de production et comment des changements de prix affectent la rémunération des facteurs de production dans une petite économie ouverte. Ces résultats vont s'avérer utile pour toute une gamme d'économistes intéressés à étendre l'analyse d'équilibre général aux cas où les facteurs de production sont complémentaires.

INTRODUCTION

Attention has recently turned to developing the simplest general equilibrium model allowing complementarity in production, the three-factor, two-good model. Explicit treatment of natural resources or skilled labour in addition to

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Abstract

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