

## ECON 336 HW4

1. Suppose the rural wage is \$1 per day. Urban modern sector employment can be obtained with 5 probability and pays \$2 per day. Will there be any rural-urban migration? Explain your reasoning, stating explicitly any simplifying assumptions, and show all work.
2. What are the characteristics of those who migrate to urban areas? What positive and negative effects does their leaving have on those who remain?
3. Explain why policies designed to reduce urban unemployment may not greatly reduce poverty in developing countries.
4. Suppose that, for example in India, a minimum wage is instituted in the modern sector above the market clearing wage, while the rural traditional wage is market determined at a lower level than in the modern sector.
  - (a) Describe the impact of this policy on the rural labor force, urban unemployment, and the rural wage.
  - (b) Will the modern sector wage be equal to the traditional sector wage after markets equilibrate through migration? Explain.
  - (c) What effect might moving costs have on the equilibrium you described in part (b)?
  - (d) What effect might the introduction of factories to rural areas have on the equilibrium you described in part (b)?
5. Are developing country cities too large, too small, or about right in size? Justify your answer with evidence from developing economies.
6. Explain what is meant by *urban bias*. What are the major effects of *urban bias*?
7. Describe some of the causes of *urban giantism* in developing countries.
8. What are the main features of the Harris-Todaro model of rural-urban migration?
9. Why is urban giantism less prevalent in mature democracies?
10. Even though women may often constitute the majority of the rural-urban migrants in a country, they usually still remain employed in the informal sector. Why? What are the consequences of this?