

The Leontief Paradox

Factors Embodied in:

	Exports(\$1m)	Importables(\$1m)
Capital (\$, 1947 prices)	2,550,780	3,091,339
Labor (years)	182.3	170.004
Capital/Worker-year	13992	18183

But trade was not balanced. Exports were \$16.7 billion and imports were \$6.2 billion.

Maybe we need some theory here.....

HOV Theory

$$A T = V - s V_w$$

$$\begin{bmatrix} K_T \\ L_T \\ \dots \end{bmatrix} = \begin{bmatrix} K - sK_w \\ L - sL_w \\ \dots \end{bmatrix} = \begin{bmatrix} K_w \left(\frac{K}{K_w} - s \right) \\ L_w \left(\frac{L}{L_w} - s \right) \\ \dots \\ \dots \end{bmatrix} = \begin{bmatrix} K \left(1 - s \frac{K_w}{K} \right) \\ L \left(1 - s \frac{L_w}{L} \right) \end{bmatrix}$$

Thus

$$K_T \geq 0 \Leftrightarrow \frac{K}{K_w} \geq s$$

$$\frac{K_T}{K} \geq \frac{L_T}{L} \Leftrightarrow \frac{K}{K_w} \geq \frac{L}{L_w}$$

	Production	Net Exports	NetExp/Prod	Consumption
Capital (\$million)	328.52	23.45	7.14%	305.07
Labor(million man-years)	47.27	1.99	4.21%	45.28
Capital/labor	6.95	11.78		6.74

Questions, Theory and Data.

Better have some theory. Not to mention a question or two.