

WEEK 3: EXPLORING RELATIONSHIPS

The extracts below introduce the main variables being researched and attempt to explain the relationships between them. Read the extracts and answer the questions.

Foreign Direct Investment and Income Inequality: Further Evidence

Pan-Long Tsai

World Development, Vol. 23, No.3, pp. 469--483, 1995

As industrialization proceeds with the presence of FDI, it is widely observed in the host LDCs that employees in the international sectors tend to form a new social class. These "labor elites" typically earn four to 10 times of the normal wages and other benefits in the comparable domestic sectors. To the extent that this dependent development does help pull wages up in the traditional sectors, it is most likely to be accompanied by a more capital-intensive production, which in turn leads to increased unemployment in the traditional sectors. As a consequence, an increase in the relative share of labor income not only fails to bring about greater equality, but contributes directly to rising inequality.

1. What are the main variables being researched?
2. What is the hypothesized relationship between/among them?

3. All of the citations have been removed. Please mark in the text where you think citations would be appropriate.
4. Write an APA reference for this article.

WEEK 3: EXPLORING RELATIONSHIPS

FOREIGN DIRECT INVESTMENT AND INCOME INEQUALITY: HUMAN CAPITAL MATTERS

Shu-Chin Lin, Dong-Hyeon Kim, Yi-Chen Wu

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Whether FDI improves income distribution is a matter of controversy. According to the conventional wisdom, allowing FDI should result in resources flowing from capital-abundant developed countries where expected returns are low to capital-scarce developing countries where expected returns are high. This should reduce the relative returns on capital to labor and hence income inequality in capital-scarce developing countries. In addition to the direct effect of foreign capital it supplies, FDI may accelerate skill-biased technological changes and hence amplify income inequality.

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2. What is the hypothesized relationship between/among them?

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