ECO3111 International Trade
First mid-term examination: March 7th, 2012
University of Ottawa
Professor: Louis Hotte
Time allotted: 1h 20min

Attention: *Not all questionnaires are the same. This is questionnaire **A**. On the answer sheet, you must indicate the letter of your questionnaire with the course's number as follows: **ECO3111A**. You must answer according to* **the material seen in this course**. *Read all answer choices before choosing your answer.* GOOD LUCK!

QUESTIONNAIRE A

I. MULTIPLE CHOICE QUESTIONS (4 points each)

1. The Mariel boatlift of Cuban immigrants into Miami caused the
   (a) population of unskilled workers in Miami to decline.
   (b) population of skilled workers in Miami to decline.
   (c) supply of labor in Miami to increase, but it did not decrease the wages.
   (d) supply of labor in Miami to increase and thus led to lower wages.
   (e) supply of labor in Miami to decrease, but it did not increase the wages.

2. It has been estimated that between 1870 and 1913, labor migration from the "Old World" (Europe) to the "New World" (the United States, Canada, and Australia) caused:
   (a) real wages to rise in the New World.
   (b) real wages to fall in the Old World.
   (c) real wages to diverge between the New and Old Worlds.
   (d) real wages to converge somewhat between the New and Old Worlds.
   (e) no relative change in wages.

3. In the long run, *ie* according to the H-O model, immigration will lead to
   (a) an increase in the wage and a decrease in the return to capital in the receiving country.
   (b) an increase in both the wage and the return to capital in the receiving country.
   (c) a decrease in the wage and an increase in the return to capital in the receiving country.
   (d) no change in the wage and the return to capital in the receiving country.
   (e) None of the above

4. An outflow of foreign direct investment is defined by the commerce department in the USA as:
   (a) a minimum acquisition of 60% ownership of a foreign firm by an American firm.
   (b) a minimum acquisition of 10% ownership of a foreign firm by an American firm.
   (c) a minimum increase in employment of 10 Foreign workers.
   (d) a minimum increase in employment of 60 Foreign workers.
   (e) all foreign investments by American companies.

5. During the past 20 years, there has been substantial FDI in China. What are the expected short-run effects of this FDI upon the rental rate on capital and wages in China?
   (a) The rental rate should increase and wages should decrease.
   (b) The rental rate and wages should both increase.
   (c) The rental rate and wages should both decrease.
   (d) The rental rate should decrease and wages should increase.
   (e) There should be little impact in the short run.

6. According to the Rybczynski theorem, immigration will cause:
   (a) an increase in the output of both the labor-intensive and the capital-intensive goods in the receiving country.
   (b) a decrease in the output of the labor-intensive good and an increase in the output of the capital-intensive good in the receiving country.
   (c) decreases in the output of both the labor-intensive the capital-intensive goods in the receiving country.
   (d) an increase in the output of the labor-intensive good and a decrease in the output of the capital-intensive good in the receiving country.

7. The Leontief paradox found that:
   (a) exports should always be capital intensive.
   (b) imports should always be labor intensive.
   (c) U.S. exports were labor intensive.
   (d) U.S. exports were capital intensive.
   (e) Leontief was a nice economist.

8. Suppose the following scenario concerning Chile and the United States:

   Chile and the United States use only capital and labor to produce wheat and automobiles. The United States is capital abundant and Chile is labor abundant. Wheat production is more labor intensive than automobile production.

   According to the Heckscher-Ohlin model, in the absence of compensation,
   (a) Chilean workers should support U.S.-Chile free trade.
   (b) Chilean owners of capital should support U.S.-Chile free trade.
   (c) U.S. owners of capital should oppose U.S.-Chile free trade.
   (d) both U.S. and Chilean owners of capital should oppose U.S.-Chile free trade.
   (e) no-one can lose from free trade.

9. One implication of production factors being mobile domestically is that
   (a) it leads to unemployment.
   (b) capital and land are often not suited for use in other industries.
   (c) they lose the chance to become guest workers in other nations.
   (d) labor and capital are paid the same wage and rental price in all domestic industries.
   (e) factor intensities are the same in all domestic sectors.

10. Suppose that after opening up to trade, the price of shoes (which are labor intensive) has risen by 5% at Home. According to the H-O model, which of the following can you say for sure?
    (a) Home wages will rise by more than 5%.
    (b) Home rental rates will rise by more than 5%.
    (c) Home wages will rise by no more than 5%.
    (d) Home rental rates will fall by no more than 5%.
    (e) In the H-O model, trade has no effect on factor prices.

II. PROBLEM

The Heckscher-Ohlin trade model

We wish to analyse trade using the Heckscher-Ohlin framework. There are two countries: Home and Foreign. There are two goods being produced: computers and shoes. Each good is produced using two factor types: labor and capital. Computer production is capital-intensive and shoe production is labor-intensive. Home is capital-abundant and Foreign is labor-abundant. The countries have identical consumption preferences.

(1) **(20)** On two separate graphs, draw the PPFs of each country and locate the autarky production and consumption points along with relative prices. Explain the autarky equilibrium differences between the countries.
(2) **(5)** What will be the predicted trade patterns between the countries? Justify briefly in words only.
(3) **(20)** On two new separate graphs, draw the PPFs for each country and locate the trade production and consumption points along with relative prices.
(4) **(15)** Use a graph that plots the wage/rental ratio against the labor/capital ratio in order to analyse the effect of trade on real wages and capital rental rates in Foreign. Explain the implications for the effects of trade on the labor/capital ratios in each sector.