ECO3111 International Trade
2nd mid-term examination: March 6th, 2013
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. When factors of production are not fixed (as per the long run) and labor immigrates, capital will...
   (a) remain fixed because capital is never mobile.
   (b) increase in the capital-intensive industry.
   (c) move to the higher productivity use in the labor-intensive industry until returns are again equalized.
   (d) become idled as owners of capital seek more profitable opportunities.

2. Foreign direct investment may take the form of a newly built facility called a(n)...
   (a) acquisition FDI.
   (b) greenfield FDI.
   (c) intermediary FDI.
   (d) brownfield FDI.

3. In the long run, an increase in FDI in the manufacturing sector of a small open economy will .... the return to capital in the .... sector.
   (a) decrease; agricultural
   (b) increase; manufacturing
   (c) decrease; manufacturing
   (d) not change; manufacturing or agricultural

4. Which of the following is generally true?
   (a) All trade models that we have seen predict that immigration is harmful to the workers of the receiving country.
   (b) Factor price insensitivity occurs when labor immigration causes changes in capital-labor ratios in each industry, but not in wages and rentals.
   (c) In the short-run, foreign direct investment in China is expected to increase returns to capital in China and raise wages.
   (d) The long-run model of trade predicts that for a small open economy that receives FDI, the aggregate capital-labor ratio increases while it remains unchanged in each industry.

5. When a firm raises the price of a differentiated product in an imperfectly competitive market,...
   (a) it will see lower sales but will not lose all its sales.
   (b) it will lose all its sales to competitor firms.
   (c) it will get new customers from other firms.
   (d) it will necessarily see an increase in revenues.

6. Leontief found that the HO model did not work for the United States because...
   (a) the United States was importing labor-intensive commodities.
   (b) the U.S. capital/labor ratio for imported goods was larger than that for the exported goods.
   (c) the U.S. capital/labor ratio for imported goods was smaller than that for the exported goods.
   (d) there was a trade imbalance in the United States.
   (e) The Mariel boatlift of Cuban immigrants into Miami caused the supply of labor in Miami to increase, but it did not decrease the wages.

7. The specific-factors model predicts that after immigration, the equilibrium wage in both industries in the destination nation...
   (a) rises.
   (b) falls.
   (c) remains the same.
   (d) We need more information to answer.

8. In destination countries, as immigration occurs and more labor is employed, in the short run, wages fall and the marginal products of land and capital...
   (a) are unaffected.
   (b) both rise.
   (c) both fall.
   (d) rise for one and fall for the other.

9. Which of the following is TRUE?
   (a) The Heckscher-Ohlin model can explain simultaneous U.S. exports of Budweiser beer to Canada and U.S. imports of Molson's beer from Canada.
   (b) The zero-profit condition in an industry requires perfect competition to hold.
   (c) Perfectly competitive firms can influence the price that they charge.
   (d) Equilibrium firm profits must be positive when a firm can influence prices.
   (e) In a free-entry industry, profits are driven to zero in the long run.

10. In the monopolistic competition model,...
   (a) free-entry means that there are no fixed cost of production.
   (b) there are decreasing returns to scale.
   (c) there is only one firm present in an industry.
   (d) the number of firms is endogenous in the long run.

II. PROBLEM

1. (40 points) Trade with monopolistic competition

Suppose that France and Germany are identical countries, that each has its own domestic car industry, and that each is presently operating in its long-run equilibrium under autarky.

(a) **(15)** With the help of a graphic, describe the autarkic long-run equilibrium quantities and prices in the car industry of each country. Make sure to identify properly each curve and justify its shape and position. What are the two necessary conditions that must be satisfied in the long run?

(b) **(10)** Explain in words only what happens to prices and quantities in the short run when both countries open up to trade. Do not draw a graphic, just use simple argumentation.

(c) **(10)** Based on your answer to (b), explain in words only what happens to prices, quantities and number of firms in the long-run trade equilibrium.

(d) **(5)** Discuss the welfare implications regarding trade between industrialized countries.

2. (20 points) Trade and wages

Within the context of the Heckscher-Ohlin model, discuss the following assertion:

> *The only way to equalize wages between Mexican workers and USA workers is by letting workers move freely between the countries.*