

**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. What is the term for a capital flow that is used to purchase or build a tangible asset like a factory?
  - (a) migration
  - (b) service imports
  - (c) service exports
  - (d) foreign direct investments ✓
2. Several economists have hypothesized that the terms of trade for developing countries will decline over time. Which of the following might be a cause of this decline?
  - (a) Technological progress in manufactured goods has caused their prices to fall.
  - (b) Some developing countries are able to keep the price of their exports high by restricting supplies on the world market.
  - (c) Increased demand for developing country exports has caused prices of developing country exports to rise.
  - (d) The demand for food exports from developing countries has not risen as fast as the demand for manufactured exports of industrialized countries. ✓
3. The Ricardian model assumes that the marginal product of labor is:
  - (a) increasing
  - (b) decreasing
  - (c) constant ✓
  - (d) zero
4. In general, migration is ..... than trade.
  - (a) more controlled and regulated ✓
  - (b) more free
  - (c) less desirable
  - (d) more desirable

5. The U.S. trade-to-GDP ratio is:
  - (a) the highest in the industrialized world.
  - (b) greater than China's and Japan's.
  - (c) too high.
  - (d) smaller than that of Germany.✓
  
6. The PPF is bowed out in the Heckscher-Ohlin model because:
  - (a) capital is specific to computer production.
  - (b) labor is specific to shoe production.
  - (c) capital is better suited to computer production than shoe production.✓
  - (d) labor is specific to shoe production, capital is specific to computer production, and capital is better suited to computer production than shoe production.
  
7. The focus of the Ricardian model is on how differences in ..... influence international trade patterns.
  - (a) demand
  - (b) comparative costs ✓
  - (c) absolute costs
  - (d) transportation costs
  
8. The argument that trade generates gains for all workers may not be true because:
  - (a) a more realistic assumption includes capital and land as factors of production and recognizes that trade will generate gains for some factors and losses for others.✓
  - (b) greedy corporations exploit workers.
  - (c) technology gains are concentrated among low-skill workers.
  - (d) some workers lack skills and training and cannot find jobs.
  
9. If we consider the *specific-factors model*, the effect of an increase in exports on the real wages of workers:
  - (a) is inconclusive because some goods' prices will be higher compared with the wage, and some will be lower.✓
  - (b) absolutely increases the buying power of the real wage.
  - (c) absolutely decreases the buying power of the real wage.
  - (d) will encourage foreign workers to emigrate to the United States.
  
10. A long-run model of trade used to determine how between-sector factor mobility affects national welfare and the returns to the factors is known as:
  - (a) the specific-factors model.
  - (b) the Ricardian model.
  - (c) the Chicago model.
  - (d) the IS-LM model.
  - (e) the Heckscher-Ohlin model.✓

## II. PROBLEM

**(35 points)** Suppose that there are only two types of goods being produced: agricultural goods (A-goods) and manufactures (M-goods). A-goods are produced with land and labor while M-goods are produced using capital and labor. Labor is the only mobile factor between sectors. Analyse and discuss the effects of free trade between countries 1 and 2 assuming that country 1 is land abundant. Consider only the perspective of country 1. Be as complete as possible.

**(25 points)** Suppose that when Canada opens to trade, it imports labor-intensive goods. Based on the Heckscher-Ohlin model and assuming that labor and capital are the only two production factors, answer the following in words only.

- (1) Describe the basic assumptions of the Heckscher-Ohlin model.
- (2) Compared to the rest of the world, is Canada labor or capital abundant? Justify your answer by invoking the appropriate theorem.
- (3) What is the impact of trade openness on the real wage in Canada? Justify your answer by invoking the appropriate theorem.
- (4) What is the impact of trade openness on the return to capital in Canada? Justify your answer by invoking the appropriate theorem.
- (5) According to your results in (3) and (4), is trade generally undesirable for Canada?