

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 difference between the total value of a country's exports and the total value of its imports is defined as the nation's:
 - (a) trade balance✓
 - (b) trade status
 - (c) trade deficit
 - (d) bilateral trade balance
2. Internal trade volume between what nations is the world's highest?
 - (a) Canada, Mexico, and Japan
 - (b) Japan, China, South Korea, and Thailand
 - (c) Nations in the European Union✓
 - (d) Middle Eastern countries
3. Suppose that there is an improvement in a country's terms of trade between 2010 and 2011. This improvement means that:
 - (a) it can purchase more imports in 2011 with the same volume of exports as in 2010.✓
 - (b) it can purchase more exports in 2011 with the same volume of exports as in 2010.
 - (c) it needs to increase its exports in order to purchase the same volume of imports as in 2011.
 - (d) with regard to its international trade, it is worse off in 2011 than it was in 2010.
4. The Prebisch-Singer hypothesis concludes that:
 - (a) due to unfair trading practices, labor in lower-income nations is exploited.
 - (b) OPEC has been responsible for a slowdown in the world's standard of living.
 - (c) technology lowers the cost of manufactured products, so lower-income nations should see an increase in their terms of trade.
 - (d) lower-income nations experience a long-run decline in their terms of trade due to improving technology, which reduces the demand for primary products.✓

5. Assume that two countries (Home and Foreign) each produce two goods (corn and wheat) under constant marginal productivities of labor. Home produces 0.5 ton of corn or 1 ton of wheat with a day of labor. Without trade (in autarky), Home's daily production is 20 tons of wheat and 10 tons of corn. Suppose that Home completely specializes, and it consumes 20 tons of wheat after it begins trading with Foreign. Home trades with Foreign at a 1 to 1 ratio of corn for wheat. How many tons of corn does it consume when it trades with Foreign?
- (a) 10 tons of corn
 - (b) 20 tons of corn ✓
 - (c) 30 tons of corn
 - (d) 40 tons of corn
6. In contrast to the Ricardian model, international trade in the specific-factors model will:
- (a) lead to gains for all factors.
 - (b) lead to losses for all factors.
 - (c) not cause changes in the returns of any factors.
 - (d) lead to gains for some factors and losses for other factors. ✓
7. In an economy in which labor is mobile and homogeneous, the wages between industries:
- (a) will be equal. ✓
 - (b) will be less in the import industry.
 - (c) will be less in the export industry.
 - (d) will be more unequal under trade.
8. Suppose that the Home country in the two-sector (manufacturing and agriculture) specific-factors model has a comparative advantage in agricultural output. Will workers be better or worse off following the opening of trade with other countries?
- (a) Workers will be better off because the nominal wage increases.
 - (b) Workers will be worse off because the nominal wage decreases.
 - (c) Workers may be better off or worse off because the real wage in terms of the agricultural good rises and the real wage in terms of the manufactured good falls.
 - (d) Workers may be better off or worse off because the real wage in terms of the agricultural good falls and the real wage in terms of the manufactured good rises. ✓
9. The Heckscher-Ohlin model of international trade uses and to explain trade patterns.
- (a) comparative; absolute advantages
 - (b) factor abundance; factor intensity ✓
 - (c) factor availability; factor usability
 - (d) tariffs; quotas
 - (e) fixed; mobile factors

10. Within the framework of the HO model, which of the following is clearly FALSE?
- One explanation of the Leontief paradox is that the United States is abundant in skilled labor.
 - The Stolper-Samuelson theorem indicates that an increase in the relative price of a good will cause the real earnings of labor and capital to move in opposite directions.
 - According to the Heckscher-Ohlin model, differences in technology across countries are the main cause of international trade. ✓
 - The Heckscher-Ohlin theory and the Stolper-Samuelson theorem together lead to the conclusion that a country's abundant factor gains and its scarce factor loses from international trade.
 - The Heckscher-Ohlin model is not good at explaining trade patterns among countries with similar relative factor endowments such as the United States and Switzerland.

II. PROBLEM

1. Trade with specific factors (40 points) Suppose two countries, Canada and Mexico, produce two goods: timber and televisions. Assume that land is specific to timber, capital is specific to televisions, and labor is free to move between the two industries. When Canada and Mexico engage in free trade, the relative price of televisions falls in Canada and the relative price of timber falls in Mexico.¹

- (10) Illustrate the PPF for the Canadian economy and justify its general shape. (Be as complete as possible.)
- (20) With the help of graphical analysis, compare the real wages of workers in Canada between autarky and trade. (To simplify the analysis, assume that the price of timber remains constant in nominal terms between autarky and trade. Make sure to identify properly all axes, curves, etc.)
- (10) Based on this model, who is likely to oppose free trade in Canada? Justify.

The Heckscher-Ohlin model of trade (20 points) Assume a world with 2 countries (Canada and India), 2 goods (Automobiles and Sweaters), and 2 factors (Labor and Capital).

- State the Heckscher-Ohlin theorem in order to predict the trade pattern between the two countries. (Answer this question in words only. You must make some additional assumptions regarding differences between the two countries as well as the two sectors.)

¹This question draws heavily from problem 9 in chapter 3 of Feenstra and Taylor 2012.