

Econ 355 - Midterm 1

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Instructions:

- this exam contains 10 questions with 5 possible answers
- for each question circle only one answer
- for each question there is only one correct answer
- use the scrap paper provided to do calculations
- your starting grade is 50
- if you answer a question correctly your grade increases by 5 points
- **if you answer incorrectly your grade decreases by 3 points**
- if you do not answer a question your grade does not change
- if you choose more than one answer your grade does not change, even if one of the answers is correct

1 Ricardian model

Consider the Ricardian model of trade. Two countries (Home and Foreign) produce two goods, Clothing and Food, using the following unit labor requirements:

$$\begin{array}{lll} \text{Home:} & a_{LC} = 4 & a_{LF} = 8 \\ \text{Foreign:} & a_{LC}^* = 10 & a_{LF}^* = 5 \end{array}$$

and there is free trade between the two countries.

1. If the free trade price of clothing relative to food is $\frac{1}{2}$ then it must be the case that:
 - (a) Home and Foreign produce clothing
 - (b) Home produces only food
 - (c) Foreign produces food and clothing
 - (d) Home and Foreign export food
 - (e) none of the above

2. If the free trade price of clothing relative to food is 1 then:
 - (a) Home produces only clothing
 - (b) Foreign produces only clothing
 - (c) Foreign produces both food and clothing
 - (d) Food is produced by both Home and Foreign
 - (e) None of the above

3. If the free trade price of clothing relative to food is 1 then the relative wage of Home and Foreign is:
 - (a) $\frac{1}{2}$
 - (b) 2
 - (c) $\frac{5}{4}$
 - (d) $\frac{4}{5}$
 - (e) $\frac{8}{5}$

4. If Foreign gets more productive in food
 - (a) Home is likely to benefit because the price of food is likely to decrease relative to clothing
 - (b) Home is likely to benefit because the price of clothing is likely to decrease relative to food
 - (c) Foreign is likely to benefit because its wage may increase
 - (d) All of the above a., b. and c.
 - (e) None of the above a., b. and c.

5. Consider a case in which instead of 5 the unit labor requirement a_{LF}^* is equal to 20. It must therefore be the case that:
- (a) Home and Foreign do not gain from free trade
 - (b) Home is the only country to gain from trade
 - (c) Foreign is the only country to gain from trade
 - (d) Home and Foreign are both strictly better off under free trade
 - (e) None of the above

2 Specific Factors Model

Consider the specific factors model. Take a country, Canada, that produces two goods (Computers and Textiles) using an immobile factor for each as well as a mobile factor that can freely move across the two goods.

1. In autarky the marginal product of the mobile factor in the two goods is 5 in computers and 4 in textiles. What is the opportunity cost of **TWO** Computers in terms of Textiles in autarky?
 - (a) 0.25
 - (b) 0.1
 - (c) 2.5
 - (d) 1.6
 - (e) none of the above
2. Now imagine that Canada opens up to trade with India, which has a higher opportunity cost of Computers under autarky. Under free trade:
 - (a) the relative price of computers to textiles is higher than under autarky in India
 - (b) the relative price of computers to textiles is lower than under autarky in Canada
 - (c) the relative price of computers to textiles is between its autarky levels in Canada and India
 - (d) the relative price of computers to textiles always stays the same as under autarky in Canada

- (e) none of the above
3. As a result of free trade between Canada and India:
- (a) In Canada the returns to the immobile factor in Computers goes down in terms of both goods (compared to autarky)
 - (b) In India the returns to the immobile factor in Computers goes down in terms of both goods (compared to autarky)
 - (c) In Canada the returns to both immobile factors (in Computers and Textiles) goes up in terms of both goods (compared to autarky)
 - (d) In Canada the returns to the immobile factor in Computers goes up in terms of textiles, but goes down in terms of computers (compared to autarky)
 - (e) None of the above
4. As a result of free trade between Canada and India:
- (a) In Canada the mobile factor is better off in terms of all goods
 - (b) In India the mobile factor is better off in terms of all goods
 - (c) In India the mobile factor is worse off in terms of all goods
 - (d) In Canada the mobile factor is worse off in terms of all goods
 - (e) none of the above
5. The US Trade Adjustment Assistance Program is a:
- (a) program of the US Department of Commerce that helps importers find cheaper inputs abroad
 - (b) program of the Canadian government that helps all unemployed workers find new jobs
 - (c) program of the US International Trade Commission that helps exporting firm to increase their exports to foreign countries
 - (d) program of the US Department of Labor that helps workers displaced by import competition by providing wage support and re-training
 - (e) none of the above