

**Simon Fraser University
Department of Economics**

Econ342: International Trade

Mid-Term Examination

Fall 2009 (1)

Instructor: N. Schmitt

Student Last Name:

Student First Name:

Student ID #:

Tutorial #:

Tutorial Day/Time:

TA's Name:

Problem 1

Problem 2

Problem 3

Problem 4

Problem 5

Problem 6

Problem 7

Problem 8

Total:

4. (28 marks) Refer to the following table and assume that the total labor supply (measured in hours) in Thailand is 4 and the total labor supply in Indonesia is 8.

	Thailand	Indonesia
Number of telephones produced per hour	10	5
Number of televisions produced per hour	50	10

- a. (2) What is the opportunity cost of 1 unit of telephones in terms of televisions in Thailand? Briefly explain.
- b. (2) What is the opportunity cost of 1 unit of telephones in terms of televisions in Indonesia? Briefly explain.
- c. Determine whether each of the following statements is true or false. Provide a brief explanation of why it is true or false.
- i. (3) Thailand has an absolute advantage in the production of both telephones and televisions. True/False/Uncertain. Explain.

 - ii. (3) Indonesia has a comparative advantage in the production of telephones. True/False/Uncertain. Explain.

 - iii. (3) One possible production combination for Indonesia is 40 units of telephone and 80 units of television per hour. True/False/Uncertain. Explain

- d. (4) If the two countries engage in international trade, what will Thailand produce and how many units? Explain.
- e. (3) What is the real wage in Thailand in terms of television? Explain.
- f. (3) What is the real wage in Indonesia in terms of telephone? Explain.
- g. (5) Will Thailand and Indonesia trade if the international relative price of telephone is 3? Briefly explain why or why not. In case they do trade, what is the pattern of trade between Thailand and Indonesia?

5. (15 marks) Saskaland, a small open economy, uses a mobile factor (labor) and two specific factors (drylands and wetlands) to produce two goods, wheat and rice. Dryland is only productive in growing wheat and wetlands can only grow rice. Suppose the world relative price of wheat increases relative to the relative price of wheat in Saskaland. Determine the effect of this price increase on the real wage of labor and on the real returns on the different types of land. Explain your answer and draw any graphs that may justify your answer.

6. (20 marks) Consider two countries, Spain and Italy, where the only two factors of production are capital and labor. Spain has 100 units of capital and 400 units of labor and Italy has 200 units of capital and 100 units of labor. Both countries produce two goods, wine and suits according to the Heckscher-Ohlin model. The labor share in total production costs is 75% for wine but only 25% for suits.
- a. (4) Which country is labor-abundant? Explain your answer.

 - b. (4) Which industry is capital-intensive? Explain your answer.

 - c. (4) Which country exports suits? Explain your answer.

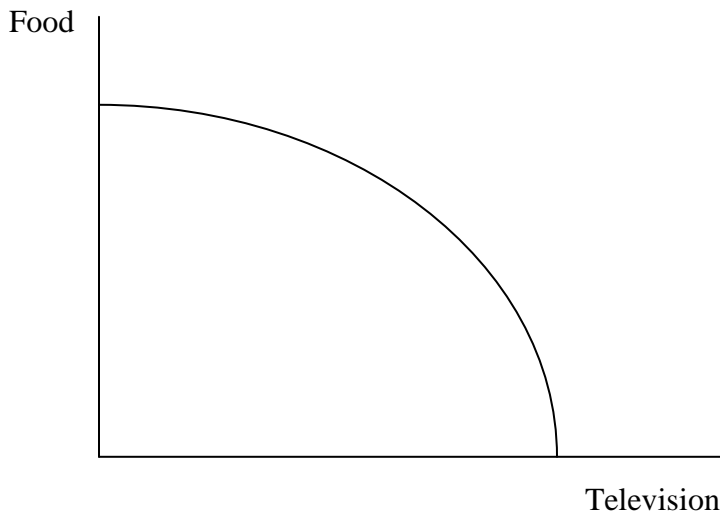
 - d. (4) In Italy, the production of which good decreases under trade? Explain your answer.

 - e. (4) In Spain, the production of which good increases under trade? Explain your answer.

7. (10 marks) “Professionals and highly educated workers in Canada are more likely to oppose limits on free trade as compared with high-school-educated workers because they have a better understanding of international trade.” Comment given the assumptions of the Heckscher-Ohlin model.

8. (11 marks) Assume that Mexico receives an inflow of FDI. Suppose two factors (labor and capital) are used in the production in two industries (food and televisions). Further assume that televisions are capital intensive as compared with food and that Mexico is a small country. Use the Heckscher-Ohlin model to answer the following questions.

a. (5) Show the impact of the inflow of FDI on Mexico Production Possibility Frontier by using the graph below with the output of food (televisions) on the vertical (horizontal) axis. Explain your answer.



b. (6) What happens to the output of each good? Explain your answer.