

Concordia University Department of Economics

ECON 319 Fall 2016

Assignment 2: Chapters 5 - 7

The due date for this assignment is Friday, October 28 at 3:00 pm.

Complete the following questions. Follow the instructions for presenting your work included on the course outline. Make your answers as concise as possible, but, show all your work. Please deposit the completed assignment in my mailbox located in the Department of Economics.

*Questions 1, 2 and 3 are worth 10 marks each; questions 4 to 12 are worth 5 marks each.*

1. In what way can international trade be said to have contributed to increased wage inequalities in Canada during the past 20 years?
2. The Canadian labour movement - which mostly represents blue-collar workers rather than professionals and highly-educated workers - has traditionally favoured limits on imports from less-affluent countries.
  - (a) Is this a shortsighted policy or a rational one in view of the interests of union members? Use both the Ricardian model and the Heckscher-Ohlin model to answer the question (you should arrive at a different conclusion for each model).
  - (b) Based on your conclusion using the Heckscher-Ohlin Model, suggest a different strategy for the unions, other than restricting trade.
3. Question 6 from Chapter 5 in the text.
4. According to the following table, which country is relatively more labour-abundant and which is relatively more capital-abundant? Explain your answer.

	United States	Canada
Capital	40 machines	10 machines
Labour	200 workers	60 workers
5. Suppose that the United States and Canada have the factor endowments given in the table from question 4. Suppose further that the production requirements for a unit of steel are 2 machines and 8 workers and the requirements for a unit of bread is 1 machine and 8 workers.
  - (a) Which good, bread or steel, is relatively capital-intensive? Which is labour-intensive? Explain your answer.

- (b) Which country would export bread and why?
6. Suppose that before trade takes place, the United States is at a point on its PPC where it produces 20 loaves of bread and 20 units of steel. Once trade becomes possible, the price of a unit of steel is 2 units of bread. In response, the United States moves along its PPC to a new point where it is producing 30 units of steel and 10 loaves of bread. Is the country better off? How do you know?
  7. Given the information in Questions 4, 5 and 6, explain what happens to the returns to capital and labour in each country after trade begins.
  8. Question 5 from Chapter 6 in the text.
  9. Parts a, b, d and e from question 4 of Chapter 7 in the text.
  10. Question 7 from Chapter 7 in the text.
  11. What are the differences between external and internal economies of scale with respect to (i) the size of firms and (ii) market structure.
  12. Comparing Canadian trade with Germany and Brazil, is trade with Germany more likely to be based on comparative advantage or economies of scale? What about trade with Brazil? Explain your answer in both cases.