Wilf Csaplar Jr. Economics 360 Homework #3 **Due Monday 2/20**

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (20 points) Draw the PPFs for the USA (capital abundant) and India (labor abundant). Have the products be automobiles (capital intensive) and clothing (labor intensive). Explain why each PPF looks as drawn. You can draw them on the same graph.

2) (10 points) State the Heckscher-Ohlin Theorem. Explain the intuition behind it.

3) (20 points) Draw the diagram which has the relative prices of the goods as a function of the wage rental rate. Explain why it takes its shape and use it to prove the Factor-Price Equalization Theorem. (Note: despite the way it is drawn, w/r is really a function of the relative prices.)

4) (15 points) NAFTA (North American Free Trade Area) almost did not get through our Congress because we were afraid of losing jobs to Mexico. Similarly, the Mexican Congress came close to not approving it because they thought they would lose the good paying jobs. Using the theory we discussed, were either government’s worries correct? Explain your logic.

5) (20 points) Suppose that capital is industry specific. Suppose the country is labor abundant. What happens to the real wage measured in terms of the export when the country opens to trade? What happens to the real wage measured in terms of the import when the country opens to trade? What happens to the real rental rate in the export industry? What happens to the real rental rate in the import competing industry? Explain the logic in all four cases.

6) (15 points) Leontief and others found that the USA in the 1940s through the 1980s (I believe others may have found it even more recently) had a higher K/L in our import competing industries than in our exports. Which explanation do you find most convincing? Explain your logic.