Wilfrid W. Csaplar Jr. International Trade Review Sheet for Exam 2

This review sheet is intended to cover everything that could be on the exam; however, it is possible that I will have accidentally left something off. You are still responsible for everything in the chapters covered except anything that I explicitly say you are not responsible for. Therefore, if I left something off of this sheet, it can still be on the exam. There will be no multiple-choice questions. Most of the questions will be like the ones in the homework assignments, and possibly a few definition questions, but I am more likely to ask questions that make you use the definitions rather than recite them. I will probably ask one of the questions from the book at the end of the chapters.

The review session will be at a time to be determined in class, probably Sunday 3/4.

Chapter 5: Understand what the 11 assumptions on pages 124-125 mean and understand how we use them in the Heckscher-Ohlin (H-O) Model. That includes terms like **capital intensive, labor intensive, capital abundant, labor abundant, constant returns to scale (CRTS), perfect competition, perfect internal factor mobility, incomplete specialization,** and **product specific inputs.** Do not worry about the graph on Page 128. It is useless unless you add isoquants and iso-cost lines which are difficult.) What is meant by a **derived demand** and how does it determine the **relative factor prices**? (*That is why I feel the axes on the graph which proves the* ***Factor-Price Equalization Theorem*** *are swapped.*) Understand how factor abundance relates to the PPF. Use that to explain the **H-O Theorem**. Be able to prove the Factor-Price Equalization Theorem using the graph with the relative prices of goods on the vertical axis and the relative price of factors on the horizontal axis. Who gets helped and who gets hurt from trade in both the H-O Model and the Specific Factors Model. *Remember that the* ***real wage*** *measured in terms of the export does not always change the same way as the real wage measured in terms of the import competing good. Note that because labor (and capital if it is mobile) is mobile and because changes in relative prices of goods is what causes wage changes, the percent change in the price is greater than the percent change in the wage rate. However, in the specific factors model, the rental rate of capital changes a larger percent than the percent change in prices because capital cannot move.* Understand the **Leontief Paradox** and be able to use the following explanations to explain it: **land-intensive export, human capital-intensive exports,** and **factor-intensity reversal.**

Chapter 6: How does **increasing returns to scale (IRTS and external economies)** relate to the PPF? How does that affect trade? What are **monopolies, oligopolies, outsourcing,** and **offshoring**? How do they affect trade? Why does the study of **intr-industry trade** require **differentiated products**? Be able to calculate the **intra-industry trade index (T)**. Explain why the diagram of costs/demand for a **monopolistically competitive** firm looks as drawn. *Note the vertical axis is wrong. It should be $/Q. The same is true for the* ***graph of the number of firms vs. the price.*** Understand the **Product Cycle Model**. Be able to explain the reason each stage looks as is drawn. How do **transportation costs, logistic costs,** and **tariffs** affect the supply and demand for a good on the trade market. That is the graph where the exporting country is on one side of the axis and the other side of the axis is the other country. Explain how transportation costs can affect where a company sets up in **resource-oriented industries** and **market-oriented**

industries, but not **footloose industries**. How can **environmental standards** affect for companies setup?

Chapter 7 up through Section 7.4: In this chapter, we are looking at **comparative statics** rather than **dynamic analysis**. What do those mean? Understand the difference between **balanced growth** and the **growth of one factor**. Be able to explain the **Rybczynski Theorem**. (Do not worry, I won't take off for spelling it wrong.) What is meant by **neutral technical progress, labor-saving technical progress,** and **capital-saving progress.** How do they affect the PPF? What is meant by **protrade, antitrade,** and **neutral growth**? Be able to show them on the PPF/CPF/indifference curve diagram and the offer curve diagram for a **small country**. Why does the offer curve diagram look like that? What happens to welfare of the small country with each of these movements? We will assume that all goods are **normal goods** rather than **inferior goods**. *Remember, normally the labor intensive good is on the horizontal axis for the PPF and the offer curve diagrams.*

Non-graded Homework Assignment #4A to be reviewed with Assignment #4.

1) (20 points) State the Rybczynski Theorem. Explain the economic reason why it makes sense.

2) (15 points) Draw a PPF for cars (capital intensive) and food (labor intensive). Illustrate the effects of an increase in the supply of labor. Explain why the curve moved as drawn.

3) (25 points) Draw the PPF for cars (capital intensive) and food (labor intensive). Illustrate the effects of an improved fertilizer. Explain why the curve moved as drawn. Do you think this is a labor saving, capital saving, or a neutral improvement in technology? Explain your logic.

4) (15 points) Whether the growth of the economy is protrade, antitrade, or trade neutral depends upon both production and consumption. However, for a small country we can tell which is most likely by just knowing which factor is increasing and whether that country is capital or labor abundant. Explain the logic.

5) (20 points) Draw the PPF/indifference curve diagram for a small country which exports the capital intensive good. State how you know that they are exporting the capital intensive good. Draw an increase in the capital such that the growth is trade neutral. Explain how why the curve(s) moved as drawn and how you know that your graph shows the growth is trade neutral.

6) (5 points) Explain why one of the offer curve(s) on an offer curve diagram with one small country and one large country, is straight.