

Place your name on the back of this sheet of paper and nowhere else. Staple your answers 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) (10 points) State the Rybczynski Theorem. Explain the economic reason why it occurs. (The first conclusion is simple, the second is not.)

2) (35 points) Draw the PPF/CPF/Indifference curve diagram for a small country which exports the labor intensive good, strawberries. Illustrate the effects of an increase in labor in that country. Explain why the curve(s) moved as drawn. Show the same event on the offer curve diagram. Explain why the curve(s) moved as drawn. Is this a pro-trade, anti-trade, or a trade-neutral event? Explain your logic.

3) (20 points) Draw the PPF/CPF/Indifference curve diagram for a large country which exports the capital intensive good, cars. Draw the effects of growth in the car industry such that there is immiserizing growth. Explain how your graph shows immiserizing growth and what causes it. (Note: in class we had the country exporting the labor intensive good.)

4) (15 points) Draw the offer curve diagram for two large countries. Illustrate the effects of the capital abundant country having an increase in the amount of labor. Explain why the curve(s) moved as drawn. Did that country's terms of trade improve or decline? Did the volume of trade increase or decrease?

5) (20 points) Draw the S/D diagram for a small country which imports the good. Show a non-prohibitive tariff. Find consumer surplus, producer surplus, and tariff revenue, both before and after the tariff. Who is hurt? Who gains? Does the country gain or lose?