

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet and any graph paper used, with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (10 points) Answer EITHER Part A OR Part B.

A) Suppose that in Tanzania, they export \$1800 worth of vanilla and import \$200. What is the value of the intra-industry trade index? Show all work.

B) Explain why intra-industry trade requires differentiated products.

2) (12 points) State the Heckscher-Ohlin theorem. For EITHER the assumption in Part A OR the assumption in Part B, explain how that assumption plays an important role in reaching the conclusion.

A) Both countries use the same technology.

B) Tastes are the same in the two countries.

3) (18 points) Answer EITHER Part A OR Part B. (We export agriculture and import textiles.)

A) Suppose the Specific Factors Model is the model which best describes the USA. What would happen to the utility of each of the following if the USA had joined the free trade area called TPP? Capital in agriculture, capital in textiles, and workers. Explain your logic.

B) Suppose the Heckscher-Ohlin Model is the model which best describes the USA. What would happen to the utility of each of the following if the USA had joined the free trade area called TPP? Capital in agriculture, capital in textiles, and workers. Explain your logic.

4) (22 points) Answer EITHER Part A OR Part B.

A) Draw the diagram with number of firms vs. price. Explain why ONE of the curves takes its shape. Illustrate the effects of opening up the country to free trade. Explain why the curve(s) moved as drawn.

B) Draw the diagram with back-to-back supply and demand curves. Show the price with free trade and no transportation costs. Also show the prices in the two countries when there are transportation costs. Explain how you found all three prices.

5) (12 points) Answer EITHER Part A OR Part B. **If you do Part A for this question, you will do Part A for Question #6 and doing Part B here will mean you will do Part B in Question #6.**

A) State Rybczynski effect. Explain why it occurs.

B) What is the microeconomic reason how immiserizing growth can occur.

6) (26 points) **If you did Part A in Question #5, then do Part A here. If you did Part B in Question #5, then do Part B here.**

A) Draw the PPF/CPF/indifference curve diagram for a large labor abundant country. Mark the free trade production and consumption points. Illustrate an increase in labor in that country. Explain why the curve(s) moved as drawn. Find the new production and consumption points after the terms of trade have changed. **As drawn**, does your diagram show immiserizing growth? Explain your logic.

B) Draw both the PPF/CPF/Indifference curve diagram and the offer curve diagram for a small country which is labor abundant. Illustrate the effects of an increase in capital. Explain why the curves moved as drawn. Does your diagram show the Rybczynski Effect? State how you know. Is this pro-trade or anti-trade growth? State how you know.