Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 150 points (to be scaled up to 210 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I will give extra time but I won't give a lot.

1) (12 points) Answer EITHER Part A OR Part B.
A) If the USA imports $200 worth of cars and exports $300 worth of cars, then what percentage of trade is intra-industry trade? Show all work.
B) How do economies of scale and product differentiation lead to intra-industry trade? Explain your logic.

2) (12 points) Answer EITHER Part A OR Part B.
A) In Chapter 2, we drew a straight PPF. In Chapter 3, we drew a PPF which got steeper as it went from left to right. In Chapter 6, we drew a PPF which got flatter as it went from left to right. For TWO of them, explain why it takes that shape.
B) State and prove the Law of Comparative Advantage.

3) (12 points) For EITHER the assumption in Part A OR the assumption in Part B, explain how that assumption plays an important role in the Heckscher-Ohlin Model. In other words, if that assumption is relaxed or not made, how could the results change? Explain your logic.
A) Tastes are the same in the two countries.
B) Both countries use the same technology in production.

4) (12 points) Answer EITHER Part A OR part B.
A) Suppose that the USA joined a free trade area with India. Using the Heckscher-Ohlin Model, name a group of people in the USA who are likely to get hurt and a group of people in India who are likely to get hurt. Explain why they would get hurt.
B) In the Specific Factors Model, why is there an ambiguous impact of increased trade on the real wage of the mobile factor?

5) (16 points) The graph on the back is for two countries which are trading with each other. There are no other countries in the world. It has at least five errors. Find THREE of them and explain how you know they are errors.

6) (20 points) Answer EITHER Part A OR Part B.
A) Draw a normal offer curve diagram. Prove that the equilibrium is stable and that it is Pareto optimal.
B) Draw the three-frame S/D diagram for cars. In the left graph, draw the USA S/D. In the right graph, draw the S/D for Chile. Assume the USA exports cars. Explain how you got the world diagram in the middle.

7) (30 points) Answer EITHER Part A OR Part B.
A) Draw PPF diagram for computers and tomatoes, showing that the country has an equal abundance of capital and labor. Draw ONE CPF, a.k.a. TOT line and one indifference curve with the country really loving tomatoes, but not really loving computers. State how your diagram shows their tastes. Find the amount of trade for each good. State how you found the amount of exports and imports. Use that information to draw ONE point on an offer curve for that country. State how you found the point. Draw the offer curve. State how you know it goes the direction you drew.
B) Draw a PPF diagram for cars and artwork, showing the country is labor abundant. Explain how your

graph shows the abundance of labor. Draw ONE CPF, a.k.a. TOT line with the country is exporting the appropriate good. Use indifference curves to find the amount of trade for each good. State how you found the amount of exports and imports. Use that information to draw ONE point on an offer curve for that country. State how you found the point. Draw the offer curve. State how you know it goes the direction you drew.

8) (36 points) Use the table to the right to answers these questions. Assume both countries have 450 hours of labor **Show all work and briefly explain all of your answers.** Which country has an absolute advantage in hats? Which country has an absolute advantage in vests? Which country has a compara-tive advantage in hats? Which country has a com-parative advantage in vests? What price could they trade with? Draw **ONE** of the countries' PPF & CPF curve on the same graph. Draw the S/D diagram for **ONE** of the products. Remember to briefly explain all answers.

Hour per unit	USA	China
hats	50	45
vests	10	15

Mexico

Desks

England

Desks
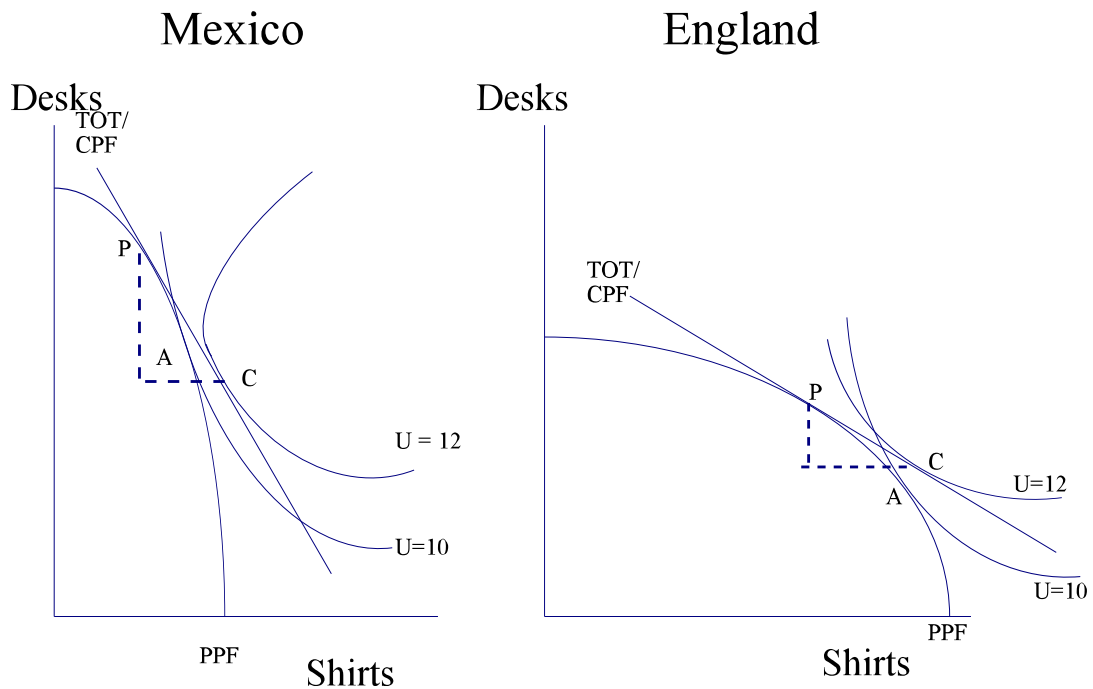
A = autarky P = production w/trade C = consumption w/trade