

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 can give extra time but not much.

1) (12 points) Answer EITHER Part A OR Part B.

A) According to the Heckscher-Ohlin Model (H-O), what group of people in the United States would oppose free trade? Explain your logic.

B) According to the Specific Factors Model, what group of people in the United States would oppose free trade? Explain your logic.

2) (12 points) Answer EITHER Part A OR Part B.

A) According to the US Energy Information Administration, in 2018, the USA imported about 10 million barrels of oil a day and exported about 8 million barrels of oil a day. (Both numbers rounded off to the nearest million.) Calculate the intra-industry trade, T . Show all work.

<https://www.eia.gov/tools/faqs/faq.php?id=727&t=6>

B) How does increasing returns to scale explain intra-industry trade? Explain your logic.

3) (12 points) Answer EITHER Part A OR Part B OR Part C.

A) What is the variable which equals the absolute value of the slope of the indifference curve? Briefly explain how you know your answer is correct.

B) On the PPF diagram, the indifference curve get flatter as they get farther to the right. Explain why that occurs.

C) On the offer curve diagram, the country which imports the labor intensive goods, which way does their indifference curves bend? Do they get flatter as they move farther out from the origin or do they get steeper? Explain your logic.

4) (14 points) Answer EITHER Part A OR Part B.

A) In Chapter 3, we discussed two different ways which countries can gain from trade, i.e., why autarky prices may be different in the two countries. The Heckscher-Ohlin Model (H-O) in Chapter 5 assumes away one of the two possible reasons why the autarky prices may be different in the two countries. Which one did the model assume away? Explain that way of gaining from trade.

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B) We said the $MRS_{XY} = P_X/P_Y$. Use logic from economics to explain why that makes sense.

5) (20 points) Answer EITHER Part A OR Part B.

A) What is the Leontief Paradox? Which explanation do you feel is best? Explain how that can cause the paradox.

B) In the Heckscher-Ohlin Model (H-O), we drew a graph for the Factor-Price Equalization Theorem. Draw that graph and explain both why it takes that shape and how it results in factor-price equalization.

6) (38 points) Answer EITHER Part A OR Part B.

A) Draw a PPF/CPF/indifference curve diagram for a country exporting paintings. Have the other good be cars. Assume there is free trade. Use your diagram to get one point on that country's offer curve. Draw the offer curve through that point. Also draw the TOT line and indifference curve through that point. Briefly explain how you determined where the point was, and the curvature of both the indifference curve and the offer curve.

B) Draw a PPF/CPF/indifference curve diagram for a country importing paintings. Have the other good be cars. Assume there is free trade. Use your diagram to get one point on that country's offer curve. Draw the offer curve through that point. Also draw the TOT line and indifference curve through that point. Briefly explain how you determined where the point was, and the curvature of both the indifference curve and the offer curve.

7) (42 points) Use the table to the right to answer these questions. **Show all work and briefly explain all of your answers.** Assume both countries have 300 hours of labor. Which country has an absolute advantage in hats? Which country has an absolute advantage in vests? Which country has a comparative advantage in hats? Which country has a comparative advantage in vests? Draw the EITHER the PPF for the USA OR the PPF for China. What price could they trade with? Draw the CPF curve on the PPF graph. Draw EITHER the S/D diagram for hats OR the S/D diagram for vests.

hours/Q	USA	China
hats	20	30
vests	5	15