

Economics 342
Heckscher-Ohlin

Mr. Easton

All of these questions pertain *only* to the Heckscher-Ohlin model¹. In all your answers be careful to explain what you are holding constant.

1. Explain why constant factor prices imply constant factor proportions.
2. Explain why constant commodity prices imply constant factor prices.
3. In the Heckscher-Ohlin model, explain why, with relative commodity prices constant, an increase in the stock of labour will increase output more than proportionately in the labour intensive industry.
4. In the Heckscher-Ohlin model, when the stock of labour is increased by 10%, discuss the effect on factor rewards. Explain.
5. Explain the HO theorem.
6. What is the importance of the factor price equalization theorem?

¹ Of course this does not prevent you from *thinking* about how your answer to these questions would differ in a different model.....