Practice Final Exam
Economics 342

Mr. Easton

I.. Define **4** of the following terms (5 points each): the Stolper-Samuelson Theorem, gains from trade, a secondary benefit from a transfer, the Heckscher-Ohlin Theorem, the Leontief Paradox [20]

II. Answer **5** of the following questions True, False, or Uncertain and briefly explain your answers. Each question is worth 10 points. [50]

1. According to the Ricardian model, only comparative advantage matters.
2. According to the specific factor model, an increase in the quantity of a specific factor lowers the reurn to that factor and raises the real wage and the real return to the other specific factor.
3. According to the Heckscher-Ohlin model, an increase in the amount of capital raises the return to labour and drives down the return to capital.
4. When capital moves abroad there is a net increase in world income.
5. Transfers benefit both parties.
6. Since someone will always be hurt when international prices change, we should not trade internationally.

II. Answer the following questions. Each question is worth 20 points.

1. State the Rybczynski theorem. Why is it surprising?

2. If the pattern of unit labour costs are:

	Home	Foreign
Good 1:	12	5
Good 2:	4	20

   i) Which country has a comparative advantage in producing good 1?
   ii) What are the autarky price ratios in each country?
   iii) If both goods are produced in free trade, what are the range of prices that are possible?
   iv) Suppose that the world price is unity. What is the relative wage between the two countries?
   v) If the price of good one rises by 10%, which country gains and by how much?

3. Canada has just "won a victory"in the NAFTA. Canadian tariffs on selected agricultural goods (milk, butter, eggs chickens among others) will remain at 273% instead of being forced to zero for trade with the US and Mexico. Who wins and who loses from such a decision?

III. Answer the following questions. Each question is worth 30 points.

1. Compare the Ricardian and Heckscher-Ohlin approaches to international trade.

2. Should Canada encourage immigration? If so, how much?