

Practice Mid-term Examination

Economics 342
International Trade

I. Answer the following questions *True, False or Uncertain* and briefly explain your answer. Each question is worth 10 points. (which corresponds roughly to the time I expect you to spend on each question.)

- 1. When a very rich, large country opens free trade with a very poor, small country, the small, poor country will lose.**
- 2. According to Ricardo, the country with the higher marginal products in both goods will export both goods.**
- 3. According to the specific factors model an increase in the price of shoes will raise the real wage and the real return to the factor specific to the shoe industry.**
- 4. For small country, the optimal tariff is always higher than for a large country.**
- 5. According to the Heckscher-Ohlin model, an increase in the labour force will increase output and lower wages in both industries.**
- 6. According to the Heckscher-Ohlin framework, an increase in the price of the shoes will raise the wage and lower the return to capital.**
- 8. The Rybczynski line tells us that increases in labour raises output in both industries.**

II. Answer the following for 20 points:

- 1. Why should we care about comparative advantage? Should we also care about absolute advantage?**
- 2. Discuss the effects on domestic prices and economic welfare within the home country when it imposes a tariff.**