

ECON 475
International Trade
Final Examination
Version B

Part I: Multiple-Choice Questions**(40 marks total)**

Read each question carefully and decide which of the choices best answers the question or completes the statement. Locate the question number on the answer sheet and fill in the circle that corresponds to your choice. If you wish to change an answer, be sure to erase your first choice completely. **(2 marks each)**

1. The Ricardian model exhibits gains from trade
 - a. only if countries specialize completely.
 - b. only if each country has an absolute advantage in one of the industries.
 - c. only for one of the trading countries.
 - d. for both trading countries.
2. Country A and country B produce computers and Web sites. The unit labour requirements are given in the table below:

	Computers	Web sites
Country A	50	1
Country B	100	1

At which of the following relative prices (computers in terms of Web sites) will country B produce both goods under free trade?

- a. 50
 - b. 25
 - c. 100
 - d. impossible to tell without the information on labour endowments in each country
3. Which of the following **cannot** contribute to trade in differentiated products?
 - a. perfect factor mobility
 - b. technology dissemination
 - c. imperfect competition
 - d. transportation costs

4. If country A has a comparative advantage over country B in producing shoes, it means that
- a. country A produces shoes relatively more efficiently than country B.
 - b. country A is better endowed in the factors used in the production of shoes.
 - c. country B will never produce shoes if free trade is allowed.
 - d. labour productivity in the shoe industry in country A is higher than in country B.
5. If a country is relatively labour abundant, then it will primarily
- a. export capital-intensive goods.
 - b. import labour-intensive goods.
 - c. export labour-intensive goods.
 - d. none of the above
6. A concave (bowed out) production possibility curve means that the opportunity cost of producing one more unit of a given good _____.
- a. increases
 - b. decreases
 - c. remains constant
 - d. is equal to zero
7. In an offer curve graph with country A's exports on the horizontal axis and country B's exports on the vertical axis, which one of the following events will pivot country A's offer curve to the right?
- a. the imposition of a tariff by country B
 - b. a decrease in demand by A for B's products
 - c. a tariff reduction by A on B's products
 - d. an increase in demand by B for A's products
8. Which one of the following is an example of a nontariff barrier?
- a. an *ad valorem* tariff
 - b. a specific tariff
 - c. an effective tariff
 - d. a voluntary export restraint

9. The factor price equalization theorem suggests that when a country is opened to international trade, the relative price of the country's abundant factor of production will _____ and the relative price of the country's scarce factor of production will _____.
 a. rise; also rise
 b. rise; fall
 c. fall; rise
 d. fall; also fall
10. The Stolper-Samuelson theorem suggests that when a country is opened to international trade, the relative price of the country's abundant factor of production will _____, and the relative price of the country's scarce factor of production will _____.
 a. rise; also rise
 b. fall; rise
 c. rise; fall
 d. fall; also fall
11. Assume a 2x2x2 Heckscher-Ohlin framework where the two countries are A and B, the two goods are X and Y, and the two factors are capital and labour. Country A is relatively labour abundant and good X is the relatively labour-intensive good. If trade begins between these two countries and they trade according to the Heckscher-Ohlin theorem, then the ratio of capital to labour used in the X industry in country A will _____, and the ratio of capital to labour used in the Y industry in country A will _____.
 a. fall; also fall
 b. fall; rise
 c. rise; fall
 d. rise; also rise
12. The Leontief paradox states that
 a. prices of factors of production are not equalized across countries.
 b. U.S. exports are less capital intensive than U.S. imports.
 c. owners of an abundant factor do not gain from trade.
 d. countries export goods that use available technology inefficiently.
13. If skilled labour is physically more abundant relative to unskilled labour in country I than in country II, but skilled labour is relatively higher priced in comparison to unskilled labour in country I than in country II, this phenomenon could be accounted for by
 a. factor-intensity reversal.
 b. the specific-factors model.
 c. demand reversal.
 d. factor price equalization between the two countries.

14. If a commodity is classified as labour intensive at one set of relative factor prices but capital intensive at another set of relative factor prices, this situation is known as
 - a. demand reversal.
 - b. factor-intensity reversal.
 - c. balance-of-payments reversal.
 - d. factor price reversal.
15. If the labour required per unit of output increases (such as specified in the Krugman model), this can be thought of as a situation
 - a. of constant returns to scale.
 - b. of decreasing returns to scale.
 - c. of increasing returns to scale.
 - d. that is exactly the same situation as was the case in Ricardo's analysis.
16. In the imitation lag hypothesis, the length of time that elapses between when a new product is introduced by innovation firms in country I and when consumers in country II decide that the new product is a good substitute for products in their current consumption bundle is known as the _____.
 - a. imitation lag
 - b. demand lag
 - c. net lag
 - d. product cycle lag
17. Other things equal, which one of the following will cause an increase in the effective rate of protection (ERP) in the automobile industry?
 - a. a decrease in the nominal tariff rate on automobiles
 - b. an increase in the nominal tariff rates on imported inputs used in making automobiles
 - c. an increase in the world price of imported inputs used in making automobiles
 - d. a decrease in the normal tariff rates on imported inputs used in making automobiles
18. An import tariff of \$10 per unit of imported good imposed by a small country
 - a. increases the price of this good in the importing country by less than \$10 and lowers export prices.
 - b. is an *ad valorem* tariff.
 - c. is a specific tariff.
 - d. increases the price of this good in the importing country by \$10 and leaves export prices unaffected.

19. An import quota
- is always more costly to a country than an import tariff.
 - is always less costly to a country than an import tariff.
 - has the same effects on welfare as an import tariff.
 - generates rents that might go to foreigners.
20. With respect to the product cycle theory,
- factors of production are assumed immobile between countries.
 - a country that successfully introduces a new product into world markets will remain a permanent net exporter of that product.
 - factor prices play no role in trade patterns, since the theory is offered as an alternative to the factor endowments approach.
 - evidence exists that developing countries may be exporting older products, and such evidence is consistent with the theory.

Part II: Written-Response Questions**(60 marks total)**

Provide answers for any 3 of the following 5 questions in the space provided at the end of this examination. **Be sure to write your responses within the margins and on the lined side of the pages only.** Please write legibly and label your responses clearly. If you answer more than 3 questions, only the first 3 will be marked. **(20 marks each)**

21. Define and note the significance of each of the following:
- absolute advantage
 - factor-intensity reversal
 - specific tariffs
 - overlapping demand
22. Using the neoclassical production possibilities frontier/community indifference curves diagram, illustrate and explain how the opening of a country to international trade will alter the country's production and consumption, and will enhance the country's welfare.
23. In the light of the Ricardian model, how might you evaluate the claim by developing countries that they are at a disadvantage in trade with powerful industrialized nations?
24. Explain the role of the most-favoured nation clause in helping to eliminate discriminatory treatment in international trade.
25. Discuss the Heckscher-Ohlin theory. Include in your answer a brief description of its main assumptions.