EE451 Sample questions for self study

25 September 2020

1. You are given of the following Classical-type table showing the number of days of labour input required to obtain 1 unit of output of each of the five commodities in each of the two countries:

	Bread	VCRs	Lamps	Rugs	Books
UK	2	8	4	3	2
US	2	6	2	2	3

1.1 Assume that the wage rate in the UK is £8 per day, the wage rate in the US is $20 per day, and the exchange rate is $2/£1. with this information, determine the goods that will be UK exports and the goods that will be US exports.

1.2 Keeping wage rate in the US at $20 per day, and keeping the exchange rate unchanged, calculate the upper and lower limits (in pounds per day) to the UK wage rate that are consistent with two-way trade between the countries.

2. Explain the difference between the ‘gains from exchange’ and the ‘gains from specialisation’. Also show the distinction graphically.
3. Suppose that country I increases its willingness to trade at the same time that trading partner country II decreases its willingness to trade. What can be said about the resulting impact on the terms of trade and on the volume of trade.
4. “If countries are behaving rationally, they should always be willing to export more at a higher export price. Thus, one would not expect to be see backward-bending offer curves.” Do you agree? Discuss.
5. Consider a country which produces the homogeneous products clothing and food, and which is already engaged in international trade. Explain in words and with a drawing how substitution effects in production and consumption and the income effect together determine a country's new welfare level after its terms of trade have improved.
6. Explain and illustrate how countries gain from trade in the context of Ricardian framework, and the H-O theorem.
7. Using the specific-factors model, explain why you might expect to see certain capital owners and labour groups arguing against expanding trade in a capital abundant country.
8. “With the H-O framework, complete factor price equalization cannot be achieved in the presence of transportation costs”. Do you agree? Explain.
9. Can the factor-intensity reversal occur if the two industry isoquants do not cross each other but are tangent to one another? Explain and demonstrate graphically.
10. How does the existence of demand reversal complicate the predictions of H-O? Explain.