

**Quiz 1**July 2<sup>nd</sup>, 2013

Begin your answer with the quick assertion “true”, “false”, or “uncertain” and justify your answer with a few sentences. Do not spend too much time answering any of these questions: 1-2 sentences at most will suffice. (2 points each)

1. Countries that are very productive in many sectors run trade surpluses because they export more than they import.
2. In the Ricardian model of trade with two countries, if one country exhibits productivity growth (but not the other country), then the terms of trade will move against the growing country.
3. Specific factors are more likely to favor trade protection than mobile factors.
4. In the Specific factors model the effect of price changes on labor is ambiguous and depends in part on labor's relative consumption of both goods.

5. Consider a Ricardian model of trade with 2 countries, United States and Canada, and two goods, clothing and food. Suppose that in the United States 3 man-hours are required to produce each unit of clothing and 4 man-hours are required to produce each unit of food. In Canada, 6 man-hours are required for each unit of clothing and 5 man-hours are required for a unit of food. (Be careful, the number I gave you are not MPL!)
- a) Which country has an absolute advantage in each good? Which country has a comparative advantage in each good? (4 points)
- b) Assuming that each country has 60 man-hours of labor available for production, draw the production possibilities frontiers for each country. (Put food on the vertical axis.) What do the slopes of these frontiers represent? (4 points)
- c) What is the range of world relative prices of cloth  $P_C/P_F$  that would support a fully specialized equilibrium? Briefly explain your answer. (4 points)