

Quiz_3_Answers

1. Assume that only two countries, A and B, exist.

Factor Endowments	Countries	
	A	B
Labor Force	45	20
Capital Stock	15	10

Refer to the table above. If good S is capital intensive, then following the Heckscher-Ohlin Theory,

- A) country A will export good S.
 - B) country B will export good S.
 - C) both countries will export good S.
 - D) trade will not occur between these two countries.
 - E) Insufficient information is given.
- 2) In international-trade equilibrium in the Heckscher-Ohlin model,
- A) the workers in the capital rich country will earn less than those in the poor country.
 - B) the capital rich country will charge more for the capital intensive good than the price paid by the capital poor country for the capital-intensive good.
 - C) the workers in the capital rich country will earn more than those in the poor country.
 - D) the capital rich country will charge the same price for the capital intensive good as that paid for it by the capital poor country.
 - E) the capital rich country will charge less for the capital intensive good than the price paid by the capital poor country for the capital-intensive good.

3) If Australia has relatively more land per worker, and Belgium has relatively more capital per worker, then if trade were to open up between these two countries,

A) the world price of the land intensive product would be higher than it had been in Australia.

B) the world price of the land-intensive product would be higher than it had been in Belgium.

C) the relative price of the capital-intensive product would rise in Australia.

D) the relative price of the land intensive product would rise in Belgium.

E) None of the above.

4) The reason trade clearly benefits a country is that 4) _____

A) it increases society's consumption choices.

B) it raises the real income of the more productive elements in society.

C) it lowers the real income of the less productive elements in society.

D) it increases the levels of consumption of everyone.

E) None of the above.

1) B

2) D

3) A