Office Hours

**Pramod Singh Khadka** Monday, October 17, 8 until 10 pm, ICC 205A: the first hour of Pramod’s office hours will be dedicated to going over relevant questions from last year’s mid-term exam.

**Jen Hardy** Tuesday, October 18, 7 until 9 pm, ICC 207B

**Prof Rogers** ICC 577 Monday, October 17, 2–6 pm. Look for an email to see if I will be in for office hours on Tuesday, Oct. 18, 10 am–noon.

I will also answer emails that I receive before 5 pm on Tuesday.

Exam Rules

1. Please bring a calculator with you to the exam.
2. Use pen only, except for graphs, where pencil is ok. Think about your answer before you write it down.
3. All answers must appear in the spaces provided. Answers written outside of the spaces will not be read or graded, except in one circumstance: if you cross out your original answer and don’t have any space to write your new answer, then you may write your answer on the back of the page. In this event, the entire answer must be on the back of the page. This is another good reason for you to think about your answer before you write it down.
4. Please make every effort to write legibly. If I can’t make out what you wrote, you won’t get credit for it (not even if you stop by and decipher it for me later on).
5. When a follow-up question is given after a multiple choice question, you must answer the follow-up correctly to get any credit for answering the question.
6. When a space is provided that indicates that a calculation is required, you must show the correct calculation in the space in order to get any credit for answering the question.
7. Students who finish during the final 10 minutes of the exam period should remain seated until the end of the exam period, so as not to disturb those who are still finishing up.

Exam Coverage/Format

Expect the format to be similar to quiz format (but approximately five times as long). There will be some requests for short answers and some requests for you to show calculations.
All syllabus readings are fair game for the exam. I design my lectures around the topics I think are the most important. Naturally, I design my exams around these topics as well. Since time is limited, you should focus first on your lecture notes and on quizzes. After that, you can turn your attention to the textbook. Sometimes my lectures follow the textbook presentation closely, and sometimes they do not. When the textbook develops theoretical concepts that I did not mention in lecture (eg., Edgeworth boxes, offer curves) you can safely assume that these topics are not going to find their way onto the exam. Topics that got a lot of coverage in lecture will get a lot of coverage on the exam. Approximate point totals per unit are listed after unit titles in the checklist below. These point totals may change somewhat as I refine the exam.

An especially good studying strategy, in case you have not discovered this yet in your courses, is to try to invent (and answer) your own exam/quiz questions.

Checklist

It goes without saying that any questions that have appeared on quizzes (and on remedial quizzes) are fair game for the exam.

**The Ricardian Model** (24 points)

- If you know the unit labor requirements for two industries (in two countries), can you
  - Determine which country has the absolute advantage in an industry?
  - Determine which country has the comparative advantage in an industry?
  - Draw the World Relative Supply Curve? Do you know what information you need to label the three distinct segments of the RS curve? If you have that information, can you do it? Do you remember what variables are on the x-axis and on the y-axis?
  - Can you draw the countries’ PPFs and determine their slopes?
  - Can you figure out which country has the absolute or comparative advantage if you know the marginal product of labor for two industries (in two countries)?
  - Do you know what the value of the marginal product (marginal revenue product) is? Can you compute it? What information do you need in order to be able to compute the wage rate for a country?
- Can you make up your own numerical example to illustrate the Ricardian Model?
- Do you know how to explain why countries gain from trade? Do you know how to use PPFs and consumption opportunities lines to do this?
- Can you explain what is meant by the claim that large countries gain less from trade than small countries?
Can you identify (and explain) three things that affect how the gains from trade are distributed across countries?

Do you know the main labor market fallacies (misconceptions) that the Ricardian Model can be used to expose?

What predictions of the Ricardian Model, if any, are consistent with actual trade flows? What predictions, if any, are not? Do you remember G.D.A. MacDougall’s test of the Ricardian Model’s predictions?

Have you read Paul Krugman’s papers “Ricardo’s Difficult Idea” and “What Do Undergrads Need to Know About Trade?”

The Standard Trade Model, Part I (19 points)

Do you remember how to find a country’s PPF when there are two factors of production and constant unit factor requirements?

Do you know the four properties of indifference curves?

Do you know how to use graphs to show how countries gain from trade with bowed-out ppfs?

Which point on a country’s PPF is its production point, and why?

Can you identify production and consumption points, and imports and exports, graphically?

What are three differences between countries that can be a basis for trade?

Can you draw PPFs and indifference curves to illustrate any one of the three bases for trade?

The Heckscher-Ohlin Model (37 points: there was a lot of material in this unit!)

Do you know what is meant by the following:

- The Heckscher-Ohlin Theorem?
- The Stolper-Samuelson Theorem?
- The magnification effect?
- The Rybczynski Theorem?

Can you identify the winners and losers from trade, according to the Heckscher-Ohlin Model?

Do you know the definitions of factor abundance and factor intensity, and can you apply them in a numerical example?
Do you understand the numerical example I used to illustrate the *magnification effect*?

Do you understand the concept of Factor Price Equalization, and can you draw the graphs from the lecture that illustrate this concept?

Can you explain (with and without graphs) why FPE does not always occur in the real world?

Do you know how to “derive” the RS curve graphically?

Do you know how to use the RS and RD curves to show world trade equilibrium, in the Heckscher-Ohlin model?

What is the Leontief paradox?

Can you list and explain four different explanations for the Leontief paradox? Do you know which explanations are regarded as the most likely explanations?

How much of world trade appears to follow the Heckscher-Ohlin Theorem?

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**The Standard Trade Model, Part 2** (14 points)

Can you explain why economists believe trade makes a country better off, in spite of the fact that there are winners and losers?

Can you use RS and RD curves to illustrate equilibrium with trade, when countries have different tastes, factor endowments, or technology?

Can you explain (in words and with graphs) what kinds of growth will cause a country’s relative export price to rise or fall? Relative import price?

Can you explain how this relates to the controversy over NIC growth and trade with the US and the EU?

Can you list and explain Bhagwati’s three pre-conditions for immiserizing growth?

Can you explain (in words and with graphs) how taste bias could cause a donor country’s terms of trade to deteriorate?

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**Trade and American Workers** (6 points)

Why is it hard to determine whether trade costs American workers jobs?

What methodologies do economists use to figure out the jobs/wages effects of trade?

What are the limitations of the factor content approach?

What have economists found about the size of the effects of trade on the labor market?

Have you read the article “Are Your Wages Set in Beijing?”