1. (1 point: please choose the best answer) In which of the following circumstances would a labor-abundant country be the most likely to import labor-intensive goods?

A. if the country’s trade strictly followed the predictions of the Heckscher-Ohlin model.
B. if the country had a high relative demand for capital-intensive goods.
C. **if the country had a high relative demand for labor-intensive goods.**
D. in none of the above circumstances: a labor abundant country cannot, by definition, import labor-intensive goods.

2. (1 point: please choose the best answer) Labor costs in China have always been low, and this has led Chinese manufacturers of footwear to use labor-intensive methods to produce the footwear they export to the US. Labor costs in the US have always been high, leading US footwear manufacturers to use more capital-intensive production methods. Which of the following is the most reasonable conclusion to draw from these facts?

A. US-China footwear trade must be intra-industry trade, since the U.S. imports footwear and also produces it.
B. capital-labor ratios are higher in the U.S. import-competing footwear industry than they are for U.S. footwear imports.
C. the two countries use the same technology for producing footwear.
D. answers A, B, and C all fit these facts.

3. (1 point: please choose the best answer) Intra-industry trade occurs most frequently

A. among industrialized countries.
B. among developing countries.
C. in trade between industrialized countries and developing countries.
D. among the NICs.

4. (2 points) Suppose that in the motor vehicle industry, US imports equal $5 million and US exports equal $3 million. Please compute the index of intra-industry trade (IIT) for this industry:

\[ IIT = 1 - \text{absolute value} \left( \frac{3 - 5}{3 + 5} \right) = 1 - \frac{2}{8} = \frac{6}{8} = \frac{3}{4}. \]

**Calculation required, in this space:**

5. (1 point) When a firm faces a fixed cost of operation, the average cost per unit of output produced will (increase, decrease, remain the same) **decrease**, as the number of units of output produced increases.
6. (4 points) Use the axes below to show the equilibrium price per variety and the equilibrium number of varieties produced in an industry characterized by internal economies of scale and monopolistic competition.

(i) I forgot to label the axes. Please write labels in the boxes provided.
(ii) Next, draw a curve that shows how the price charged by a monopolistically competitive firm varies with the number of varieties produced. Label this curve (ii).
(iii) Next, draw a curve that shows how the average cost per variety varies with the number of varieties produced in the economy, in the presence of internal economies of scale. Label this curve (iii).
(iv) Finally, show the equilibrium price and the equilibrium number of varieties produced. Label these clearly on the graph.