I  Multiple Choice Questions

1. In the context of the “specific factor” model where labor can move between sectors but the other two factors can’t, suppose that the country moves from autarky to free trade. In this situation, a worker’s real wage will tend to ________ if that worker consumes mostly the export good and the worker’s real wage will tend to ________ if that worker consumes mostly the import good.
   a. rise; fall
   b. rise; rise
   c. fall; fall
   d. fall; rise

2. In the following Ricardian table showing the number of days of labor input needed to get one unit of output in each industry in each of the two countries:

<table>
<thead>
<tr>
<th></th>
<th>Auto</th>
<th>Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>UK</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

   a. The US has an absolute advantage in both goods and a comparative advantage in autos.
   b. The US has an absolute advantage in neither goods and a comparative advantage in autos.
   c. A post trade price ratio $P_A/P_W$ of 1.25 would give all the gains from trade to the UK.
   d. A post trade price ratio $P_W/P_A$ of 1.25 is an impossible price ratio.

3. In the trade between a very large country and a very small country:
   a. the large country is likely to receive all the gains from trade.
   b. The small country is likely to receive all the gains from trade.
   c. The gains will be shared equally.
   d. Impossible to say.

4. In a two-country, two-factor (capital and labor) model, country I is defined as “relatively capital-abundant” in relation to country II. Then the price of labor relative to capital in country I is ______ than in country II:
   a. higher  b. lower  c. same  d. can’t tell

5. In a Ricardian model, if Portugal can produce twice as much wine per day as England but only 1.5 times as much cloth per day as England, then, if Portuguese wages are 30 € per day, the upper limit to English wages per day is ________ €.
   a. 15  b. 20  c. 45  d. 60
6. Given the following Ricardian table showing the amount of labor input needed to get one unit of output in each industry in each country:

<table>
<thead>
<tr>
<th></th>
<th>Wheat</th>
<th>Chairs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>3 days</td>
<td>2 days</td>
</tr>
<tr>
<td>India</td>
<td>10 days</td>
<td>8 days</td>
</tr>
</tbody>
</table>

a. A world price \( P_w/P_c = 1.25 \) is not a feasible equilibrium price.

b. A world price \( P_w/P_c = 1.5 \) would give all the gains from trade to India.

c. Malaysia has an absolute advantage in both goods and a comparative advantage in wheat.

d. India has an absolute advantage in both goods and a comparative advantage in wheat.

7. If a good costs $10 per unit in country A and $12 per unit in country B and if transport cost between A and B for the good are $3 per unit, an economist would say that:

a. the good will be exported from A to B

b. the good will be exported from B to A

c. intra-industry trade will occur in the good

d. the good will be a “non-traded good”.

8. It is observed that in a two-country Ricardian trading world, one country is incompletely specialized and the other is not. Then the world relative price of the two goods

a. must equal the labor input ratio in the specialized country.

b. must lie between the two country’s labor input ratios.

c. must be equal to one.

d. must equal the labor input ratio in the incompletely specialized country.

9. In the Heckscher-Ohlin framework, the home country has 100 units of labor and the foreign has 200. Which of the following is necessarily true?

a. home is relatively labor-abundant.

b. foreign is relatively labor abundant

c. home is relatively capital-abundant

d. none of the above

10. The input necessary for production are fixed and it requires 2 units of labor and 1 unit of capital to make a unit of food in the home country. To make a unit of clothing, it requires 1 unit of labor and 4 units of capital in the foreign country. Which of the following is true:

a. food production is labor intensive

b. food production is capital intensive

c. clothing production is labor abundant

d. none of the above