

Quiz 1

- a) List the assumptions of the Heckscher-Ohlin model. Which one(s) is/are crucial for factor price equalization? What additional assumption is required in order to obtain FPE?
- b) Briefly discuss how FPE relates to the question of whether trade and factor mobility are complements or substitutes.
- c) Consider an integrated world economy where 400 units of labor and 120 units of capital are used in the low-tech sector and 200 units of labor and 180 units of capital in high-tech (the only two sectors). Now Samuelson's angel comes down and divides the world into North (150 units of labor, 180 units of capital) and South (450 units of labor, 120 units of capital) both disposing of the same production technology. Show whether there will be factor price equalization under free trade?