

Midterm 1

This is a 40 min exam. Please answer all three parts and write your name below.

Name:

- a) List the four results of the Heckscher-Ohlin model of trade and categorize them as local vs. global and prices vs. quantities. Now take the local result which relates to prices and derive it graphically or mathematically.
- b) Consider an integrated world economy where 480 units of labor and 160 units of capital are used in the low-tech sector and 120 units of labor and 240 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, 250 units of capital) and South (450 units of labor, 150 units of capital) both disposing of the same production technology. Show mathematically whether there will be factor price equalization under free trade when there is no factor mobility? Feel free to check your answer graphically.
- c) Describe how Glenn Rayp in his contribution to Weltwirtschaftliches Archiv tests the lens condition.