

Sample Midterm Exam

Name _____

Id # _____

Instructions: There are two parts to this midterm. Part A consists of multiple choice questions. Please mark the answers to the multiple choice questions on the exam paper. Part A has 25 questions and is worth 60%. Part B is worth 40% and consists of short answer questions.

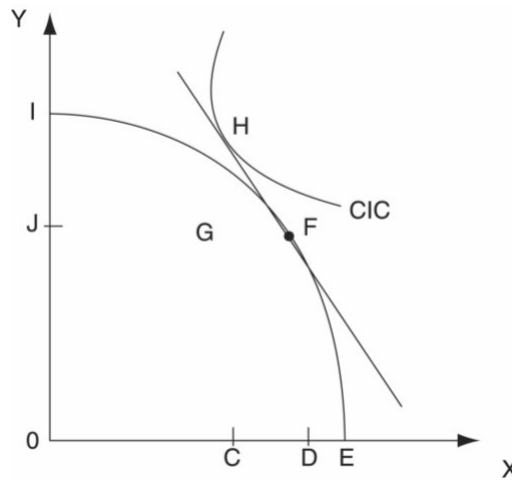
Part A: MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) If the relative price of S in terms of T is 2 and S has a nominal price of \$1, then the relative price of T is _____ 1) _____
A) \$2. B) 1/2 S.
C) 50 cents. D) Need more information to answer.
- 2) If a country has a straight (downward sloping) production possibilities frontier, then production is said to be subject to _____ 2) _____
A) first increasing and then decreasing opportunity costs.
B) constant opportunity costs.
C) increasing opportunity costs.
D) decreasing opportunity costs.
- 3) A country gains from international trade if its post-trade _____ point lies outside its production possibility frontier. 3) _____
A) autarky B) production
C) consumption D) All of the above
- 4) An indifference curve _____ 4) _____
A) is a locus of bundles of goods such that the consumer is indifferent between each of the bundles.
B) is a locus of bundles of goods such that each good in every bundle yields equal satisfaction.
C) is a locus of bundles of goods such that the consumer is indifferent between each good in every bundle.
D) All of the above.

- 9) Refer to the table above. Spain has comparative advantage in 9) _____
 A) textiles. B) grapes.
 C) both grapes and textiles. D) neither grapes nor textiles.

- 10) Absolute advantage is determined by 10) _____
 A) relative differences in labor productivity between countries.
 B) actual differences in labor productivity between countries.
 C) Both A and B.
 D) Neither A nor B.

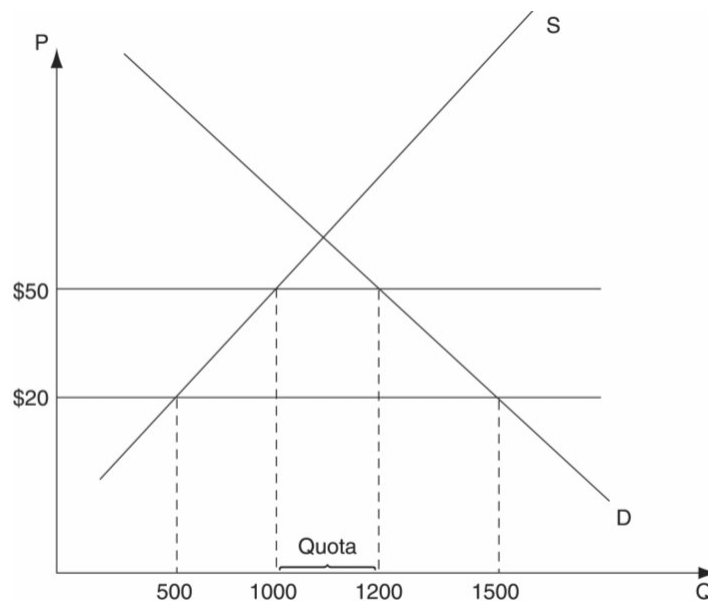
Answer the question(s) below based on the following diagram of a country that is in international trade equilibrium.



- 11) Refer to the figure above. This country's imports equal 11) _____
 A) GH units of Y. B) CD units of X. C) DE units of Y. D) CE units of X.
- 12) The HO model assumes that _____ are identical between countries. 12) _____
 A) tastes B) factor endowments
 C) technology sets D) Both A and B
- 13) Let K_j and L_j denote the capital and labor stocks of country j ($j=A,B$), then A is said to be capital abundant relative to B if 13) _____
 A) $L_A < L_B$. B) $K_A > K_B$.
 C) $K_A/L_A > K_B/L_B$. D) All of the above.

- 18) Refer to the figure above. With free trade, the total value of imports would equal 18) _____
 A) \$100,000. B) \$300,000. C) \$500,000 D) \$10.
- 19) A tariff can _____ raise a country's welfare. 19) _____
 A) always B) sometimes C) never
- 20) Most tariffs have 20) _____
 A) only revenue effects. B) only protective effects.
 C) both protective and revenue effects. D) neither protective nor revenue effects.
- 21) Which of the following are used as nontariff barriers? 21) _____
 A) government procurement policies B) health and safety standards
 C) domestic content laws D) All of the above

Answer the question(s) below based on the following diagram.



- 22) Refer to the figure above. Quota rents equal 22) _____
 A) \$10000. B) \$2000. C) \$5000. D) \$6000.
- 23) Like tariffs, quotas tend to lead to 23) _____
 A) higher prices and reduced imports. B) increased consumer surplus.
 C) increased government revenue. D) All of the above.
- 24) Which of the following is an invalid argument for protection? 24) _____
 A) redistribution of income B) preservation of the home market
 C) infant industry protection D) All of the above

25) Quotas are government imposed limits on the _____ of goods traded between countries. 25) _____
A) prices B) quantity C) value D) Either B or C

Part B: SHORT ANSWER QUESTIONS (40%)

Please answer the following short answer questions. **For essay type questions, please keep your answers for each question to a length of one page.** Points are awarded for the succinctness, consistency and clarity of your answer. **You will not get points for verbosity.** Feel free to use graphs (as they apply) to help elucidate your answer. Show any calculations as necessary in answering the questions.

26. (10%) Suppose that the world consists of two countries only. Use General Equilibrium diagrams for both countries to show that they gain from trade. Briefly explain why trade benefits residents of both countries.

27. (10%) Within the Heckscher-Ohlin framework, assume that good X is capital intensive and good Y labor intensive. Consider the capital abundant country.

(i) [4 pts] Using the diagram below, draw a representative PPF for this country. Mark a candidate production point and label it E_0 .



(ii) [6 pts] In the diagram above, now show what happens if the capital stock in the country rises. Mark another candidate production point that reflects the change that occurred (in terms of a higher capital stock) and label this point E_1 . What happens to the PPF, the production point E_0 and production of goods X and Y as a result of the increase in capital stock?

28. (20%) Use your knowledge about trade policy to evaluate the following statement: "Tariffs had a more negative effect on welfare in large countries than in small countries."