

Neoclassical and Heckscher-Ohlin Model: Practice Problems Key
International Trade
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Question 1

a) $\frac{MC_W}{MC_T} = \frac{MU_W}{MU_T} = \frac{P_W^A}{P_T^A}$

b) $\frac{MC_W}{MC_T} = \frac{P_W^{TOT}}{P_T^{TOT}} < \frac{MU_W}{MU_T}$

c) Australia

d) $P - O$

Question 2

a) Country B is relatively more capital abundant, because $\left(\frac{K}{L}\right)^B = \frac{1}{2} > \frac{1}{3} = \left(\frac{K}{L}\right)^A$.

b) Country A

c) Heckscher-Ohlin Theorem \Rightarrow Country B has a comparative advantage in steel

d) Capital benefits the most in Country B, as implied by the Stolper-Samuelson Theorem.

e) Transportation costs and other frictions

Question 3

a) c

b) d

c) b

Question 4 c

Question 5 c

Question 6 d