International trade: problem set 5

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Consider the country of Nambutu which recently lifted trade barriers and now imports cars, a capital intensive good.

1. According to the Hecksher-Ohlin model, is Nambutu capital or labour abundant?
2. What will be the impact of trade on the real wage in Nambutu?
3. What will be the impact of trade on the real rental rate on capital in Nambutu?
4. Which group in Nambutu - workers or capital owners - are more likely to support policies that limit free trade?

Consider a diversified small open economy which produced labour-intensive food and capital-intensive cloth.[1]

5. Due to immigration there is an increase in the size of the labour force. How will this affect wage and the labour's share of the national income?
6. The country's research and development sector had a break through and improved the production technology for cloth; they can now produce more cloth with the same amount of production factors. How does this change the output of cloth and the real wage of labour?
7. Due to a reduction in the demand for textiles and the price of cloth decreases. What happens to the real rental on capital and how does food production change?
8. For the martini example from the lecture (slide 11-14), draw the production possibilities frontier.[2]

[1] For this set of questions (5-7) you could/should use a Lerner diagram.

[2] You can assume that there is no factor substitution.