

Multiple Choice

Instructions: Read the following questions carefully and choose the answer that best describes. There are 40 questions in total and each question has 2.5 points (100 points in total). This is an open-book test. The given time for this quiz is 60 minutes.

Question 1 Multiple Choice

Which statement is true?

Answer

- a.** The Heckscher-Ohlin model offers a good explanation of the pattern of trade and the gains from trade.
- b. The Heckscher-Ohlin trade model does not offer an explanation of the pattern of trade.
- c. The Heckscher-Ohlin trade model does not offer an explanation of the gains from trade.
- d. The Ricardian trade model (with labor as the only input) offers a good explanation of the pattern of trade and the gains from trade.

Question 2 Multiple Choice

A long-run model of trade basic to the determination of how mobile factors of production affect national welfare and the returns to the factors is known as:

Answer

- a. the specific-factors model.
- b. the Ricardian model.
- c. the Chicago model of trade.
- d.** the Heckscher-Ohlin model.

Question 3 Multiple Choice

The Heckscher-Ohlin model of international trade uses _____ and _____ to explain trade patterns.

Answer

- a. comparative; absolute advantage
- b.** factor abundance; factor intensity
- c. factor availability; factor usability
- d. tariffs; quotas

Question 4 Multiple Choice

The Heckscher-Ohlin (HO) theorem explains patterns of trade between countries using:

Answer

- a. economies of scale.
- b. monopoly power in the industry.
- c.** abundance or scarcity of resources.

Chapter 4: Trade and Resources: The Heckscher-Ohlin Model

d. tariffs and quota.

Question 5 Multiple Choice

The Heckscher-Ohlin model simplifies the analysis by assuming:

Answer

- a. there is unemployment of workers in the home country.
- b. there are a variety of levels of workers and types of capital.
- c. land is an important factor of production.
- d. there are only two nations, with two possible goods and two factors of production.**

Question 6 Multiple Choice

Which statement below is correct?

Answer

- a. The HO model assumes that all resources can freely move between industries.**
- b. The specific-factors model assumes that all resources can freely move between industries.
- c. Both the HO and the specific-factor models assume that all resources can freely move between industries.
- d. Neither the HO nor the specific-factor model assumes that all resources can freely move between industries.

Question 7 Multiple Choice

The Heckscher-Ohlin model assumes that factors of production can move freely _____ , but cannot move _____.

Answer

- a. domestically; internationally**
- b. after they are fully trained; before the training period is over
- c. internationally; domestically
- d. within unskilled occupations; into high-skill jobs

Question 8 Multiple Choice

In a capital-intensive industry, the capital/labor ratio will:

Answer

- a. rise as the wage/rental ratio falls.
- b. fall as the wage/rental ratio falls.**
- c. rise as the country's capital stock rises.
- d. fall as the country's capital stock falls.

Question 9 Multiple Choice

Chapter 4: Trade and Resources: The Heckscher-Ohlin Model

The Heckscher-Ohlin model assumes that production techniques within a nation use the factors of production:

Answer

- a. at different intensities depending on changing technology and which nation you are discussing.
- b. at** different intensities for each industry, so that one is more or less intensive in that factor than the other.
- c. at the same intensity for each industry—for example, the ratio of capital to labor is the same for every industry in the nation.
- d. in no definite pattern.

Question 10 Multiple Choice

Suppose that there are two countries, Home and Foreign, each of which produces two goods, computers and shoes, using two factors of production, labor and capital. Which of the following is not an assumption of the HO model for this situation?

Answer

- a. Both factors can move freely between sectors.
- b. Foreign** is capital abundant and Home is labor abundant.
- c. There is free trade between the countries.
- d. Shoe production is labor intensive.

Question 11 Multiple Choice

Which of the following is not an assumption that the Heckscher-Ohlin model makes?

Answer

- a. The quantity of capital and labor in two nations is different for each nation—so we have different “endowments” of capital and labor.
- b. The quantity of capital and labor in two nations is relatively abundant in one nation and relatively scarce in the other.
- c. The quantity of capital and labor in two nations is fixed in the short run.
- d. Labor** and capital move between countries.

Question 12 Multiple Choice

The Heckscher-Ohlin model assumes that technology in each industry:

Answer

- a. is** the same for each nation—each firm has access to the most profitable technology.
- b. has increasing returns so that one nation will be able to gain a comparative advantage by developing new technology.
- c. is very different across the world—some nations have access to technology, whereas others do not.
- d. is hard to access because R&D is very expensive especially for low-income nations.

Question 13 Multiple Choice

Chapter 4: Trade and Resources: The Heckscher-Ohlin Model

The Heckscher-Ohlin Model assumes that:

Answer

- a. factor endowments are the same.
- b. consumer tastes are the same across countries.
- c. the technologies used to produce the two goods are identical across the countries.
- d. consumer tastes and technologies are the same across countries.**

Question 14 Multiple Choice

In the United States, agriculture is considered to be _____, in comparison to agriculture in China.

Answer

- a. capital intensive**
- b. labor intensive
- c. less subsidized
- d. more restrictive

Question 15 Multiple Choice

The PPF is bowed out in the Heckscher-Ohlin model because:

Answer

- a. capital is specific to computer production.
- b. labor is specific to shoe production.
- c. capital is better suited to computer production than shoe production.**
- d. labor is specific to shoe production, capital is specific to computer production, and capital is better suited to computer production than shoe production.

Question 16 Multiple Choice

Identical technologies are a more reasonable assumption for:

Answer

- a. the shoe industry.
- b. the call center industry.**
- c. both the shoe and call center industries.
- d. neither the shoe nor call center industries.

Question 17 Multiple Choice

Suppose that country 1 is capital abundant relative to country 2. Both produce two goods (X and Y). Factor-intensity reversal occurs whenever:

Answer

- a. X is capital intensive in country 1 and labor intensive in country 2.**
- b. X is capital intensive in both countries.

Chapter 4: Trade and Resources: The Heckscher-Ohlin Model

- c. Y is capital intensive in both countries.
- d. X is capital intensive in country 1, and Y is labor intensive in country 2.

Question 18 Multiple Choice

If agriculture is a capital-intensive industry in the United States and a labor-intensive industry in India, then:

Answer

- a. India should export agricultural goods to the United States.
- b. neither country will have an advantage in agricultural production.
- c. there is factor-intensity reversal in agricultural production between the two countries.
- d. it is difficult to determine which country is labor abundant.

Question 19 Multiple Choice

Consider two products, automobiles and shoes. If shoes are labor intensive and automobiles are capital intensive, what can we expect in free-trade conditions?

Answer

- a. The relative price of automobiles in the auto-exporting country will decrease.
- b. The relative price of shoes in the shoe-exporting country will increase.
- c. More shoes will be produced by the capital-abundant country.
- d. More automobiles will be produced by the labor-abundant country.

Question 20 Multiple Choice

Suppose that the United States and China each produce steel and cloth. In the Heckscher-Ohlin model, if the United States enjoys a comparative advantage in steel production, then:

Answer

- a. China must have an absolute advantage in cloth production.
- b. the United States will also have a comparative advantage in cloth production.
- c. China must have a comparative advantage in cloth production.
- d. the United States must have an absolute advantage in steel production.

Question 21 Multiple Choice

LCD TVs are capital intensive, and tennis rackets are labor intensive. Suppose Canada has \$100 billion of capital and 2 million workers and Mexico has \$10 billion of capital and 20 million workers. According to the HO model:

Answer

- a. Canada will specialize in and export LCD TVs.
- b. Mexico will specialize in and export LCD TVs.
- c. Canada will specialize in and export tennis rackets.
- d. Mexico will import tennis rackets.

Question 22 Multiple Choice

Hong Kong is relatively abundant in labor, whereas Canada is relatively abundant in capital. In both countries, shirt production is relatively more labor intensive than computer production. According to the Heckscher-Ohlin model, Hong Kong will have a(n) _____ advantage in the production of _____ .

Answer

- a. absolute; shirts and computers
- b. absolute; computers
- c. comparative; shirts**
- d. comparative; computers

Question 23 Multiple Choice

If there are only two nations, one nation's exports are the other's imports; which of the following is identical for both nations?

Answer

- a. equilibrium relative price
- b. trade triangle
- c. opportunity cost
- d. equilibrium relative price, trade triangle, and opportunity cost**

Question 24 Multiple Choice

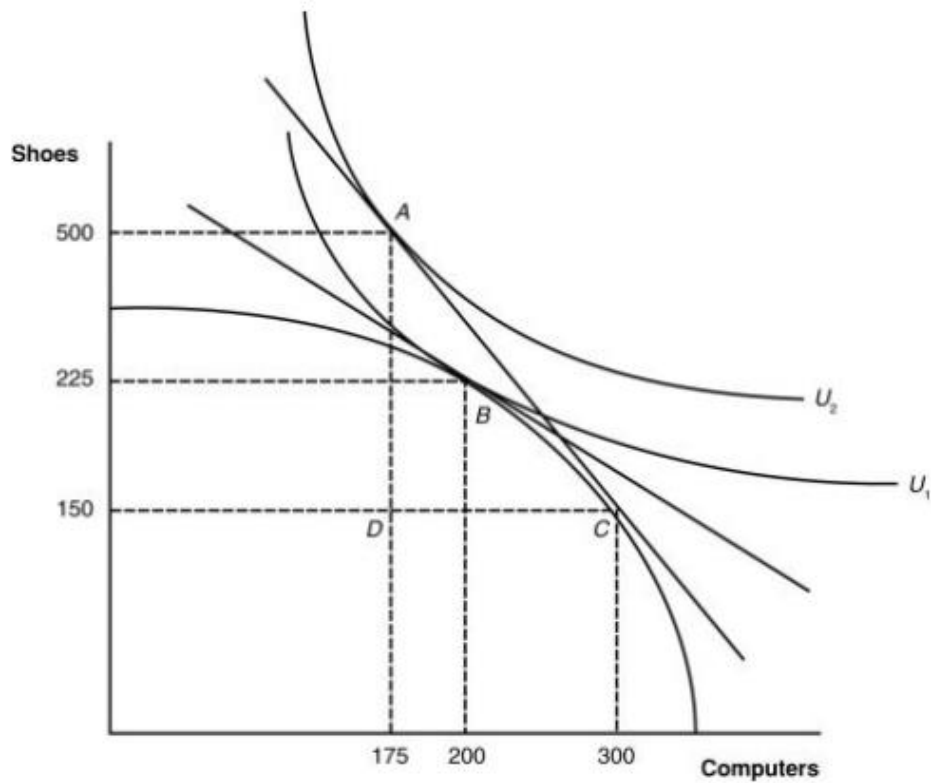
Suppose that Home is a labor-abundant country. When trade occurs with Foreign, a capital-abundant country, the HO model predicts that:

Answer

- a. the price** of the labor-intensive good will rise in Home.
- b. the price of the labor-intensive good will rise in Foreign.
- c. the price of the capital-intensive good will fall in Foreign.
- d. the price of the capital-intensive good will rise in Home.

Question 25 Multiple Choice

Figure: A Country's Before and After Trade Equilibria



Reference: Ref 4-3

(Figure: A Country's Before and After Trade Equilibria) The trade triangle shows the exports that were exchanged for imports. What are the three points of the trade triangle?

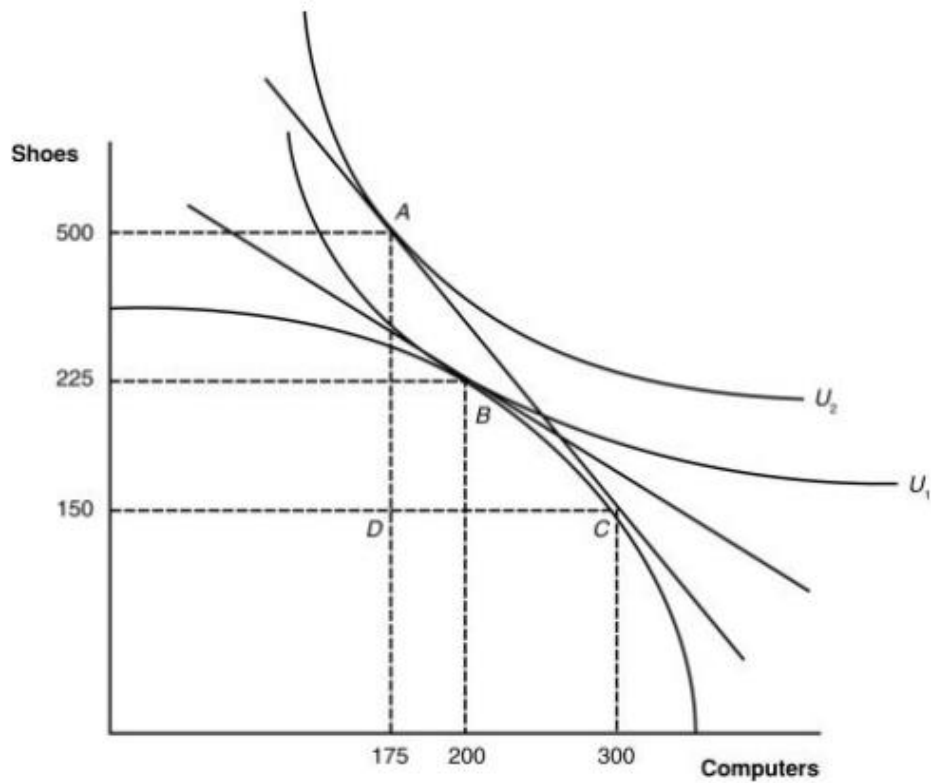
Answer

- a. A, B, C
- b. A, B, D
- c. A, D, C
- d. B, C, D

Question 26 Multiple Choice

Figure: A Country's Before and After Trade Equilibria

Chapter 4: Trade and Resources: The Heckscher-Ohlin Model



Reference: Ref 4-3

(Figure: A Country's Before and After Trade Equilibria) How many shoes will this nation export?

Answer

a. 0

b. 125

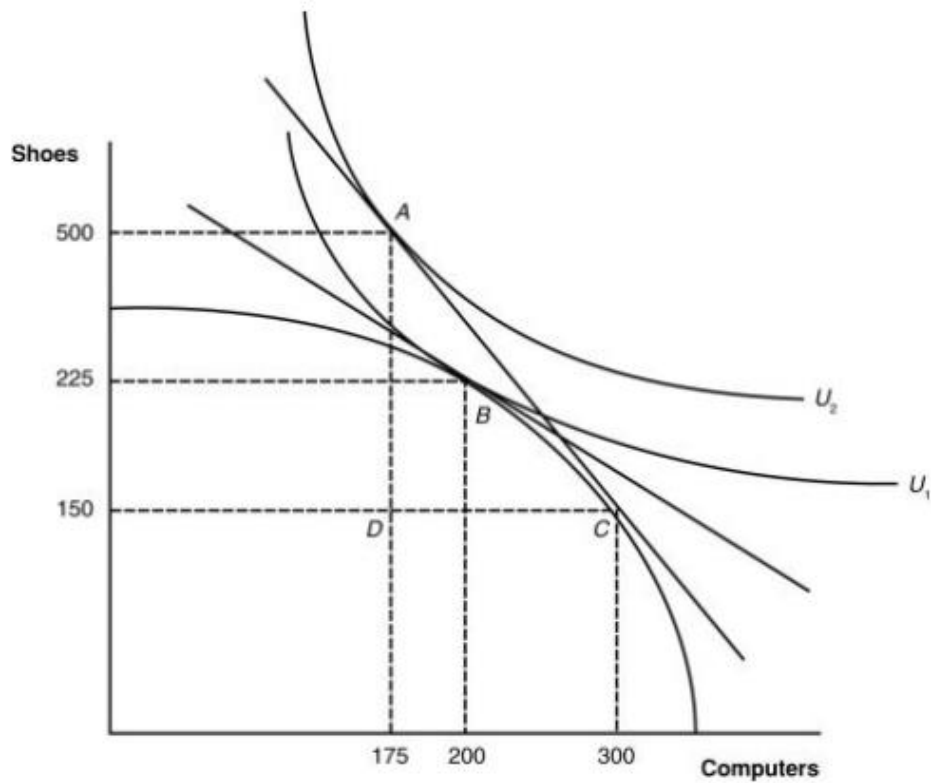
c. 350

d. 500

Question 27 Multiple Choice

Figure: A Country's Before and After Trade Equilibria

Chapter 4: Trade and Resources: The Heckscher-Ohlin Model



Reference: Ref 4-3

(Figure: A Country's Before and After Trade Equilibria) How many shoes will this nation import?

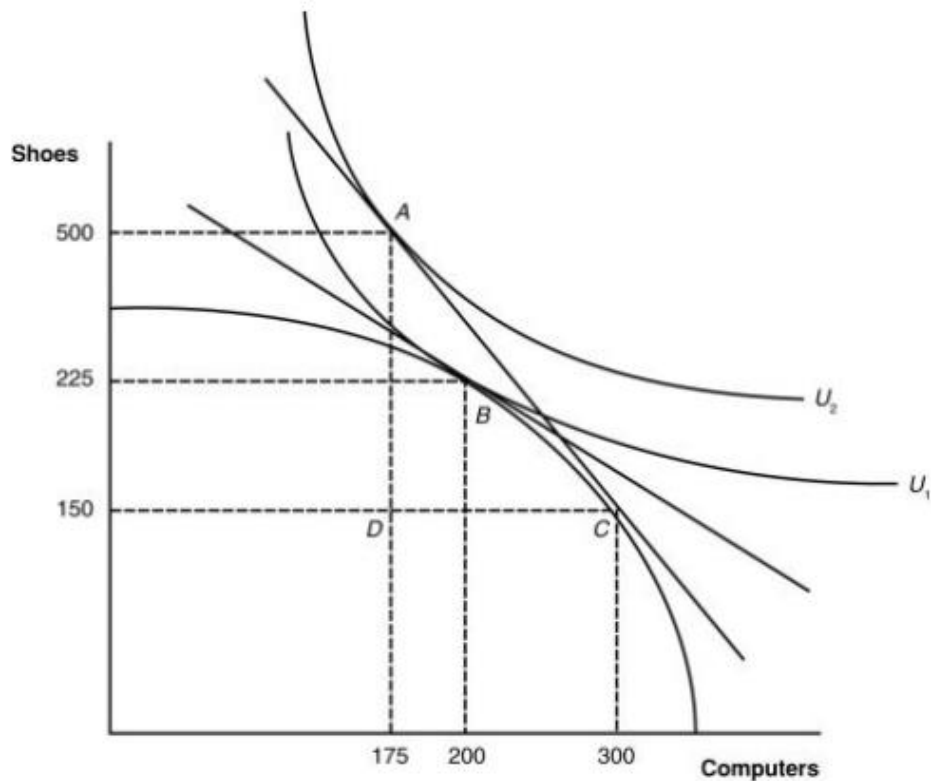
Answer

- a. 0
- b. 125
- c. 350**
- d. 500

Question 28 Multiple Choice

Figure: A Country's Before and After Trade Equilibria

Chapter 4: Trade and Resources: The Heckscher-Ohlin Model



Reference: Ref 4-3

(Figure: A Country's Before and After Trade Equilibria) How many computers will this nation export?

Answer

- a. 0
- b. 125**
- c. 350
- d. 500

Question 29 Multiple Choice

Consider two products, automobiles and shoes. If shoes are labor intensive and automobiles are capital intensive, what will happen under the HO model?

Answer

- a. The labor-abundant country will export automobiles.
- b. The capital-abundant country will export shoes.
- c. The labor-abundant country will import shoes.
- d. The capital-abundant country will import shoes.**

Question 30 Multiple Choice

Suppose Portugal has 700 workers and 26,000 units of capital, and France has 18,000 workers and 700 units of capital. Technology is identical in both countries. Assume that wine is the capital-intensive good and cloth is the laborintensive good. Which of the following statements is correct?

Chapter 4: Trade and Resources: The Heckscher-Ohlin Model

Answer

- a. Portugal will export wine and import cloth.
- b. France will export wine and import cloth.
- c. There is no basis for trade between France and Portugal.
- d. Portugal will export cloth and import wine.

Question 31 Multiple Choice

Suppose Portugal has 700 workers and 26,000 units of capital, and France has 18,000 workers and 700 units of capital. Technology is identical in both countries. Assume that wine is the capital-intensive good and cloth is the laborintensive good. Which of the following statements is correct if the nations start trading with each other?

Answer

- a. Wages will increase in Portugal.
- b. Rental rates in France will increase.
- c. Wages in France will decrease.
- d. Rental rates in Portugal will increase.

Question 32 Multiple Choice

Leontief found that the HO model did not work for the United States because:

Answer

- a. the United States was importing labor-intensive commodities.
- b. the U.S. capital/labor ratio for imported goods was larger than that for the exported goods.
- c. the U.S. capital/labor ratio for imported goods was smaller than that for the exported goods.
- d. there was a trade imbalance in the United States.

Question 33 Multiple Choice

Using 1947 data, Leontief discovered a “paradox” in his test. If the Heckscher-Ohlin model is correct, the United States would have exported _____-intensive goods and imported _____-intensive goods; but his study indicated the reverse was true.

Answer

- a. land; technology
- b. labor; land
- c. capital; labor
- d. labor; capital

Question 34 Multiple Choice

If we measure scarcity or abundance correctly, we should use the concept of “effective factor endowment.” This means:

Chapter 4: Trade and Resources: The Heckscher-Ohlin Model

Answer

- a. the actual factor endowment multiplied by the average productivity of workers compared with its share of world GDP.
- b. trying to find out how much labor and capital are really involved in producing goods competing with imports and exports.
- c. measuring more effectively a nation's actual factor endowment.
- d. the actual factor endowment of labor multiplied by the productivity of capital, because, effectively, the productivity of one depends on the quantity of the other.

Question 35 Multiple Choice

Compared with other countries, the United States' effective factor endowment is greatest for:

Answer

- a. capital.
- b. R&D scientists.
- c. arable land.
- d. unskilled labor.

Question 36 Multiple Choice

If Japanese workers receive *lower* wages in the production of autos compared with American workers, then:

Answer

- a. Japan must have a comparative advantage in the production of autos.
- b. Japan must have an absolute advantage in the production of autos.
- c. auto production costs must be lower in Japan than in the United States.
- d. auto production costs could be lower in the United States if U.S. labor productivity is higher than Japanese labor productivity.

Question 37 Multiple Choice

In a capital-abundant country, free trade will cause a(n) _____ in the rental of capital and a(n) _____ in the marginal product of capital.

Answer

- a. increase; increase
- b. increase; decrease
- c. decrease; decrease
- d. decrease; increase

Question 38 Multiple Choice

In a labor-abundant country, free trade will cause a(n) _____ in the rental of capital and a(n) _____ in the marginal product of capital.

Answer

Chapter 4: Trade and Resources: The Heckscher-Ohlin Model

- a. increase; increase
- b. increase; decrease
- c. decrease; decrease**
- d. decrease; increase

Question 39 Multiple Choice

The wage paid to labor should increase when:

Answer

- a. the capital/labor ratio increases.**
- b. the capital/labor ratio decreases.
- c. a country's labor force increases.
- d. a country's capital stock decreases.

Question 40 Multiple Choice

With the “opening” of trade, the item exported experiences a _____ in demand and therefore a _____ in its relative (domestic) price, whereas the item imported experiences a(n) _____ in demand and therefore a(n) _____ in its relative (domestic) price.

Answer

- a. rise, rise; decrease, decrease**
- b. rise, fall; increase, decrease
- c. fall, fall; increase, increase
- d. fall, rise; decrease, increase

The End.