

## Sample Problem: Chapter 4

Suppose two countries, France and Germany, use only capital and labor for production.

- France has 2,050 units of capital and 916 units of labor.
  - Germany has 816 units of capital and 270 units of labor.
  - Both countries produce two goods, cars and wine.
  - In Germany, there are 366 units of capital and 135 units of labor employed in the wine industry.
  - In France, there are 926 units of capital and 618 units of labor employed in the wine industry.
- a. Which country is labor-abundant? Which country is capital-abundant?
  
  - b. Which industry is labor-intensive in Germany? Which industry is capital-intensive in Germany?
  
  - c. Suppose that France and Germany do not engage in international trade. Assuming the countries have identical preferences, which country would have the cheaper relative price of wine?
  
  - d. Now, suppose the two countries trade with one another. What will happen to the relative price of wine in France? In Germany?
  
  - e. What is the effect of free trade on labor in France? On capital owners in France?
  
  - f. What are the effects of free trade on wage and rental on capital in Germany?
  
  - g. With the opening of trade, what is most likely to occur in terms of the production of cars in France? In Germany?