QUIZ 4
Reviewing Ricardo, SFM and HO Model

Name:_______________________ Points: __________/10

In each of the following questions, a statement is given. You have to identify in which model(s) the statement is valid. There can be multiple correct answers. Fill up the bubbles for correct answers.

1. The PPF of a country is Concave.
   - O Ricardo Model
   - O Specific Factor Model
   - O Heckscher Ohlin Model
   - O None of the options

   In both HO and SFM, MPL is diminishing
   ⇨ PPF is concave

2. The PPF of a country is a straight line.
   - O Ricardo Model
   - O Specific Factor Model
   - O Heckscher Ohlin Model
   - O None of the options

   In Ricardo, MPL is constant
   ⇨ PPF is straight line

3. L is the only factor of production.
   - O Ricardo Model
   - O Specific Factor Model
   - O Heckscher Ohlin Model
   - O None of the options

   Set up of Ricardo: 2 X 2 X 1
   ⇨ L is the only factor

4. There are more than 1 factors of production.
   - O Ricardo Model
   - O Specific Factor Model
   - O Heckscher Ohlin Model
   - O None of the options

   Set up of SFM: 2 X 2 X 3
   ⇨ L is the non-specific factor, K and Z are specific factors

   Set up of HO: 2 X 2 X 2
   ⇨ L and K

5. Everyone is winner under free trade.
   - O Ricardo Model
   - O Specific Factor Model
   - O Heckscher Ohlin Model
   - O None of the options

   Only in Ricardo, everyone gains from trade.

6. Under free trade, some are winners, some are losers.
   - ○ Ricardo Model ○ Specific Factor Model
   - ○ Heckscher Ohlin Model ○ None of the options

   In both SFM and HO, depending on the change in relative price of goods, some factor owners win, and others lose.

7. L can move freely across countries.
   - ○ Ricardo Model ○ Specific Factor Model
   - ○ Heckscher Ohlin Model ○ None of the options

   We have not talked about migration or immigration or FDI yet. None of these models allow factors to move across countries.

8. L can move freely across sectors.
   - ○ Ricardo Model ○ Specific Factor Model
   - ○ Heckscher Ohlin Model ○ None of the options

   All 3 models assume perfect mobility of labor across sectors.

9. All factors can move freely across sectors.
   - ○ Ricardo Model ○ Specific Factor Model
   - ○ Heckscher Ohlin Model ○ None of the options

   In Ricardo, L is the only factor, and moves freely across sectors.
   In SFM, specific factors do not move across sectors, but non-specific factor (Labor) moves across sectors.
   In HO, all factors move across sectors.

10. There is no difference in technology across countries.
    - ○ Ricardo Model ○ Specific Factor Model
    - ○ Heckscher Ohlin Model ○ None of the options

    HO model assumes no difference in technology across countries.

    In SFM, there is difference in technology across sectors.
    Since the sectors uses different specific factors.

11. Trade happens because there is difference in technologies across countries.
    - ○ Ricardo Model ○ Specific Factor Model
    - ○ Heckscher Ohlin Model ○ None of the options

    In Ricardo model, trade occurs due to difference in technology across countries.
    ⇨ This is the underlying assumption of comparative advantage theory

12. Trade happens because there is difference in resources across countries.
    - ○ Ricardo Model
    - ○ Specific Factor Model
    - ○ Heckscher Ohlin Model
    - ○ None of the options

    In HO model, trade occurs due to difference in resources across countries.
    ⇨ The concept of "factor abundance" is based on this assumption

13. Trade happens because there is difference in proximity across countries.
    - ○ Ricardo Model
    - ○ Specific Factor Model
    - ○ Heckscher Ohlin Model
    - ○ None of the options

    In none of the 3 models, geographical distance is considered.

14. Consumer preferences are same across countries.
    - ○ Ricardo Model
    - ○ Specific Factor Model
    - ○ Heckscher Ohlin Model
    - ○ None of the options

    In HO model, consumer preferences are same across countries
    ⇨ All countries have same ICs.

15. There is perfect competition.
    - ○ Ricardo Model
    - ○ Specific Factor Model
    - ○ Heckscher Ohlin Model
    - ○ None of the options

    So far, we have not talked about monopoly or oligopoly or imperfect competition.
    All 3 models assume perfectly competitive market.

16. There is full employment in the economy, meaning, there's no unemployment.
    - ○ Ricardo Model
    - ○ Specific Factor Model
    - ○ Heckscher Ohlin Model
    - ○ None of the options

    So far, we have not talked about unemployment.
    All 3 models assume full employment.

17. Change in relative price of goods affect factor earnings under free trade.
    - ○ Ricardo Model
    - ○ Specific Factor Model
    - ○ Heckscher Ohlin Model
    - ○ None of the options

    In all 3 models, change in relative prices of goods affect factor earnings under free trade.

18. There is free trade, meaning, there are no barriers to trade.
    - ○ Ricardo Model
    - ○ Specific Factor Model
    - ○ Heckscher Ohlin Model
    - ○ None of the options

    So far, we have not talked about tariffs, quota etc. which can cause hindrance to trade.
    All 3 models assume that the countries trade freely.

19. Factor Earnings are calculated using the Value of Marginal Productivity of that Factor.
    - ○ Ricardo Model
    - ○ Specific Factor Model
    - ○ Heckscher Ohlin Model
    - ○ None of the options

    Since all 3 model assumes perfect competition,
    Factor Earnings = Price * Marginal Productivity of that Factor.
    Recall: $W = VMPL = P * MPL$
    $R_K = VMPK = P * MPK$
    $R_Z = VMPZ = P * MPZ$

20. The idea of factor intensity is NOT present.
    - ○ Ricardo Model
    - ○ Specific Factor Model
    - ○ Heckscher Ohlin Model
    - ○ None of the options

    The idea of factor intensity is only present in the HO model.