

## Problem Set 02

**Instructions:** Answers must be submitted online through the designated Canvas assignment. This Problem Set is due on **October 21 at 01:59pm**. Please write as legible and clearly as possible. You will not be given full credit if your answers cannot be easily understood.

### Questions

1. [8 points] Answer the following short questions
  - (a) [2 points] In your own words, how would you define **Labor Abundance** in the Heckscher-Ohlin model setting?
  - (b) [2 points] How does the capital-labor ratio help us determine patterns of trade?
  - (c) [2 points] Describe the key difference(s) that separate the HO model from the Ricardian model
  - (d) [2 points] Describe the **Gravity Model**. What does this model ignore?

2. [6 points] Suppose we are considering an **HO Model setting**, where countries have not yet opened up to trade. Two goods are produced: **Suits and Ozempic**. Suppose that tailoring **Suits** is **labor-intensive** in production as it is primarily done by hand and making **Ozempic** is **capital-intensive** in production as it requires exact and automated machinery. The countries, Country A and Country B, have the following **Labor (L) and Capital (K)** endowments.

Factor	L	K
Country A	1120	575
Country B	1680	950

- (a) [2 points] What are the **Capital-Labor Ratios** for each country?
- (b) [2 points] Which country has comparative advantage in producing tires?
- (c) [2 points] How will trade flows look once each country specializes?

- [illegible]

