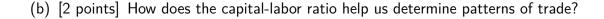
Problem Set 02

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?



(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?

3. [6 points] How do trade outcomes play out for owners of factor inputs when trade opens? Address both capital and labor outcome when a country is abundant in either capital or labor.

4. [4 points] Consider the **Specific-Factor Model**. What are the implications for domestic labor income of switching from autarky to open trade, when a given country is **land-abundant**? Is this impact different if the country is **capital-abundant** instead?

5. [6 points] Recall the **Magnification Effect** we learned in lecture. Let the capital share be 27% and the labor share be 63% to produce Banana Bread. If the rental rate of capital were to remain constant, then a 12% increase in the price of Banana Bread must be accompanied by what percentage increase/decrease in wages?

6. [4 points] We covered ambiguities of changes in labor outcomes, given greater openness to trade. Who does **Autor et al (2013)** suggest are the most vulnerable with respect to labor market outcomes in the US, following Chinese trade liberalization between 1990 and 2007?

7. [4 points] Find a research article of interest related to trade and labor market outcomes that we did not cover in class. Cite the study in APA format. Describe the most interesting findings in a single paragraph.