Econ 335: First Mid-term Examination. Duration: 1 hour and 30 minutes.
Fall 2001
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You are not permitted to use cellular phone or talk to anyone other than the person proctoring the exam, violation of which automatically reset your score in this exam to 0. You are also not permitted to go outside the exam room.

Each question carries 2 points. Read all the options carefully. For some questions correct answers might involve more than one letter, write all those letters in alphabetical order, example: a+b+c.

Questions 1-10, match one of the answers from A.-M. from the right column.

	1. Production-possibility curve (ppc) also known as production possibility frontier (PPF)	A. The price of goods determined by the forces of domestic demand and supply.
	2. Absolute advantage	B. A method of exchanging goods and services directly for other goods and services without using a separate unit of account or medium of exchange.
	3. Autarky equilibrium prices	C. As one industry expands at the expense of others, increasing amounts of the other goods must be given up to get each extra unit of the expanding output.
	4. Opportunity costs	D. shows all consumption points at which utility equals some constant.
	5. Consumer surplus	E. when a country has a higher ratio of labor to other factors than does the rest of the world.
	6. Arbitrage	F. When a nation is able to produce a commodity at the lowest labor cost compared to the whole world..
	7. Community indifference curves	G. The amount of one good which is given up in order to get more of another.
	8. Barter trade	H. The difference between what a person would be willing to pay and what she actually has to bay to buy a certain amount of a good. It is the area below the demand curve and above the price level.
	9. Principle of comparative advantage	I. Show all consumption points which represent constant economic well-being for a whole group
	10. Increasing marginal cost	J. shows all the combinations of outputs of different goods that an economy can produce with full employment of resources and maximum productivity
		K. Buying something at a low price in one market and reselling it at a higher price in another market.
		L. States that a nation, like a person, gains from trade by exporting the goods or services in which it has its greatest comparative advantage in productivity and importing those in which it has the least comparative advantage.
		M. The price of a country's export good(s) relative to the price of its import good(s).

	11. Under increasing costs, countries will generally specialize completely in production of goods. TRUE/FALSE?
	12. At the world trade equilibrium price between two countries A and B, the excess supply of a good in country A must equal the excess demand for the good in country B. TRUE/FALSE?
	13. Suppose the autarky equilibrium price of a good in terms of the other good in the US is 3.5 and in the foreign country is 1.5. The international price of this good in terms of the other good cannot be 1. TRUE/FALSE?
	14. If the autarky equilibrium prices of two countries are different, they will benefit from free trade. TRUE/FALSE?
	15. A country may not have absolute advantage in production of any good, but still it can have comparative advantage in production of a good. TRUE/FALSE?
	16. In Heckscher-Ohlin theory, the source of comparative advantage is the difference in labor productivity in two countries. TRUE/FALSE?
	17. If a country in free trade export one good, it must be importing the other good. TRUE/FALSE?
	18. In the one good case of chapter 2, if after trade the price of a good is lower than the autarky price in a country, then the consumers have higher consumer surplus than before trade and the producers have lower surplus than before trade. TRUE/FALSE?
	19. In the one good case of chapter 2, suppose you are the manager of the only firm that produces the good in a country. If after trade the price of a good is expected to be higher than the country's autarky equilibrium price, you would like to lobby for free trade in that good. TRUE/FALSE?
	20. Specialization in production is _____ with _____. a. incomplete; constant costs b. incomplete; increasing costs c. variable; constant costs d. complete; increasing costs

For questions 21-31, use the following information (table 1 and figure 1). Consider a Ricardian world with two countries, US and Foreign. Both countries produce two goods, Wine and cloth. The following table gives the labor requirements to produce a unit of each good in two countries.

Country	Labor required to produce a unit of Wine	Labor required to produce a unit of Cloth	Labor availability
US	5	2.5	150
Foreign	3	2.4	120

Table1: Labor requirements for production of Wine and Cloth

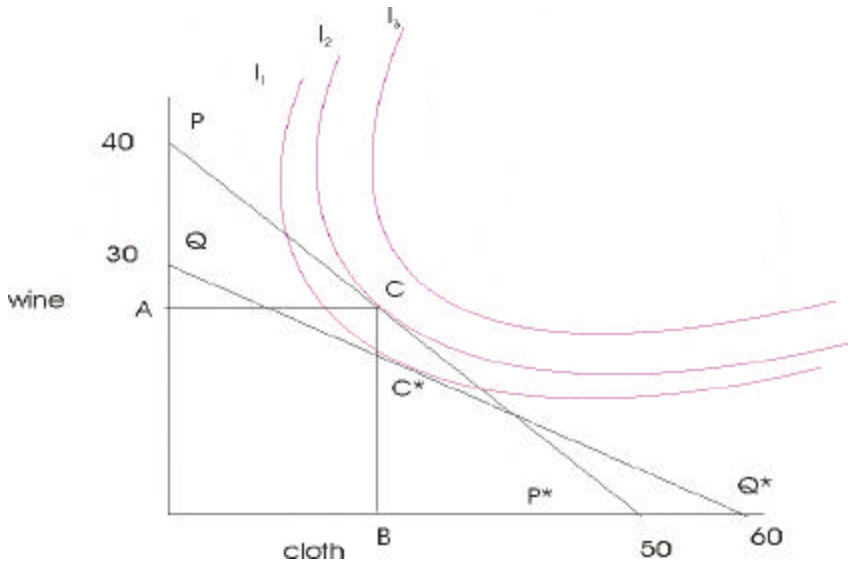

Figure 1

	21. The PPF (which is also known as PPC) for the US in Figure 1 is a. the line QQ* b. the line PP* c. the path ACB d. the curve I1 e. none of the above
	22. The slope of the PPF line PP* is a. 1/2 b. 4/5 c. 1/5 d. 5/4 e. None of the above
	23. (TRUE or FALSE?) The opportunity cost of producing one unit of cloth in terms of foregone production of wine is the slope of the above PPF line PP*.
	24. Suppose we normalize the price of wine (the y-axis good) to 1, i.e., $p_w = 1$, and denote the price of cloth in terms of wine as $p_{c\|w}$. Suppose QQ* is the PPF of a country. Then autarky equilibrium price $p_{c\|w}$ of cloth in terms of wine in this country is given by a. 1/2 b. 4/5 c. 2/5 d. 5/4 e. None of the above
	25. The autarky equilibrium consumption point for the country whose PPF is given by QQ* and community indifference curves are as shown in the above figure is a. A b. P* c. C d. C* e. Q*
	26. What is the autarky equilibrium income level of the US, when income is measured

	in terms of wine? a. 120 b. 30 c. 40 d. 50 e. 60
	27. Suppose the international price is depicted by the line PP* in Figure1. The international equilibrium price of cloth in terms of wine is higher than the autarky equilibrium price of cloth in terms of wine. True or False?
	28. Assume that PP* is the new international price line. That is, the international price of cloth in terms of wine is given by the slope of the line PP*. To maximize revenue the producers will supply a. cloth = 60 units, wine = 0 units. b. cloth = 50 units, wine = 0 units. c. cloth = 0 units, wine = 40 units. d. cloth = 0 units, wine = 30 units. e. None of the above, the correct answer is, cloth = ___ and wine = _____
	29. If the international price line is given by the slope of the line PP*. US will specialize in the production of wine. True or false?
	30. If the international price line is given by the slope of the line PP*. US will export wine. True or False?
	31. The maximum level of utility that US can attain in autarky is a. I_1 b. I_2 c. I_3 d. None of the above

For questions 32-40, consider the information in figure 2, which relates to the US.

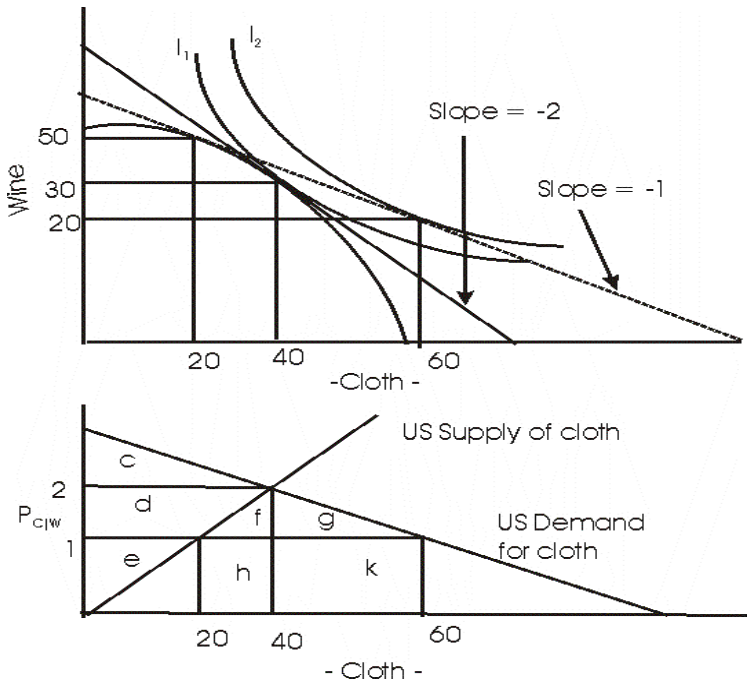

Figure 2.

	32. The autarky equilibrium price of cloth in terms of wine, $p_{c\|w}$, is a. 1.0 b. 2.0 c. 3.0 d. 4.0 e. 1/2
	33. The autarky equilibrium cloth consumption in the US is a. 20 b. 30 c. 40 d. 50 e. 60
	34. If the international price of cloth in terms of wine is 1, which is represented by the iso-revenue line with slope -1, the US will produce ____ cloth and ____ wine as compared to autarky levels. a. more ; more b. less; more c. more; less d. less; less e. same amount; same amount;
	35. If the international price of cloth in terms of wine is 1, which is represented by the iso-revenue line with slope -1, the US will ____ cloth and ____ wine. a. export ; export b. import; import c. import; export d. export; import

	e. neither import nor export any good.
	36. What area (letters) represents consumer surplus in the United States before trade?
	37. What area (letters) represents consumer surplus in the United States with free trade?
	38. What area (letters) represents the net effect of trade on producer in the United States?
	39. What area (letters) represents the total net effect of trade in the United States?
	40. What is the amount (a number in the unit of wine) of total net effect of trade in the United States?

In answering questions 41-50, use the following information.
Suppose a country Imagineme produces and consumes two goods, waffles and cologne, and has at its disposal 90 units of labor. Production of a unit of waffle requires 3 units of labor and production of a unit of cologne requires 1.8 units of labor.

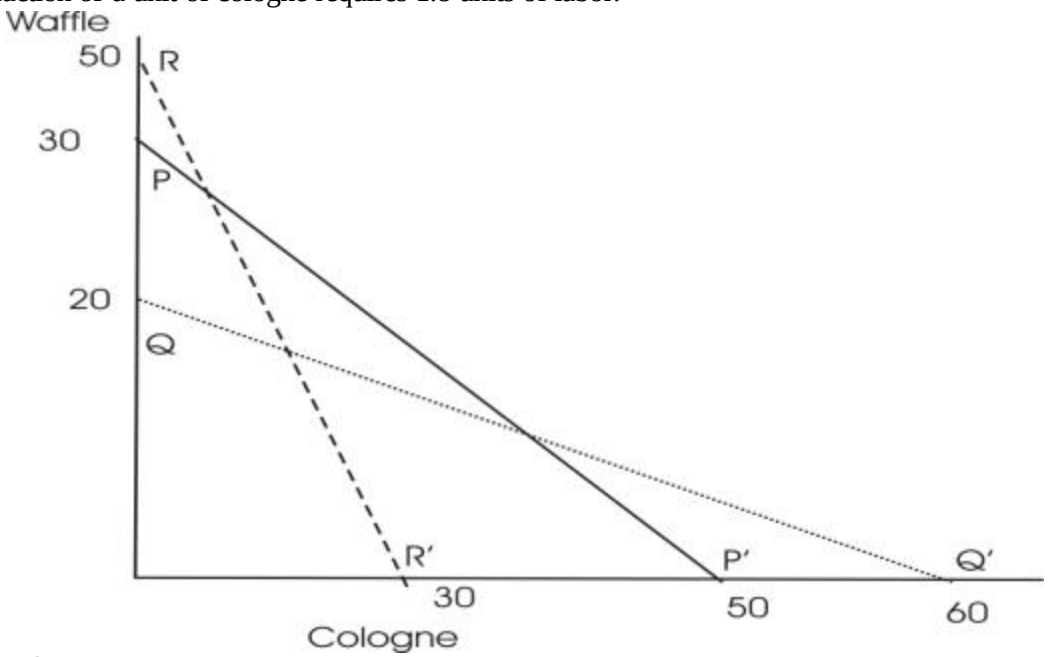

Figure 3

	41. Which of the lines in figure 3 represents the PPF (also known as PPC) of Imagineme? a. PP' b. QQ' c. RR' d. None of the above
	42. The slope of the line PP' is given by a. 3/5 b. 5/3 c. 1/3 d. 3 e. None of the above
	43. Suppose the line PP is the PPF of the country Imagineme. The slope of the line is a. the autarky equilibrium price of a unit of waffle in terms of cologne, p_{wlc}

	b. autarky equilibrium price of a unit of cologne in terms of waffle, $p_{c\|w}$ c. 3/5 d. 5/3 e. None of the above
	44. Suppose the line PP is the PPF of the country Imagineme. Suppose the producer of the economy faces the international price which corresponds to the iso-revenue line QQ'. The international price of a unit of cologne in terms of waffle, $p_{c\|w}$, is a. higher than the autarky equilibrium price of a unit of cologne in terms of waffle. b. lower than the autarky equilibrium price of a unit of cologne in terms of waffle. c. same as the autarky equilibrium price of a unit of cologne in terms of waffle. d. None of the above
	45. Suppose the line PP is the PPF of the country Imagineme. Suppose the producer of the economy faces the international prices which corresponds to the iso-revenue line QQ'. At this price, the producer will a. completely specialize in the production of waffle. b. completely specialize in the production of cologne. c. will produce 50 units of cologne d. will produce 20 units of waffle and 8 units of cologne. e. None of the above
	46. Suppose the line PP is the PPF of the country Imagineme. Suppose the producer of the economy faces the international prices which corresponds to the iso-revenue line QQ'. At this price, the producer's maximized revenue is a. 30 units of waffle. b. 20 units of waffle. c. 50 units of cologne. d. 90 units of cologne. e. None of the above
	47. Suppose the line PP is the PPF of the country Imagineme. Suppose the producer of the economy faces the international prices which corresponds to the iso-revenue line QQ'. At this international price, Imagineme will a. export waffle. b. import waffle. c. export cologne. d. import cologne. e. Neither import nor export any of the two goods.
	48. Suppose the line PP is the PPF of the country Imagineme. Suppose the producer of the economy faces the international prices which corresponds to the iso-revenue line RR'. The international price of a unit of cologne in terms of waffle, $p_{c\|w}$, is a. higher than the autarky equilibrium price of a unit of cologne in terms of waffle. b. lower than the autarky equilibrium price of a unit of cologne in terms of waffle. c. same as the autarky equilibrium price of a unit of cologne in terms of waffle. d. None of the above
	49. Suppose the line PP is the PPF of the country Imagineme. Suppose the producer of the economy faces the international prices which corresponds to the iso-revenue line RR'. At this price, the producer will a. completely specialize in the production of waffle. b. completely specialize in the production of cologne. c. will produce 50 units of cologne

	d. will produce 20 units of waffle and 8 units of cologne. e. None of the above
	50. Suppose the line PP is the PPF of the country Imagineme. Suppose the producer of the economy faces the international prices which corresponds to the iso-revenue line RR'. At this international price, Imagineme will a. export waffle. b. import waffle. c. export cologne. d. import cologne. e. Neither import nor export any of the two goods.

Good Luck!!