CH-310-A Microeconomics - Theory and Policy

Chapter 8 of Krugman and Wells

Heckscher-Ohlin model

According to the Heckscher-Ohlin model, Brazil will have a comparative advantage in oranges if the factors *blank* in the production of oranges are *blank*.

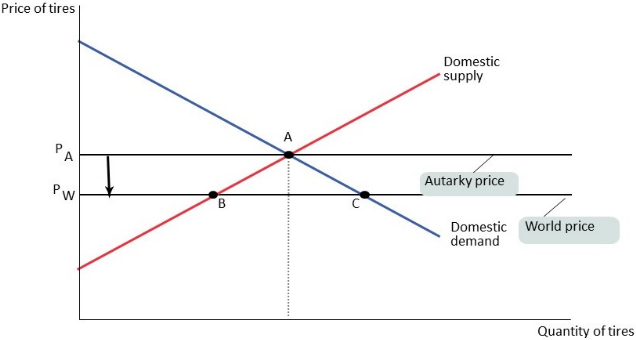
(a) intensive; abundantly available

(b) intensive; imported from other nations

(c) that are scarce; imported from other nations

(d) intensive; inexpensive

Trade opening



Imagine the US economy opens itself to imports of tires from Mexico, leading to a drop in the price of tires from P_A to P_W.

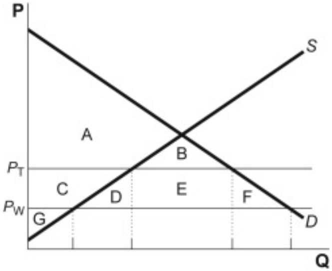
(a) How much will the US import/export after the opening?

(b) What is the change in consumer surplus from the opening?

(c) What is the change in producer surplus from the opening?

(d) Do you expect lobbying on the part of industry?

Tariffs



The graph represents the market for cheese in the United States. Identify the area(s) of deadweight loss when there is a tariff.

(a) A + B

(b) C + D + E + F

(c) D + E + F

(d) D + F