

Final Exam
April 21, 2008

Answer all questions. Write your answers in a blue book.

Be sure to look ahead and budget your time. You have two hours (120 minutes) to complete the exam. The questions are worth a total of 100 points, as indicated.

1. (50 points) Starting from an equilibrium in which a country (not necessarily a small one) trades freely with the rest of the world, what would be the effects on that country's trade and its welfare of it becoming larger? Specifically, suppose that the country's endowments of factor production, whatever these may be, *all* expand by the same proportion, while factor endowments in the rest of the world remain unchanged. Show your familiarity with the various models discussed in this course by writing an essay that describes and demonstrates (with diagrams and/or equations, as needed) the effects of this change on trade and welfare of the expanding country.

I expect that your answer will deal with Ricardian, Heckscher-Ohlin, and Specific Factors models, as well as models that include increasing returns and monopolistic competition. Before you start your answer, I suggest that you think about the models you will be using so that you don't waste time and effort on pieces of analysis that are not needed for the question or that can be done more simply for more than one model at a time. If it is helpful, you may limit yourself to models in which there are only two goods and in which preferences are identical and homothetic.

2. (25 points) What is the Factor Content of Trade, what does the Heckscher-Ohlin Model predict about it, and to what extent is this prediction supported empirically?
3. (25 points) A current concern in the world economy, and in many countries, is that the prices of agricultural products are rising to record levels, making food increasingly expensive for poor people who were already on the verge of starvation. Suppose that you were advising the government of a food-exporting country whose poor people are blaming exports as the reason for their rising cost of living. The country's government is considering a tax on food exports (or, if you prefer for ease of analysis, simply banning these exports) as a policy to deal with this crisis. They want to know from you what the effects of such a policy will be, as well as whether there are alternative policies that they should use instead. Tell them.

Here I'm not looking for formal analysis, but rather a well reasoned verbal discussion of the effects of the policies (the export tax and any alternatives that you consider), drawing on but not explicitly using the models of this course. In particular, your answer should take account of results in the course concerning the gains from trade, the effects of trade on real factor prices, and the theory of the second best.