

International Trade – Make-Up Midterm Exam

Directions: Read the two articles by Paul Samuelson on Factor Price Equalization and provide **detailed answers** to the questions below. Explain your answers thoroughly and completely. Don't lose points due to carelessness. **Points will be deducted for irrelevant information and/or if your answer is incomprehensible.**

One of the predictions of the Heckscher-Ohlin model is that – if both countries produce both goods and if both countries share the same technology and if trade equalizes product prices – then free trade will lead to factor price equalization.

1. (70 points) Explain why free trade equalizes factor prices in the Heckscher-Ohlin model.
2. (15 points) Why doesn't free trade equalize factor prices in the Ricardian model?
3. (15 points) Why doesn't free trade equalize factor prices in the Specific-Factors model?



Required Reading

Samuelson, Paul A. (1948) "International Trade and the Equalisation of Factor Prices." *Economic Journal*. June 1948, vol. 58, no. 230, p. 163-84.

Samuelson, Paul A. (1949) "International Factor-Price Equalisation Once Again." *Economic Journal*. June 1949, vol. 59, no. 234, p. 181-97.

This make-up exam is due Thurs. 16 Nov.

NO EXCEPTIONS !!!