

File: Ch05; Chapter 5: Factor Endowments and the Heckscher-Ohlin Theory

Multiple Choice

1. The H-O model extends the classical trade model by:
 - a. explaining the basis for comparative advantage
 - b. examining the effect of trade on factor prices
 - c. both a and b
 - d. neither a nor b

2. Which is not an assumption of the H-O model?
 - a. the same technology in both nations
 - b. constant returns to scale
 - c. complete specialization
 - d. equal tastes in both nations

3. With equal technology nations will have equal K/L in production if:
 - a. factor prices are the same
 - b. tastes are the same
 - c. production functions are the same
 - d. all of the above

4. We say that commodity Y is K-intensive with respect to X when:
 - a. more K is used in the production of Y than X
 - b. less L is used in the production of Y than X
 - c. a lower L/K ratio is used in the production of Y than X
 - d. a higher K/L is used in the production of X than Y

5. When w/r falls, L/K
 - a. falls in the production of both commodities
 - b. rises in the production of both commodities
 - c. can rise or fall
 - d. is not affected

6. A nation is said to have a relative abundance of K if it has a:
 - a. greater absolute amount of K
 - b. smaller absolute amount of L
 - c. higher L/K ratio
 - d. lower r/w

7. A difference in relative commodity prices between nations can be based on a difference in:

- a. technology
- b. factor endowments
- c. tastes
- d. all of the above

8. In the H-O model, international trade is based mostly on a difference in:

- a. technology
- b. factor endowments
- c. economies of scale
- d. tastes

9. According to the H-O model, trade reduces international differences in:

- a. relative but not absolute factor prices
- b. absolute but not relative factor prices
- c. both relative and absolute factor prices
- d. neither relative nor absolute factor prices

10. According to the H-O model, international trade will:

- a. reduce international differences in per capita incomes
- b. increases international differences in per capita incomes
- c. may increase or reduce international differences in per capita incomes
- d. lead to complete specialization

11. The H-O model is a general equilibrium model because it deals with:

- a. production in both nations
- b. consumption in both nations
- c. trade between the two nations
- d. all of the above

12. The H-O model is a simplification of a truly general equilibrium model because it deals with:

- a. two nations
- b. two commodities
- c. two factors of production
- d. all of the above

13. The Leontief paradox refers to the empirical finding that U.S.

- a. import substitutes are more K-intensive than exports
- b. imports are more K-intensive than exports

- c. exports are more L-intensive than imports
d. exports are more K-intensive than import substitutes
14. From empirical studies, we conclude that the H-O theory:
a. must be rejected
b. must be accepted without reservations
c. can be accepted while awaiting further testing
d. explains all international trade
15. For factor reversal to occur, two commodities must be produced with:
a. sufficiently different elasticity of substitution of factors
b. the same K/L ratio
c. technologically-fixed factor proportions
d. equal elasticity of substitution of factors
16. The economist who rigorously proved the factor-price equalization theorem was
a. David Ricardo
b. Adam Smith
c. Paul Samuelson
d. Wassily Leontief
17. The factor price equalization theorem states that international trade will bring about equalization in
a. relative returns only
b. absolute returns only
c. both relative and absolute returns
d. neither absolute nor relative returns
18. International trade will _____ the price of a nation's abundant resources and _____ the price of a nation's scarce resources
a. increase; increase
b. decrease; decrease
c. decrease; increase
d. increase; decrease
19. One potential reasonable explanation for the Leontief paradox is that
a. The U.S. exports capital intensive goods
b. U.S. labor is more productive than its foreign counterpart
c. U.S. tastes were biased strongly in favor of capital intensive goods
d. The two factor model that was used was incomplete

20. According to the factor price equalization theorem a nation that has a relative capital abundance should specialize in goods that are _____ intensive resulting in an increase in the price of _____.
- a. capital; capital
 - b. capital; labor
 - c. labor; capital
 - d. labor; labor

Short Answer

21. List at least four of the assumption of the Heckscher-Ohlin theory

22. List three possible explanations for the Leontief paradox

23. Define and factor intensity reversal

Essay

24. a) Identify the conditions that may give rise to trade between two nations.
b) What are some of the assumptions on which the Heckscher-Ohlin theory is based?
c) What does this theory say about the pattern of trade and effect of trade on factor prices?
25. Consumers demand more of commodity X (the L-intensive commodity) and less of commodity Y (the K-intensive commodity). Suppose that Nation 1 is India, commodity X is textiles, and commodity Y is food. Starting from the no-trade equilibrium position and using the Heckscher-Ohlin model, trace the effect of this change in tastes on India's
- relative commodity prices and demand for food and textiles,
 - production of both commodities and factor prices,
 - comparative advantage and volume of trade.
- d) Do you expect international trade to lead to the complete equalization of relative commodity and factor prices between India and the United States? Why?