ITR 301 International Trade

Problem Set #3

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1. Please explain the Heckscher-Olin Theorem, and the assumptions the Theorem based on.

2. In a typical short-run production function, as labor increases (   )
   (a) the marginal product of capital decreases.
   (b) the overall product of labor decreases.
   (c) the average product of labor decreases.
   (d) the marginal product of labor decreases.

3. If the world attained a perfect Heckscher-Ohlin model equilibrium with trade, then (   )
   (a) workers in the labor abundant country would migrate to the capital abundant country.
   (b) workers in the labor abundant country would wish to migrate to the capital abundant country.
   (c) workers in the labor abundant country would have no desire to migrate to the capital abundant country.
   (d) workers in the capital abundant country would wish to migrate to the labor abundant country.
   (e) workers in the capital abundant country would migrate to the labor abundant country.

4. In Home and Foreign there are two factors of production, land and labor, used to produce only one good. The land supply in each country and the technology of production are exactly the same. The marginal product of labor in each country depends on employment as follows:

Number of Workers Employed	**Marginal Product of Last Worker**
1	30
2	29
3	28
4	27
5	26
6	25
7	24
8	23
9	22
10	21
11	20

Initially there are 11 workers employed in Home but only 3 workers in Foreign. Find the effect of free movement of labor from the high wage to the low wage country. When such economic migration ceases, what will be the levels of production, real wages and the income of landowners in each country?