

Course: International Trade and Policy

Week 3: Comparative Advantage and Factor Endowment

Instructions: Please select the best answer for each of the following ten questions. Each question has only one correct answer.

Question 1

According to the Ricardian model, what is the fundamental driver of international trade?

- A) Differences in factor endowments (labor, capital, land)
- B) Differences in technology reflected in labor productivity
- C) Economies of scale and imperfect competition
- D) Differences in consumer preferences across countries

Question 2

In the Ricardian model, which of the following best defines *comparative advantage*?

- A) Producing a good using fewer resources than another country
- B) Producing a good at a lower opportunity cost than another country
- C) Having an absolute advantage in all goods
- D) Having a larger stock of gold and silver

Question 3

What does the Heckscher-Ohlin (H-O) model propose as the fundamental cause of comparative advantage?

- A) Cross-country differences in technology
- B) Cross-country differences in labor productivity
- C) Differences in countries' relative factor endowments (labor, capital, land)
- D) Differences in government trade policies

Question 4

The **Heckscher-Ohlin Theorem** states that a country will:

- A) Export goods that use its scarce factors intensively
- B) Import goods that use its abundant factors intensively
- C) Export goods that use its abundant factors intensively and import goods that use its scarce factors intensively
- D) Completely specialize in one good regardless of factor endowments

Question 5

What is the core political economy implication of the **Stolper-Samuelson Theorem**?

- A) Free trade benefits all factors of production equally
- B) An increase in the relative price of a good will increase the real return to the factor used intensively in its production and decrease the real return to the other factor
- C) Trade has no effect on income distribution within a country
- D) Factor prices equalize only if there is complete specialization

Question 6

The **Factor Price Equalization (FPE) Theorem** states that under H-O model assumptions:

- A) Wages and rental rates will diverge across countries with free trade
- B) Free trade in goods equalizes factor prices (wages and rental rates) across countries
- C) Only labor wages equalize, but capital returns do not
- D) Factor prices equalize only if countries have identical technologies and preferences

Question 7

According to the **Rybczynski Theorem**, at constant relative goods prices, an increase in the endowment of a factor will:

- A) Increase the output of both goods proportionally
- B) Increase the output of the good that uses that factor intensively and decrease the output of the other good
- C) Leave the output mix unchanged
- D) Decrease the output of the good that uses that factor intensively

Question 8

What did the **Leontief Paradox (1953)** reveal?

- A) The United States exported capital-intensive goods and imported labor-intensive goods, confirming H-O theory
- B) The capital-abundant United States exported labor-intensive goods and imported capital-intensive goods, contradicting H-O predictions
- C) Technology differences are irrelevant for trade patterns
- D) Comparative advantage is determined solely by climate and natural resources

Question 9

Which of the following is identified in the slides as a **limitation of the Ricardian model**?

- A) It assumes multiple factors of production
- B) It ignores income distribution effects (winners and losers from trade)
- C) It incorporates economies of scale and imperfect competition
- D) It treats technology as endogenous and changing with trade

Question 10

In the 2x2x2 H-O model, which two factors of production are typically assumed?

- A) Land and capital
- B) Labor and technology
- C) Labor and capital
- D) Capital and entrepreneurship

Answer Key

1. B
2. B
3. C
4. C
5. B
6. B
7. B
8. B
9. B
- 10.C