

Study Guide Exam 2

1. Using the specific factors model (short-run), diagrammatically show the effects on the labor market of situations such as an increase in migration or increase in emigration (outflow of labor).
2. Based on each situation above, what is the effect on the wage rate?
3. If more labor is allocated to the production of a given good, what is the effect on the marginal product of labor (MPL) of that good.
4. What is the effect on MPL if less labor is allocated?
5. If the MPL rises (assuming no change in relative prices of the goods), what is the effect on the real wage rate?
6. Using the specific factors model (short-run), show the effects of immigration or emigration on the real rental on land and real rental of capital.
7. Using the specific factors model (short-run), show the changes in the PPF curve that results from immigration (and emigration).
8. Using the H-O model, show the effects of an increase (decrease) in labor in the economy.
9. Using the H-O model, show the effects of an increase (decrease) in capital in the economy.
10. **Sample problem:** Suppose we have two goods, Shirts and Cars. Shirts are labor intensive, and Cars are capital intensive. There is now a decrease in the labor force due to a government order for migrant workers to leave. What does the Rybczynski Theorem say will happen to the amount of each good produced? Prove the Rybczynski Theorem using a diagram.
11. Show the results of the Rybczynski Theorem using a PPF diagram.
12. State the factor price insensitivity theorem.
13. What do we mean by FDI, Greenfield investment?
14. Using the specific factors model, what is the effect of an increase in capital on the production of the good in which labor is the specific factor? Show diagrammatically using the labor market diagram and the PPF diagram.
15. What are the effects on income distribution in the home country as a result of immigration?
16. Be able to show the gains to both home and foreign in the world market for labor.
17. Be sure to understand the diagrams on slides 45, 46, and 47 in Chapter 5.
18. What do we mean by monopolistic competition?
19. What do we mean by economies of scale or increasing returns to scale?
20. What are the conditions for profit maximization under monopolistic competition?
21. What do we mean by normal and economic (or monopoly) profits?
22. If we have economies of scale, what is the shape of the average cost curve.
23. **Sample Problem:** Consider a model of monopolistic competition with increasing returns to scale. Draw a diagram showing the home is in long run equilibrium under autarky.
24. **Sample Problem:** What is the short-run effect of the home country opening to trade under the model of monopolistic competition. Draw a diagram showing the effect on the demand for the home country's product.
25. Can the firm make an economic profit in the short-run under an open economy?
26. Can the firm make an economic profit in the long-run under an open economy?

27. Show diagrammatically the situation in question 25 and 26.
28. If there are N^A firms in a given country under autarky, how many varieties of the product exist?
29. If the foreign market is identical to the home market, how many firms are there in the industry under free trade in the short-run?
30. How many varieties of the product in the short-run?
31. What will happen to the number of firms (and varieties of the product) in each country in the long run?
32. What does the gravity equation for trade state?
33. What do we mean by consumer and producer surplus?
34. What do we mean by a tariff and a quota?
35. Be able to show the gains from trade in a small country in which the world price is less than the autarky price.
36. Derive an import demand curve for a small country described in question 35.
37. Assuming a small country, show the effects of the tariff on Consumer Surplus, Producer Surplus, Government Revenue, Consumer Loss, Production loss and deadweight loss in home and import markets.
38. Be able to derive an export supply curve under large-country conditions.
39. Assuming a large country, show the effects of the tariff on Consumer Surplus, Producer Surplus, Government Revenue, Consumer Loss, Production loss, Deadweight Loss, and terms of trade gain in the home and import markets.
40. What is the formula for the optimal tariff?
41. If we have a small country, using the optimal tariff formula, what is the optimal tariff?
42. Show the effects of a tariff versus a quota in a small country.
43. Why would the government prefer a tariff to a quota? Explain.
44. Why would a car dealer prefer a quota to a tariff? Explain.