

ARE 201 Exam. Fall 2000

Please answer all questions. Each question has equal weight.

1) An undistorted economy moves from autarky to trade. The world relative price differs from the autarky price. Describe the effect of trade on the real returns to factor(s) in: (i) The Ricardian model, (ii) the Heckscher Ohlin model, and (iii) the specific factors model. (If you use any theorems, name them.)

2) Discuss (at least ) two circumstances where growth can be immiserizing. Illustrate your examples graphically. Explain the relation between the examples you give and the theory of the second best. Comment on the suggestion that the possibility of immiserizing growth provides an argument against the liberalization of international flows of capital or technology.

3) Suppose that a large country makes a transfer to its trading partner. Explain how the donor's terms of trade depend upon (i) the magnitude of the sum of the countries' marginal propensity to import, and (ii) the stability of the pre-transfer equilibrium.