

# Review for Midterm 1 - ECO 13101 - Spring 2016

Professor: Tiago Tavares

## About the exam:

- When: 19:00 – 21:00pm, March 7/9, Monday/Wednesday
- Where: in class
- Format: similar as practice assignments/ practice midterms/ textbook exercises
- No multiple choices
- Contents: lectures 1 – 7
- Closed book, closed note

## Review

1. Pure exchange economy - handout 2; practice assignment 1
  - (a) How are relative prices computed?
  - (b) Competitive equilibrium
  - (c) When does trade between 2 countries occur? Arguments for gains from trade
  - (d) How terms of trade change with demand / endowments model parameters
  - (e) Edgeworth box analysis
2. Simple Ricardian model - handout 2/7; practice assignment 1; KOM2012-chp3
  - (a) Absolute advantage vs. comparative advantage. Relation with relative opportunity cost of producing

- (b) What are gains of specialization
  - (c) Optimality conditions for demand and supply. Market clearing conditions
  - (d) Computation of an equilibrium
  - (e) Relative demand / relative supply
  - (f) How labor force size changes the equilibrium? What about other parameters?
  - (g) Production possibilities frontier vs. consumption budget constraint under trade
  - (h) Gains from trade
  - (i) Absolute advantages and equilibrium relative wages
  - (j) Limitations and empirical evidence of the Ricardian model
  - (k) Productivity growth and the Ricardian model
3. Multiple goods extension of the Ricardian model (also known as Dornbusch Fischer Samuelson) - handout 3/7; practice assignment 2; KOM2012-chp3
- (a) Comparative advantage with more than 2 goods
  - (b) Criterium to determine location of production
  - (c) Competitive market equilibrium for specialization and relative wages
  - (d) Comparative statics
  - (e) Trade effects of international transfers (as in donations)
  - (f) Iceberg costs
  - (g) Endogenous non-traded goods. Which goods are likely to be non-traded?
4. Specific-factor model (Ricardo-Viner model) - handout 4; practice assignment 2; KOM2012-chp4
- (a) Sector specific factors
  - (b) Decreasing marginal labor productivity
  - (c) Increasing opportunity cost of producing goods
  - (d) Production possibilities frontier
  - (e) Competitive market equilibrium
  - (f) Income and welfare impact of terms of trade shocks for different factor holders

- (g) International labor mobility specific-factor model and marginal product of labor equalization

5. Heckscher-Ohlin - handout 4/5/7; practice assignment 2; KOM2012-chp5

- (a) Factors of production in fixed supply
- (b) Endowment abundance
- (c) Production possibilities frontier
- (d) Firm's cost minimization / factor unit demand functions
- (e) Marginal cost function
- (f) Factor goods market clearing conditions
- (g) Factor intensity reversal
- (h) Factor price insensitivity / factor price equalization theorems
- (i) Stolper-Samuelson / Rybczynsky theorems
- (j) Heckscher-Ohlin theorem
- (k) Homothetic preferences
- (l) Excess world demand
- (m) Wage income inequality / sector biased technological change
- (n) Main assumption and limitations of the Heckscher-Ohlin model
- (o) Empirical evidence

6. The Armington model and gravity equations - handout 6/7; KOM2012-chp2; practice midterms]

- (a) Differences between the Armington model and standard Ricardian model
- (b) Constant elasticity of substitution utility function
- (c) Aggregate expenditure function
- (d) Perfect price index
- (e) Demand functions / expenditure functions
- (f) Extended interpretation of an iceberg cost
- (g) Gravity equation: gravity term and general equilibrium term

- (h) Empirical traction of the model and empirical version of the gravity equation
- (i) Predictions of policy to reduce trade barriers