This exam consists of two questions and both questions must be answered. Use of graphs, equations, and intuition are encouraged to clarify your answer.

Question 1 (60%)

Consider the short run horizon in which not all factors of production can move between sectors. We studied a model about how international trade affects the distribution of income within a country which produces two goods, has three factors of production only one of which is mobile between sectors, and has a fixed labor supply. Use that model to answer the questions below:

- A- Which model does the question refer to?
- B- Explain how the production functions look. What explains the change in the slope (concavity/convexity) as one of the inputs increases?
- C- Use 3 graphs to graphically derive the economy's production possibility frontier (PPF). What is the intuition behind the slope of the PPF?
- D- Derive the wage rate in each sector. What happens if the price of the good in one sector increases? What happens if the price of the other good, too, increases by the same percentage?
- E- How does international trade affect the income distribution? Who gains and who loses?
- F- Briefly discuss whether we could use the model in a more realistic setting where the country produces computer chips (Integrated Circuits) and a thousand other goods.
- G- Assume that two countries produce a single good with labor and an immobile factor. Describe the causes and effects of international labor mobility.

Question 2
Attached

Question 2 (40%)

1- Explain comparative advantage. Briefly describe misconceptions about it.
2- What is “terms of trade”? How does it worsen or improve?
3- Consider the Ricardian model and briefly answer to the following questions:
    A- How does trade affect international specialization?
    B- How is an importing country affected by trade?
    C- What is the effect of trade on income distribution?