

Name (Print) : \_\_\_\_\_

**INTERNATIONAL ECONOMICS**  
**HO Model Worksheet – Answer parts a through e (see second page)**

1. Consider the following data on two countries, Assam (Home) and Bihar (Foreign):

Warning! Engage brain before putting calculator in gear.	Assam (Home)	Bihar (Foreign)
1998 Population (millions of persons)	410	245
Capital stock per worker in '92 (at '85 international prices)	\$1230	\$980

- a. Which country is labor abundant and why?
- b. If the food industry (F) uses \$36800 of capital per worker, and the Transportation equipment industry (T) uses \$21300 of capital per worker, which country will have a comparative advantage in the production of F? Explain your answer.
- c. Which country will have a comparative advantage in the production of T? Explain your answer.
- d. Under the standard HO model, which factors gain and which lose when trade is opened between the two countries? Explain carefully.
- e. On the back page, illustrate your answer to parts c & d with two graphs: one showing a possible trade equilibrium; another showing how trade changes the distribution of income.