

Midterm Review

ECON 171 - Spring 2026

Week 6: April 28th

Midterm Exam: Thursday, April 30th

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Midterm Review

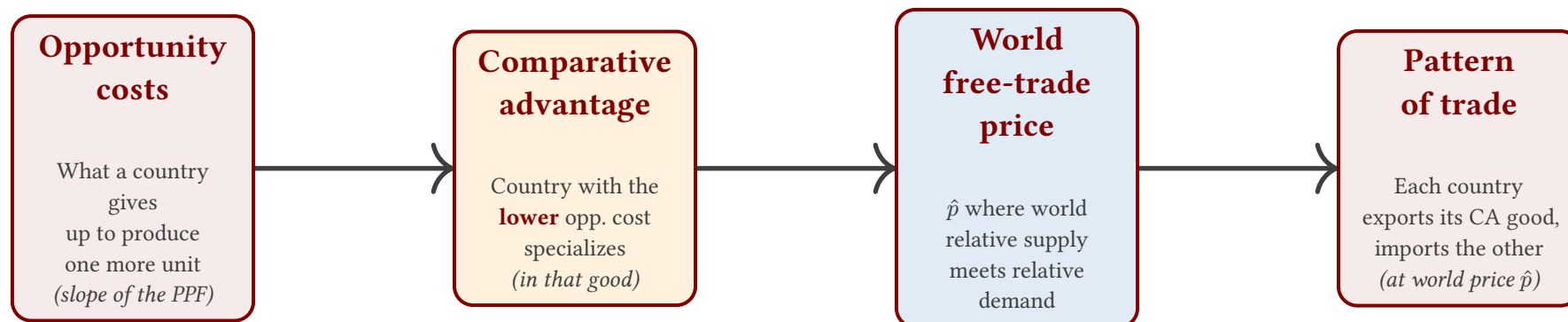
Topics Covered (Weeks 1–5)

1. Introduction: Trade in endowments, utility maximization, Edgeworth box
2. Ricardian theory: Comparative advantage, trading equilibrium
3. Specific factors model: Mobile/immobile factors, winners and losers
4. Heckscher-Ohlin theory: Factor intensity, Stolper-Samuelson, Rybczynski
5. Trade policy: Tariffs in small open economy

Comparing the Four Trade Models

	Endowments (Week 1)	Ricardian (Week 2)	Specific Factors (Week 3)	Heckscher–Ohlin (Week 4)
Key takeaway	Trade can benefit both sides with no production — voluntary exchange suffices when relative valuations differ	Comparative , not absolute, advantage drives trade — even a less productive country gains	Trade has distributional effects — creates winners and losers within each country	Trade pattern follows factor endowments ; trade redistributes income across factors , not sectors
Determinants of opportunity cost of production	No production — replaced by MRS at the endowment point	Constant : ratio of unit labor requirements $\frac{a_{LC}}{a_{LW}}$ (linear PPF)	Increasing : relative endowment of specific factors + diminishing MPL as labor moves between sectors (concave PPF)	Increasing : relative endowment of factors + differing factor intensities + adjusting factor prices (concave PPF)
Content of trade	Each consumer exports the good they hold in relative abundance	Country exports the good with lower relative unit labor requirement	Country exports the good using its abundant specific factor	Country exports the good intensive in its abundant mobile factor
Drivers of gains from trade	Differences in relative endowments of goods (with identical homothetic preferences)	Cross-country differences in labor productivity (technology)	Differences in sector-specific factor endowments across countries	Differences in relative mobile factor endowments (labor vs. capital)

Logic of Every Trade Model



Worked example — Ricardian model

$$\begin{array}{ccccc} a_{LC}^H/a_{LF}^H = 1/2 & \rightarrow & \text{Home has CA in } C & \rightarrow & \hat{p}_{C/F} = 1 \\ a_{LC}^F/a_{LF}^F = 2 & & \text{Foreign has CA in } F & & \text{where } RS_W = RD_W \end{array} \rightarrow \begin{array}{l} \text{Home exports } C, \\ \text{Foreign exports } F \end{array}$$

The four models differ in **what determines opportunity costs** — but the **logical structure** is identical.

Tips for the Exam

1. Time-box each question.

Don't spend more than **7–10 minutes** on any single question.

2. Always write something.

Even when you don't know the full answer, write down what you *think* the answer could be, or sketch the *general steps* you would take — naming the relevant **model**, **mechanism**, or **graph**.

Good luck!