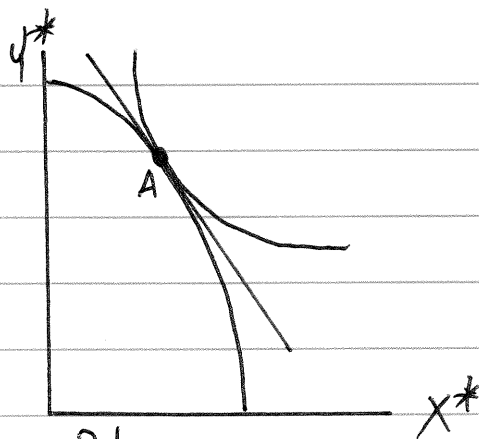
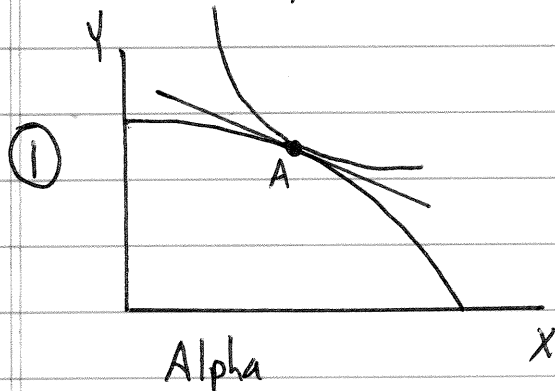


Quiz 2 Key

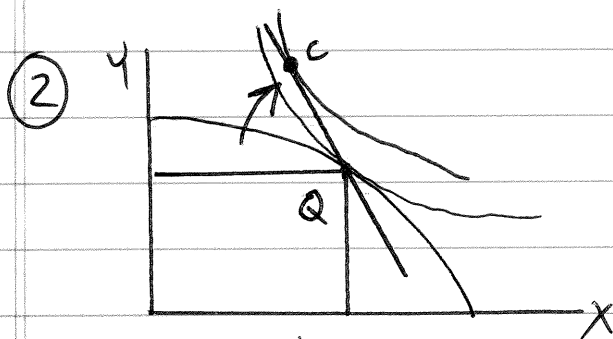


$$P_x/P_y < P_x^*/P_y^*$$

Alpha has C.A. in X, Beta in Y.

Beta has higher return on human capital.

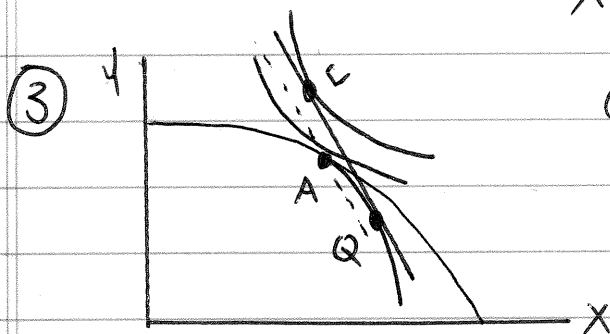
Free trade will make P_x/P_y rise, P_x^*/P_y^* fall.



Q cannot change without mobility.

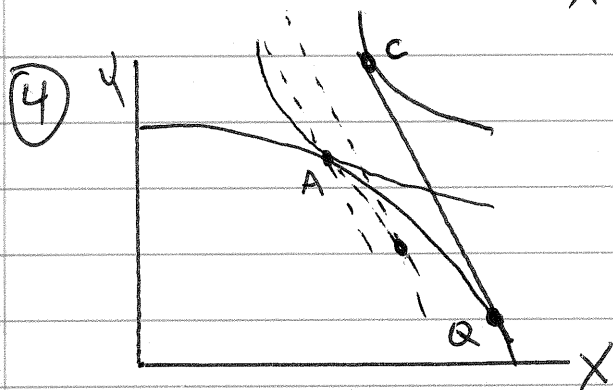
As $P_x/P_y \uparrow$, C moves to NW and overall welfare rises.

$$W_x \uparrow, R_x \uparrow, W_y \downarrow, R_y \downarrow$$



Q moves to SE, though MRT is high. Overall welfare improves (more).

$R_x \uparrow, R_y \downarrow$, but $W_x = W_y$ is uncertain/ambiguous.



Even more gains from specialization and trade.

$R_x = R_y$ rises. $(\frac{W}{R}) \downarrow$.