ECON 442 Practice Quiz

Suppose we have the basic two country, two good Ricardian model we started with in class.

Consumer preferences are the same across countries and equal to

$$U^i\left(c_1^i, c_2^i\right) = \theta_1 \log c_1^i + \theta_2 \log c_2^i, \qquad i = H, F$$

Where $\theta_1, \theta_2 > 0$. Labor is the only factor of production and is supplied inelasticly by consumers in each country, with total labor supply L^i in country $i = H, F$. Firms in country i have constant unit labor costs equal to a_m^i for producing good m; $m = 1,2$; $i = H, F$. Assume there is free trade and no trade costs.

What are the exogenous variables for this model?

What are the endogenous variables for this model?

Carefully define an equilibrium for this country