1. Using the following information about the price of agriculture and manufacturing goods in two countries (Home and Foreign), what happens when the two countries open their markets for trade?

Because the price of agriculture is the same in both countries and the price of manufacturing is lower in Home, Home has the comparative advantage in manufacturing, will export the manufactured good and will import the agricultural good.

2. Suppose that the Home country in the two-sector (manufacturing and agriculture) specific-factors model has a comparative advantage in agricultural output. Will workers be better or worse off following the opening of trade with other countries?

Workers may be better off or worse off because the real wage in terms of the agricultural good falls and the real wage in terms of the manufactured good rises.

3. According to the information in the table below, if the price of the agriculture good decreases to $5, then what happens to the wage rate in each sector?

<table>
<thead>
<tr>
<th>Marginal Product of Labor in Agriculture (MPL\textsubscript{a})</th>
<th>Marginal Product of Labor in Manufacturing (MPL\textsubscript{m})</th>
<th>Price of Agriculture good (P\textsubscript{a})</th>
<th>Price of Manufacturing good (P\textsubscript{m})</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>3</td>
<td>$10</td>
<td>$10</td>
</tr>
</tbody>
</table>

We multiply the MPL\textsubscript{a} by the P\textsubscript{a}. The wage rate in the agriculture sector will be $25.
4. France and Italy only trade with each other; each produces wine and bread. The production of bread is relatively capital intensive, and the production of wine is relatively labor intensive. France is relatively abundant in capital, and Italy is relatively abundant in labor.
According to the HO model, what is the impact of free trade between Italy and France on prices in each country?

Italy is relatively abundant in labor and wine is labor intensive, so by the Stolper-Samuelson Theorem Italy will export wine and France will import wine. France is relatively abundant in capital and bread is capital intensive, so by the Stolper-Samuelson Theorem France will export bread and Italy will import bread. This trade pattern will result in a decrease in the Italian price of bread and a decrease in the French price of wine.

5. According to the Stolper-Samuelson theorem, would you expect all workers across the globe to favor limiting trade? Why or why not?

No. The Stolper-Samuelson theorem indicates that wages will fall in the labor-abundant country but rise in the capital-abundant country when trade is limited. Thus, one would not expect worldwide support for limiting trade.