Question 1

a) \( \frac{MC_W}{MC_T} = \frac{MU_W}{MU_T} = \frac{P^A_W}{P^A_T} \)

b) \( \frac{MC_W}{MC_T} = \frac{P^{TOT}_W}{P^{TOT}_T} < \frac{MU_W}{MU_T} \)

c) Australia

d) \( P - O \)

Question 2

a) Country B is relatively more capital abundant, because \( \left( \frac{K}{L} \right)^B = \frac{1}{2} > \frac{1}{3} = \left( \frac{K}{L} \right)^A \).

b) Country A

c) Heckscher-Ohlin Theorem \( \Rightarrow \) Country B has a comparative advantage in steel

d) Capital benefits the most in Country B, as implied by the Stolper-Samuelson Theorem.

e) Transportation costs and other frictions

Question 3

a) c
b) d

c) b

Question 4 c

Question 5 c

Question 6 d