

ECON 3224 International Economics
Problem Set 1, Part 1: 25th Jan 2009

Instructions:

- I. You need to solve the PS and turn it in by the **5th February (Thu)**. You can hand it in during class or put it in my mailbox (ECON office, Professional Building) **before 1pm**.
- II. The basic format of the problem set and the style of the questions are what you can expect on the exam. There might be some multiple choice questions, some problems and some short answer questions on the exam.
- III. For the multiple choice questions given below, **CLEARLY** state which option you think is right on the answer sheet. There is **NO** need to explain your answers.

QUESTION 1 In the Ricardian model, complete specialization occurs in the trade equilibrium because

- a) Consumers like consuming only one good.
- b) Constant opportunity cost implies that the gains from specialization continue up to the extreme point.
- c) Perfect competition in the market for goods implies that lots of firms produce the same product so it makes sense to specialize.
- d) (blank option- do not choose)
- e) Perfect mobility of labor between the two sectors implies that all workers want to work in only one sector.

QUESTION 2 Country A has an absolute advantage in good X compared to good Y if

- a) $a_{LX} < a_{LY}$
- b) $a_{LX} < b_{LY}$
- c) (blank option- do not choose)
- d) $a_{LX} > b_{LX}$
- e) $a_{LX} < b_{LX}$

Questions 3-9 are all interconnected and share the same information. The first part of the information is the following:

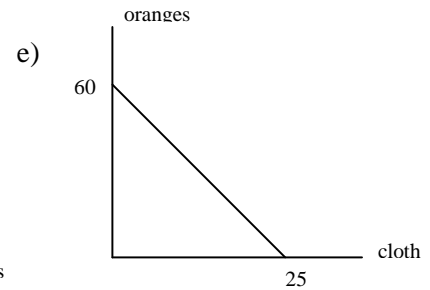
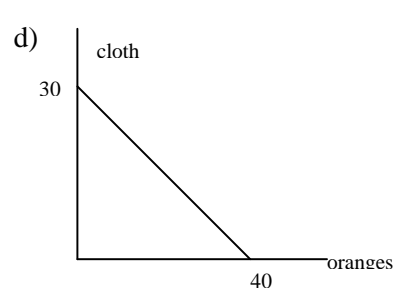
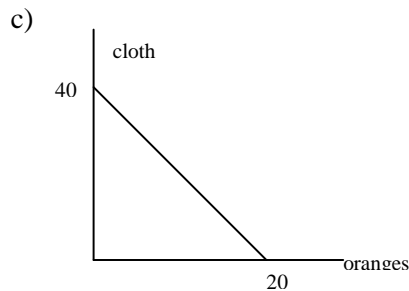
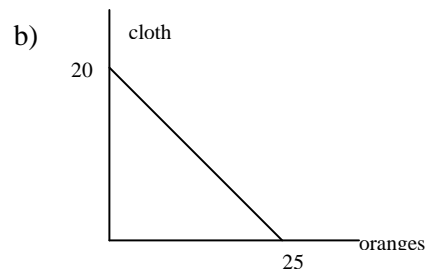
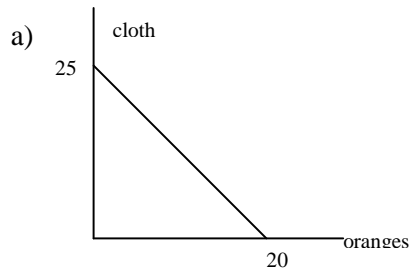
Two countries A and B use only labor to produce two goods oranges and cloth. Let a_{LO} be the number of units of labor used in A to produce one unit of oranges and let L^A be the total labor endowment of country A. Similarly, define a_{LC} , b_{LO} , b_{LC} and L^B .

QUESTION 3 Country A has a comparative advantage in oranges if :

- a) $(a_{LO} / a_{LC}) > (b_{LC} / b_{LO})$.
- b) $(b_{LO} / b_{LC}) < (a_{LO} / a_{LC})$.
- c) $a_{LO} > b_{LO}$.
- d) $(a_{LO} / a_{LC}) < (b_{LO} / b_{LC})$.
- e) $(b_{LO} / b_{LC}) > (a_{LC} / a_{LO})$.

For the same countries, you are now given the following information: Country A has 100 units of labor and country B has 200 units of labor. It requires 5 units of labor to make 1 unit of oranges in A and 4 units of labor to make 1 unit of cloth in A. It requires 10 units of labor to make 1 unit of oranges in B and 8 units of labor to make 1 unit of cloth in B.

QUESTION 4 Which graph exhibits the production possibilities frontier of country A?



QUESTION 5 What is the opportunity cost of oranges in terms of units of cloth?

- a) 1.50
- b) 1.25
- c) 1.00
- d) 0.80
- e) 0.75

QUESTION 6 Which country has absolute advantage in which good?

- a) Country A has absolute advantage in both goods.
- b) Country A has absolute advantage in oranges and B has absolute advantage in cloth.
- c) Country A has absolute advantage in cloth and B has absolute advantage in oranges.
- d) Country B has absolute advantage in both goods.
- e) Neither country has an absolute advantage in either good.

QUESTION 7 Which country has a comparative advantage in which good?

- a) Neither country has a comparative advantage in either good.
- b) Country A has a comparative advantage in oranges, B in cloth.
- c) Country A has a comparative advantage in both goods.
- d) Country A has a comparative advantage in cloth, B in oranges.
- e) Country B has a comparative advantage in both goods.

For the following questions, use all of the information above except the values of B's input coefficients, because country B now enjoys a technological advance that decreases its input coefficients from the ones listed above to $b_{LO} = 8$ and $b_{LC} = 4$.

QUESTION 8 Which country has comparative advantage in which good now?

- a) Country A has a comparative advantage in orange, B in cloth.
- b) Neither country has a comparative advantage in either good.
- c) Country A has a comparative advantage in cloth, B in orange.
- d) Country B has a comparative advantage in both goods.
- e) Country A has a comparative advantage in both goods.

QUESTION 9 If the world consisted of only A and B and there were no barriers to trade, which statement on the direction of international trade would be most likely to be correct?

- a) Country A would export oranges and country B would export cloth.
- b) (blank option – don't choose)
- c) There would be no international trade.
- d) Country A would export cloth and country B would export oranges.
- e) (blank option – don't choose)

*******SOME PROBLEMS**

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|-------------------|---------------------------------------|--------------------|
| Problem 1. | Chapter 2, Questions 2 | (1 point per part) |
| Problem 2. | Chapter 2, Question 3 | (1 point per part) |
| Problem 3. | Chapter 2, Question 5 (parts a and b) | (1 point per part) |