Econ 4550/6550
International Trade
Assignment 2
Due on: Monday, September 21

Please type your answers. This assignment has a total of 20 points.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question. [1x4 = 4]

1) A country engaging in trade according to the principles of comparative advantage gains from trade because it
   A) is producing imports indirectly more efficiently than it could domestically.
   B) is producing exports indirectly more efficiently than it could alternatively.
   C) is producing exports using fewer labor units.
   D) is producing imports indirectly using fewer labor units.
   E) None of the above.

   \[
   \begin{array}{|c|c|}
   \hline
   & \text{Cloth} & \text{Widgets} \\
   \hline
   \text{Home} & 10 & 20 \\
   \text{Foreign} & 60 & 30 \\
   \hline
   \end{array}
   \]

   2) Given the information in the table above, if it is ascertained that Foreign uses prison-slave labor to produce its exports, then home should
      A) export both and import nothing.
      B) export and import nothing.
      C) export widgets.
      D) export cloth.
      E) All of the above.

3) The Gains from Trade associated with the principle of Comparative Advantage depends on
   A) there can be no more goods traded than the number of trade partners.
   B) the trade partners must differ in technology or tastes.
   C) there may be no more trade partners than goods traded.
   D) All of the above.
   E) None of the above.

4) The Ricardian model demonstrates that
   A) trade between two countries may benefit both regardless of which good each exports.
   B) trade between two countries may benefit one but harm the other.
   C) trade between two countries may benefit both if each exports the product in which it has a comparative advantage.
   D) trade between two countries will benefit both countries.
   E) None of the above.
5) Given the following information:

<table>
<thead>
<tr>
<th>Unit Labor-Hour of Production:</th>
<th>U.S.</th>
<th>Croatia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soy</td>
<td>300</td>
<td>20</td>
</tr>
<tr>
<td>Toys</td>
<td>100</td>
<td>20</td>
</tr>
</tbody>
</table>

(a) What is the marginal cost of a toy in each country?
(b) How might you demonstrate (quantitatively) that a country with absolute productivity advantage in a product may find that its production is more costly than in the other (unproductive) country?
(c) Demonstrate the fact that trade produces imports (indirectly) cheaper, even in the relatively unproductive country. [2x3=6]

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

6) An examination of the Ricardian model of comparative advantage yields the clear result that trade is (potentially) beneficial for each of the two trading partners since it allows for an expanded consumption choice for each. However, for the world as a whole the expansion of production of one product must involve a decrease in the availability of the other, so that it is not clear that trade is better for the world as a whole as compared to an initial situation of non-trade (but efficient production in each country). Are there in fact gains from trade for the world as a whole? Explain. [5]

7) Many countries in sub-Saharan Africa have very low labor productivities in many sectors, in manufacturing and agriculture. They often despair of even trying to attempt to build their industries unless it is done in an autarkic context, behind protectionist walls because they do not believe they can compete with more productive industries abroad. Discuss this issue in the context of the Ricardian model of comparative advantage. [5]