

Fall 2010_ Econ 410_ International Economics

Quiz_2_Chapter_3_Answers

Directions: Suppose there are two countries in Ricardian one factor Comparative advantage model, domestic country and foreign country. All the assumptions of the Ricardian model are valid here. Assume that these two countries can produce only two goods, wine (W) and cheese(C). Assume that “*” notates foreign country variables. Now answer the following questions:

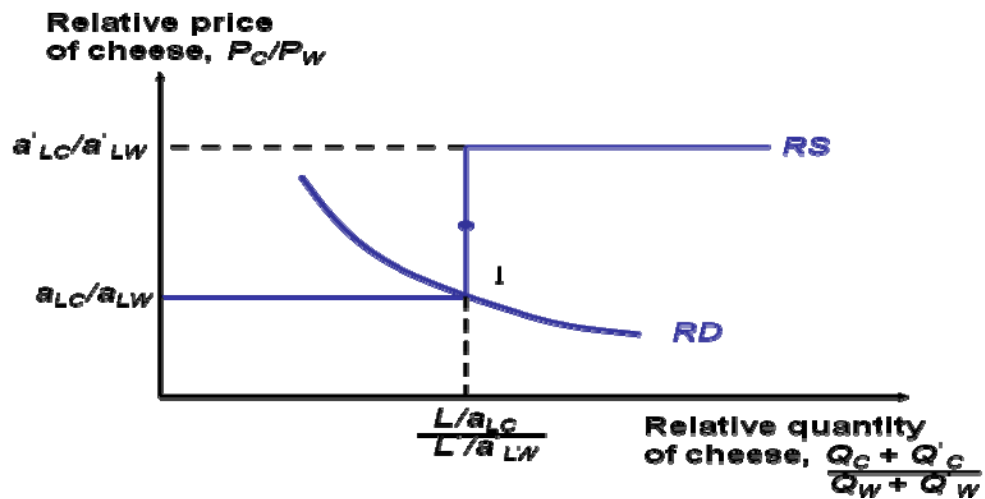
1. Suppose the domestic country wants to produce only cheese. It can do this if which of the condition(s) is(are) satisfied:
 - a. $a_{LC}/a_{LW} > a^*_{LC}/a^*_{LW}$
 - b. $a_{LC}/a^*_{LC} > a^*_{LW}/a^*_{LW}$
 - c. $a_{LC}/a_{LW} = a^*_{LC}/a^*_{LW}$
 - d. All of the above.

Answer: C

2. Suppose two countries engage in trade. Which condition will ensure that the foreign country would specialize in the production of wine?
 - a. $a^*_{LC}/a^*_{LW} > P_c/P_w > a_{LC}/a_{LW}$
 - b. $a^*_{LC}/a^*_{LW} = P_c/P_w > a_{LC}/a_{LW}$
 - c. $a_{LW}/a_{LC} > P_w/P_c > a^*_{LW}/a^*_{LC}$
 - d. All of the above

Answer: D

3. Look at the picture:



Which one is now true about the specialization of the two countries?

- Domestic country is indifferent between producing cheese or wine.
- The foreign country will specialize in the production of wine.
- The maximum amount of cheese that can be produced in the world is Q_C .
- All of the above.

Answer: D