

Problem 1

1. In what circumstances might a country NOT benefit from trade with another country?
2. Economist Russell Roberts once wrote, "Self-sufficiency is the road to poverty." Discuss how the principle of specialization and trade based on comparative advantage supports this claim.
3. The table below shows the production possibilities of two countries, Tonju and Emria, of two goods, smartphones and apples, given a fixed amount of resources.

	Smartphones	Apples
Tonju	39	13
Emria	48	24

- a. Which country has the absolute advantage in smartphones and which has the absolute advantage in apples?
- b. Calculate Tonju's opportunity cost of smartphones in terms of apples
- c. If the two countries were to specialize and trade with one another, which country would import smartphones?
- d. Assume the countries decide to specialize and trade and settled on a trading price of 2.5 smartphones per apple. Explain why the country that specializes in apples would experience gains from trade.

Problem 2

Use the information in the following table on the labor productivities in the United States and Canada to answer question a to f.

	United states	Canada
Bread (Loaves)	2 loaves	3 loaves
Steel (tons)	3 tons	1 ton

- a) Which country has an absolute advantage in Bread? In Steel? Explain.
- b) What are the EU's relative prices of Bread and Steel in the United States and Canada?
- c) What is the relative price of Steel in the United States if it does not trade? In Canada? Explain.
- d) Which country has a comparative advantage in Steel? in Bread? Explain.
- e) What are the upper and lower bounds for the trade price in Steel? in Bread?
- f) Draw a hypothetical production possibility curves (PPC) for the United States and label its slope. Suppose that the United States follows its comparative advantage in deciding when to produce on its PPC. Label its production points.