

ECON 136, Fall 2016
Homework assignment #1
Gains from trade
Due Wed. Sep. 7

Write your answers on a separate sheet, preferably typed. Attach a copy of this question sheet. Be sure your name is on your paper.

- Which of these statements are true in the Ricardian model?
 - If Country A has an absolute advantage in product X, it follows that Country B must have an absolute advantage in product Y.
 - If Country A has a *comparative* advantage in product X, it follows that Country B must have a absolute advantage in product Y.
 - Mutually profitable trade is not possible if Country A has an absolute advantage in both products X and Y.
 - The Ricardian model does not consider the evolution of comparative advantages over time.
- Question 13, text p. 37. Answer in your own words; do not just copy from the text.
- Question 14
- Question 15
- Question 16. Take “basis of trade” to mean who exports what, based on comparative advantage.
- Question 17. Note: “terms of trade” is defined in Chapter 3. Hint for part a: Japan gets 4 wines from Korea. Subtract the amount of wine it must give up to produce the corn that it exports. The result is Japan’s net gain. For part c, note that the given terms of trade ($1C=1W$) lies somewhere in the middle of the range of favorable terms of trade. Find the end points of the range in the form $1C=xW$ to $1C=yW$, substituting numbers for x and y