

Name &amp; SID:

Date:

1. The following table gives production statistics in terms of output per worker per week for Argentina and China. *Inspired by Professor Train's Spring 1994 Final Exam.*

	Argentina	China
Guns	2	8
Wheat (tons)	8	12

- a. Which country has each of the following types of advantages? No explanations.
- Absolute advantage in the production of guns. Argentina/China
  - Absolute advantage in the production of wheat. Argentina/China
  - Comparative advantage in the production of guns. Argentina/China
  - Comparative advantage in the production of wheat. Argentina/China
- b. Suppose each country has 200 workers who can be used in the production of either guns or wheat. Suppose further that the consumers in each country want to consume the same number of guns as tons of wheat. How much will each country produce of guns and wheat? How much of each good will each country trade with the other country? How much will each country consume of each good? Write your answers in the blanks below.
- Argentina will produce \_\_\_\_ guns and \_\_\_\_ tons of wheat.  
China will produce \_\_\_\_ guns and \_\_\_\_ tons of wheat.
  - Argentina will send \_\_\_\_ guns/tons of wheat (circle one) to China.  
China will send \_\_\_\_ guns/tons of wheat (circle one) to Argentina.
  - Argentina will consume \_\_\_\_ guns and \_\_\_\_ tons of wheat.  
China will consume \_\_\_\_ guns and \_\_\_\_ tons of wheat.
- c. Show that Argentina could not produce, by itself without trade, the quantities that you found in part iii that it would consume with trade.

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2. *Inspired by Professor Train's Spring 1995 Final Exam.*

- a. William lives on an isolated island. He makes a living by picking coconuts or fishing. He works 10 hours a day. In an hour, he can either pick 10 coconuts or catch 20 fish. Graph the production possibilities frontier (PPF) for William in a given day. Be precise whenever possible. Assume constant opportunity costs. Plot fish on the vertical axis and coconuts on the horizontal axis.

- b. Each day, William consumes twice as many fish as coconuts. How many fish and coconuts does William consume a day? Explain your answer.

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- c. In the meantime, on another island, Brendan is also picking coconuts and fishing. However, his production possibility frontier is different from William's: in an hour, Brendan can either pick 16 coconuts or catch 12 fish. Brendan also works 10 hours a day. After Brendan learns about William, he proposes that they trade, with the following terms of trade: 3 coconuts for 4 fish. If he decides to trade, what should William specialize in? Why?
- d. With the terms of trade above, how many coconuts and fish is William able to consume if he trades with Brendan? Explain your answer. Remember that William consumes twice as many fish as coconuts per day. Is William better off or worse off?