

Practice Problems: Trade

1. Workers in the United States can produce a small engine in 20 minutes, while workers in China can produce the same engine in 30 minutes. Workers in the United States can produce a pair of pants in 15 minutes, while workers in China can produce the same pair of pants in 30 minutes. Assume the U.S. has 100 available hours of work and China has 100 available hours of work.
 - a. Graph the production possibilities frontier for the U.S., with engines on the x-axis. Label the values of the x-intercept and y-intercept.
 - b. Graph the production possibilities frontier for the China, with engines on the x-axis. . Label the values of the x-intercept and y-intercept.
 - c. There is no reason for the U.S. to trade with China since the U.S. can make both pants and engines in less time. True or False? Why?
 - d. Suppose China and the U.S. do not trade. What are the wages in China and the U.S. in terms of the price of pants?
 - e. If the U.S. opens to trade with China, China will produce everything and the cheap Chinese labor will drive all of the jobs out of the U.S. The U.S. will have no money to buy engines and pants. True or False? Why?
 - f. What is the price of engines (relative to pants) in China and the U.S. when there is no trade?
 - g. If the world price of engines (in terms of pants) was 1.25, would there be trade? If so, who would export what?
 - h. Let the price of engines be 1.25. Show on your graphs from part a. and part b. what the consumption possibilities frontiers are for China and the United States. Label the intercepts of the consumption possibilities frontier. Be neat!
 - i. Argue that trading at the price 1.25 has made both countries better off. You may find it helpful to use your graphs in part a. and b.

2. You are working for Illy, a firm that produces and exports tasty coffee to the United States. Your boss tells you that domestic coffee roasters in the U.S. have filed a dumping complaint against the company, but he has no idea what that means.
 - a. Explain what two things the U.S. coffee roasters must show in order to find Illy “guilty” of dumping and what happens if Illy is found guilty.
 - b. Your boss had never heard of dumping before, but has been hearing about it a lot lately as the number of antidumping cases has increased. Explain to your boss why antidumping cases have increased.
3. The U.S. has a long running tradition of protecting sugar producers, going back to 1789 when then Treasury Secretary Alexander Hamilton helped pass a tariff on sugar imports. Currently the U.S. restricts the amount of imports of sugar into the U.S. through a system of quotas and guarantees sugar prices to U.S. producers that are higher than world sugar prices.
 - a. Who benefits from these policies?
 - b. Who is hurt by these policies?
 - c. Economists believe that the costs of the sugar policies outweigh the benefits of the policies, yet these policies remain. Why?