Week 1

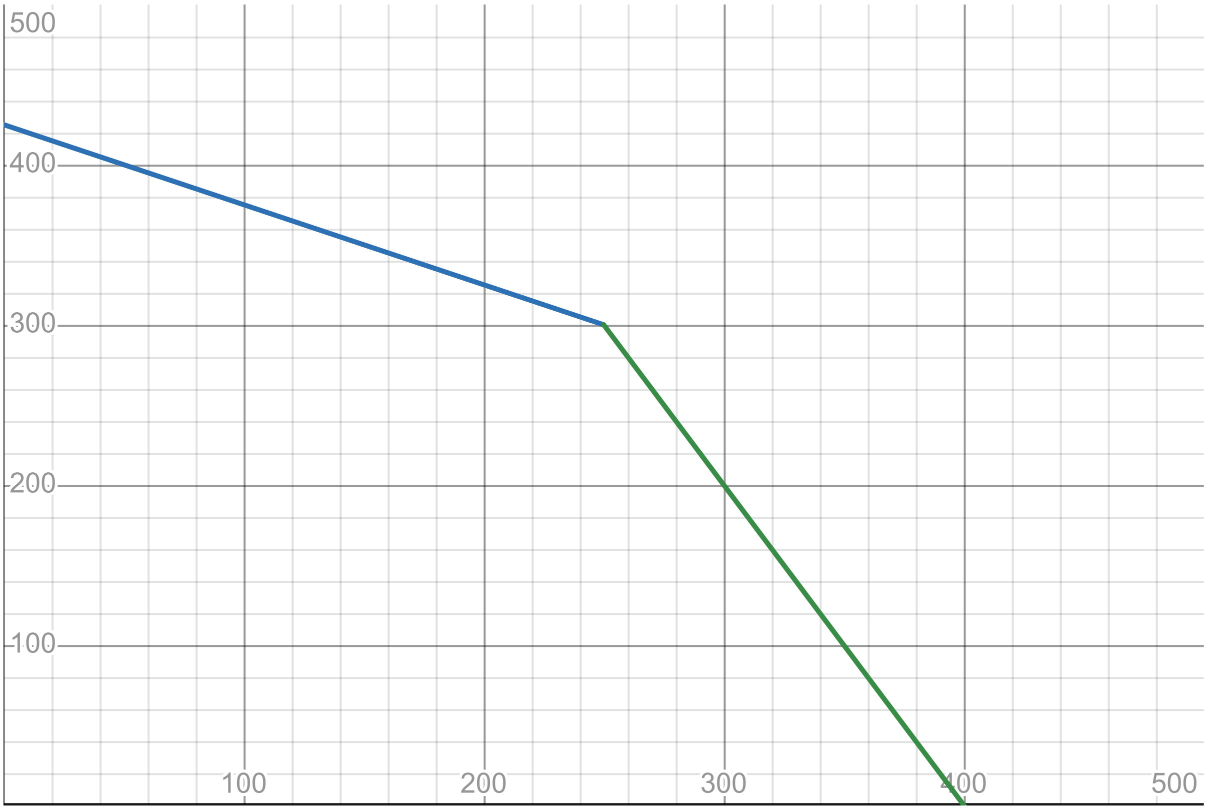
2. a.
   A: $y = 125 - \frac{1}{2}x$
   B: $y = 300 - 2x$

b. Country B has an absolute advantage on good 2. County A has a comparative advantage on good 1, because of the opportunity costs involved if B started producing good 1.

Why? Explain what is meant by absolute advantage.

Similar comment for comparative adv.: A has CA in good 1 because it must sacrifice fewer units of good 2 than B to produce one unit of good 1 (i.e. about gradients).

c.



OK

d.

	A	B
production good 1	250	0
production good 2	0	300
consumption good 1	150	100
consumption good 2	180	120
export good 1	100	0
export good 2	0	180

✓

e.

Yes, they are now able to consume more than they used to, and they ~~profit~~ benefit from exporting.

3. a.

	$\frac{A}{B}$
RC	$\frac{1}{2}$
T	1
PG	$\frac{4}{3}$
BP	$\frac{3}{2}$

✓

b.

	A	B
RC	8	32
T	8	16
PG	16	24
BP	12	16

ok, though explain how you obtained these figures.
Eg give the formula: price = wage × unit labour requirement.

c.

✓ Down, currently every good is more expensive in country B, ~~and country B has neither an absolute nor a comparative advantage.~~

d.

highest: £6
lowest: £2

ok, explain why briefly.

e.

✓ For rubber chickens (lowest) and beauty products (highest) you can predict it with certainty (because it is assumed that trade happens).

✓ For trousers and poison gas you need to know the price of labour.

f.

A	B
RC - £8	BP - £8
T - £8	PG - £12

g.

Autarky: (2000 hours total)

	A	B
RC	1000	500
T	1000	1000
PG	500	667
BP	667	1000

Trade: (£8000 total)

	A	B
RC	1000	1000
T	1000	1000
PG	667	667
BP	1000	1000

For every item, the workers can buy more or the same amount of that item that before trade, so they have gained from trade.

h.

- Countries benefit from trade and specialisation.
- Lowering wages does not necessarily mean that workers can buy less, their money might become worth more in terms of the goods that they can buy.

ok

+ Consider if there is any critical appraisal that you can offer.