

## EC1B5 | Chapter 14

# Macroeconomics and International Trade

### Additional Practice Questions:

#### Book Question 3

In India, an acre of land can produce 40 tons of sugar cane or 65 bushels of corn per season, while in the United States, an acre of land can produce 20 tons of sugarcane or 150 bushels of corn per season.

- Which country has the absolute advantage in the production of sugar cane? Of corn? Explain.
- Explain the concept of comparative advantage. What is India's comparative advantage in this case? What about the United States?
- Suppose U.S. scientists have developed a groundbreaking new technology that increases the productivity of sugarcane in the United States to 75 tons of sugarcane per acre (and has no effect on U.S. corn productivity or Indian productivity in sugarcane or corn). How does this change India's comparative advantage?

#### Book Question 4

Assume that an American worker can produce 5 cars per year or 10 tons of grain per year, whereas a Japanese worker can produce 15 cars per year or 5 tons of grain per year. Assume for this exercise that labor is the only input used in car and grain production.

- Which country has the absolute advantage in producing cars? In producing grain?
- For the United States, what is the opportunity cost of producing a car? What is the opportunity cost of producing a ton of grain? Show how you arrived at your numbers.
- For Japan, what is the opportunity cost of producing a car? What is the opportunity cost of producing a ton of grain? Show how you arrived at your numbers.
- If free trade is allowed, which country will import cars? Which country will import grain? Explain.

#### Book Question 5

Use the information below to answer the questions that follow.

	Production per Unit of Labor	
	The United States	Germany
<i>Wheat (tons)</i>	120	200
<i>Cars</i>	200	400

- Which country has the absolute advantage in producing cars? In producing wheat?
- For the United States, what is the opportunity cost of producing a car? What is the opportunity cost of producing a ton of wheat?

- c. For Germany, what is the opportunity cost of producing a car? What is the opportunity cost of producing a ton of wheat?
- d. If free trade is allowed, which country will export cars? Which country will export wheat? Explain.

**Book Question 9**

In 2019, the U.S. current account deficit was \$480 billion, while the trade deficit was \$577 billion.

- a. Why are the trade deficit and the current account deficit different?
- b. Based on the information in this problem, what were U.S. net capital outflows in the second quarter of 2020? Carefully show how you got your answer and explain, in words, the concept of net capital outflows.
- c. Suppose Apple (based in the United States) sold an additional \$0.5 billion in iPhones to retailers in Spain. How would this transaction affect the trade deficit? What about net capital outflows? Explain.
- d. How would an increase in the U.S. real interest rate affect the trade deficit? Net capital outflows? Explain.