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The Ricardian Model and Argentina

Below are several questions about the Ricardian Model in the context of Argentina as a small open economy. Take some time and please discuss them with your classmates.

Some information about Argentina: Argentina can produce two goods: manufactures and beef. The technology to produce manufactures and beef both only use labor and they have constant marginal products of labor. The marginal product of labor in manufactures is 2. The marginal product of labor in beef production is 6.

1. In autarky (i.e. no international trade) what is the relative price of beef to manufactures?

2. Suppose that Argentina is a ``small open economy'', that is it takes world prices as given and Argentina will have no impact on international supplies and prices. If the world relative price of beef to manufactures is 1/2, will international trade benefit those in Argentina? If so, what product will Argentina export? What product will it import?

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3. Suppose that Argentina's labor force equals 100 units. Illustrate the production possibility frontier, the point at which Argentina will produce, and given your answer in (2.) the consumption possibility frontier.

4. Since the early 2000's incomes in China have risen and in turn their demand for Argentine beef has risen. As a result of China's growth, this increase in demand has pushed up the world relative price of beef to manufactures to 2/3. How has Argentina's consumption possibility frontier changed? How have real wages (in units of manufactures) grown in Argentina?

5. Suppose that the Argentine government places a tax on the exports of beef to keep domestic food prices low. Specifically, for every one unit of beef sold internationally, the government takes 1/4 of a unit of beef.

   What is the effective (i.e. taxes included) world relative price those in Argentina face? How will real wages (in units of manufactures) change in response to the tax? How do you think vegetarians (who do not care about the price of beef) in Argentina feel about this policy?