

Introductory Macroeconomics

In-Tutorial #9
Week Starting 10th May 2021

Questions.

1. Bill and Scott are both capable of producing beer and soda. Assume the following table describes the number of minutes that it takes for each person to produce each product.

	Beer	Soda
Bill	30	15
Scott	60	30

- (a) What is Bill's opportunity cost for producing beer? Soda? What about Scott's?
 - (b) Are there possible gains from trade in this setting? Explain why or why not?
 - (c) Moving to international trade, do you think countries are more likely to gain from trading with nations with similar characteristics or by trading with nations that have very different characteristics?
2. One of the important events in world trade in recent months has been the escalation of a trade war between the USA and China. This trade war has increased tariffs in both the USA and in China. For concreteness, let's consider what happens to welfare in the USA economy from the USA imposing tariffs on Chinese goods. Are there any individuals that gain from the imposition of tariffs? If so, identify these individuals and explain why. Are there any individuals that lose from the imposition of tariffs? If so, identify these individuals and explain why. On aggregate, economists advocate that trade is welfare improving. If that is the case, why would politicians such as Trump advocate a policy that damages the economy and why would voters support such a politician?
 3. In many developed economies there has been an increase in wage inequality. In the last few decades, workers with a high level of skills have experienced larger increases in wages than workers who are less skilled.
 - (a) One explanation for the rise in wage inequality focuses upon the role of international trade and the integration of some large developing economies into the global economy. Suppose that these large developing economies have a comparative advantage in products that require unskilled labour. Explain how this will affect the wage differential between skilled and unskilled workers.

