

## QUIZ 2

### How trade occurs in Ricardian World?

Name: \_\_\_\_\_

Points: \_\_\_\_\_/10

Write “T” if the statement is True, and “F” if the statement is False.

*Pre-Trade Situation:*

**The Home country has MPL of shoe = 55, MPL of computer = 11, and labor = 100.**

1. Since workers move freely across sectors, workers earn the same wage in the shoe industry and computer industry at Home.

T.

2. Workers employed in the shoe sector are unskilled workers and the workers employed in the computer sector are skilled workers.

F. (by the assumption that workers are homogenous, meaning, there is no skill bias among workers)

3. If we take shoe on the horizontal axis, and computer on the vertical axis, the slope of the PPF for Home is 1/5.

T. ( $MPL_c / MPL_s = 1/5$ )

4. Home PPF is a straight line because the MPL is diminishing.

F. (because MPL is constant)

5. If production of shoe falls by 1 unit, 1/55 units of labor is released from the shoe sector and they stay unemployed.

F. (by assumption of full employment)

6. If home employ all worker in the shoe sector, the maximum amount of shoe produced will be 5500, and the amount of computer produced will be 0.

T. ( $L * MPL \text{ of shoe} = 100 * 55 = 5500$ )

**Now, the Foreign country has  $MPL^*$  of shoe = 50,  $MPL^*$  of computer = 10, and labor = 150.**

7. The Home country has the absolute advantage for both shoe and computer.

T. (since home has higher MPL for both)

8. If the labor-force size of the Foreign country doubles, this country will have the absolute advantage for shoe.

F. (Labor force size has nothing to do with absolute advantage)

9. The Home country has the comparative advantage for shoe because the opportunity cost of shoe is lower there.

F. (same opportunity costs as  $11/55 = 10/50$ )

**Now, the MPL of shoe in Home increases to 66.**

10. After the increase in MPL of shoe, Home has comparative advantage in shoe, as a result Home specializes in production of shoe.

T. (since  $1/6 < 1/5$ )