QUIZ 2

How trade occurs in Ricardian World?

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

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

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

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

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

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. \_\_\_\_\_\_\_\_\_\_\_\_\_\_

**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. \_\_\_\_\_\_\_\_\_\_\_\_\_

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

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

**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. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_