Name __________________________ ID#________________

Econ335, Spring 2001,Professor Lakshmi K. Raut, Duration of exam: 2 hours.
Match the terms on the left with the definition in the column on the right. **Enter the uppercase letter of that definition in the box to the left of the question number.** Each question carries 2 points.

G 1. Principle of comparative advantage	A. Buying something at a low price in one market and reselling it at a higher price in another market.
F 2. Absolute advantage	B. The amount of one good which is given up in order to get more of another.
J 3. Production-possibility curve (ppc) also known as production possibility frontier (PPF)	C. The price of goods determined by the forces of domestic demand and supply.
B 4. Opportunity costs	D. As one industry expands at the expense of others, increasing amounts of the other goods must be given up to get each extra unit of the expanding output.
H 5. Consumer surplus	E. A method of exchanging goods and services directly for other goods and services without using a separate unit of account or medium of exchange.
A 6 Arbitrage	F. When a nation is able to produce a commodity at the lowest labor cost compared to the whole world..
I 7. Community indifference curves	G. States that a nation, like a person, gains from trade by exporting the goods or services in which it has its greatest comparative advantage in productivity and importing those in which it has the least comparative advantage.
E 8. Barter trade	H. The difference between what a person would be willing to pay and what she actually has to bay to buy a certain amount of a good. It is the area below the demand curve and above the price level.
C 9. Autarky equilibrium prices	I. Show all consumption points which represent constant economic well-being for a whole group
D 10. Increasing marginal cost	J. shows all the combinations of outputs of different goods that an economy can produce with full employment of resources and maximum productivity

Questions 11-20 are TRUE/FALSE type and <u>each question carries 2 points</u>. **<u>Please write TRUE or FALSE (the whole word) on the box left of each question.</u>**

F 11. Under increasing costs, countries will always specialize completely in production of one good.

T 12. At the equilibrium trade price between two countries, the excess supply of the good in one country must equal the excess demand for the good in the other country.

F 13. The autarky equilibrium price of a good in terms of the other good in the US is 3.5 and in the foreign country is 1.5. The international price of this good in terms of the other good is going to be 4.

T 14. If the autarky equilibrium prices of two countries are different, they will benefit by free trade between them.

T 15. Capital is more mobile within than between countries.

F 16. North America and Europe have trade blocs, but Asia does not.

T 17. If a country in free trade export one good, it must be importing the other good.

T 18. In the one good case of chapter 2, if after trade the price of a good is lower than the autarky price in a country, then the consumers have higher consumer surplus than before trade and the producers have lower surplus than before trade.

T 19. In the one good case of chapter 2, suppose you are the manager of the only firm that produces the good in a country. If after trade the price of a good is expected to be higher than the country' s autarky equilibrium price, you would like to lobby for free trade in that good.

b. 20. Specialization in production is _______ with _______.

a. incomplete; constant costs
b*. incomplete; increasing costs
c. variable; constant costs
d. complete; increasing costs

For questions 21-35, use the following information (table 1 and figure 1) and **put a checkmark against the correct answer for multiple choice problems, and write TRUE or FALSE in the box for True/False type question. If you have more than one check mark for a question in which only one answer is correct, you do not get any credit.** Each question carries 3 points.

Country	Labor required to produce a unit of Wine	Labor required to produce a unit of Cloth	Labor availability
US	3	2.4	120
Foreign	4	2	120

Table1: Labor requirements for production of Wine and Cloth

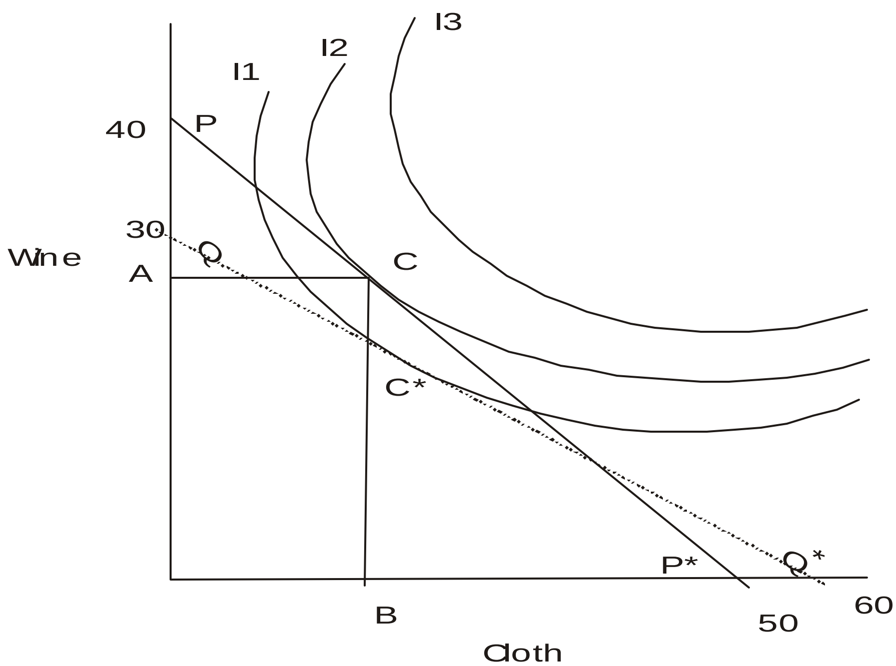


Figure 1:

21. The PPF (which is also known as PPC) for the US in Figure 1 is
    a. the line QQ*
    b. the line PP*
    c. the path ACB
    d. the curve I1
    e. none of the above

b.

22. The PPF for the Foreign in Figure 1 is
    a. the line QQ*
    b. the line PP*
    c. the path ACB
    d. the curve I1
    e. none of the above

a.

23. The slope of the PPF line PP* is
    a. ½,
    b. 4/5
    c. 1/5
    d. 5/4
    e. None of the above

b.

T

24. (TRUE or FALSE?) The opportunity cost of producing one unit of cloth in terms of foregone production of wine is the slope of the above PPF line PP*.

F

25. (True or False) The opportunity cost of producing one unit of wine in terms of foregone production of cloth is the slope of the above PPF line PP*.

26. Suppose we normalize price of wine (the y-axis good) to 1, i.e., $p_w = 1$, and denote the price of cloth in terms of wine as $p_{c|w}$. Suppose PP* is the PPF for the US. Then $p_{c|w}$ for the US in autarky is given by
    a. ½,
    b. 4/5
    c. 2/5
    d. 5/4
    e. None of the above

b.

27. The autarky equilibrium consumption point for the US assuming its PPF is given by PP* is
    a. A
    b. P*
    c. C
    d. C*
    e. Q*

c.

28. What is the autarky equilibrium income level of the US, when income is measured in terms of wine?
    a. 120
    b. 30
    c. 40
    d. 50
    e. 60

c.

29. What is the autarky equilibrium income level, when income is measured in terms of cloth?
    a. 120
    b. 30
    c. 40
    d. 50
    e. 60

d.

F

30. Suppose the international price is depicted by the line QQ* in Figure1. The international equilibrium price of cloth in terms of wine is higher than the autarky equilibrium price of cloth in terms of wineTrue or False?
31. Assume that QQ* is the new international price line. That is, the international price of cloth in terms of wine is given by the slope of the line QQ*. To maximize revenue the producers will supply
    a. cloth = 60 units, wine = 0 units.
    b. cloth = 50 units, wine = 0 units.
    c. cloth = 0 units, wine = 40 units.
    d. cloth = 0 units, wine = 30 units.
    e. None of the above, the correct answer is, cloth = ___ and wine = ______

c.

32. Suppose the slope of the new international price line QQ* is ½ , which is also the price of cloth in terms of wine. Recall that the price of wine in terms of cloth will be then 2. The maximized revenue <u>in the unit of cloth</u> when QQ* is the price line is
    a. 50
    b. 60
    c. 70
    d. 80
    e. 90

d.

T

33. If the international price line is given by the slope of the line QQ*. US will specialize in the production of wine. True or false?

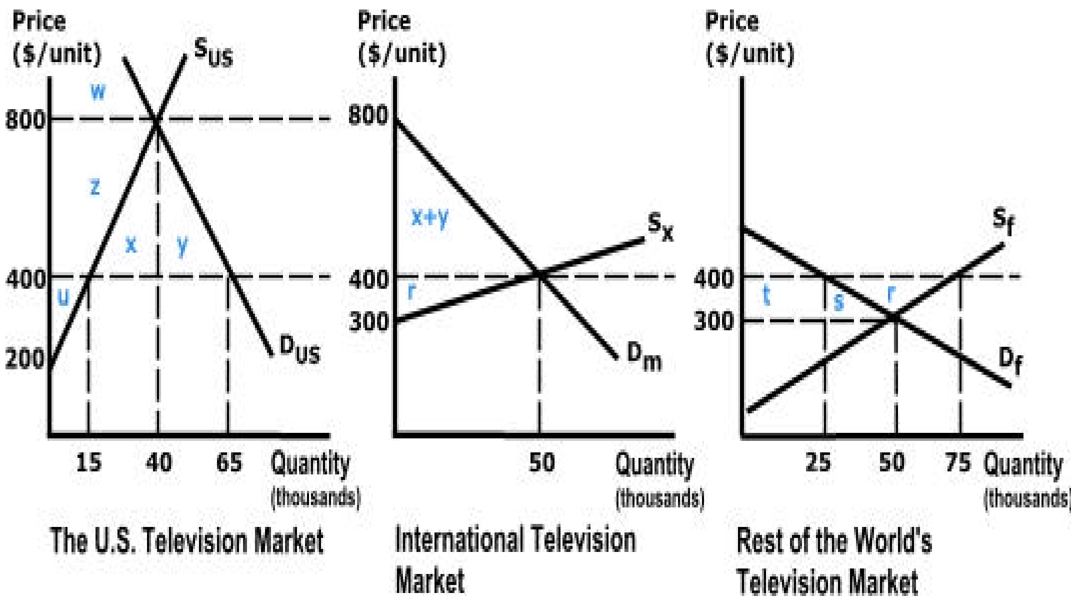
T

34. If the international price line is given by the slope of the line QQ*. US will export wine. True or False?

35. The maximum level of utility that US can attain in autarky is
    a. I1
    b. I2
    c. I3
    d. None of the above

b.

For the following 5 questions, consider the graph below. Answer each question by typing a lowercase letter, a set of letters in alphabetical order (example: a+b+c), or a number (without commas, decimals, or dollar signs) in the blank to the left of the question. Each question carries 3 points.



w	36. What area (letters) represents consumer surplus in the United States before trade?
wzxy	37. What area (letters) represents consumer surplus in the United States with free trade?
-z	38. What area (letters) represents the net effect of trade on producer in the United States?
xy	39. What area (letters) represents the total net effect of trade in the United States?
r	40. What area (letters) represents the total net effect of trade on the rest of the world?