EC 380: International Economic Issues Instructor: P. Economides Problem Set 1 Winter 2024 Due: 11:59 p.m. on Friday, January 19th Setup Answers must be submitted online through Canvas by the stated deadline (see above). Questions Q1. Answer the following short questions: 1) How is the Trade to GDP ratio measured? How has this value been trending over the years? 2) How does labor mobility far compared to the early 1900s?

3) Describe two features of contemporary international economic relations.

4) Briefly describe what a trade deficit is and the US track record on deficits.

5) Describe the employment possibilities and occupations open to students of international economics.

Q2. Suppose we are considering a Ricardian model setting, where countries have not yet opened up to trade. Two goods are produced exclusively by domestic labor supplies, sacks of coffee and sugar.

Home and foreign maintain the following marginal productivities of labor (MPL) in producing products. The two countries labor pools  $\bar{L}=50$  are equal, meaning no differences in labor endowment.

MPL	Coffee	Sugar
Home	12	10
Foreign	14	8

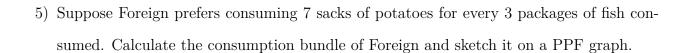
Consider the autarky scenario where countries do not exchange goods. Complete the following questions to obtain the two countries consumption and production equilibria.

1) Which country has comparative advantage in producing sugar?

2)	What are t	the max quan	atities of each good	d that Ho	ome and	Foreign c	an produce?	
			Max Output	Coffee	Sugar			
			Home Foreign					

3) Sketch the PPFs of Home and Foreign in a single graph, given max output levels. Be sure to correctly label the graph for full points.

4) Suppose Home prefers consuming 8 sacks of coffee for every sack of sugar consumed.
Calculate the consumption bundle of Home and sketch it on a PPF graph.



6) Consider a shock to the economy where Foreign suddenly becomes more productive at catching fish. Do comparative advantages change for a case in which  $MPL_{\text{Fish}}^F = 13$ ? How does Home's production/consumption bundle of potatoes and fish change?

Q3. Suppose we are considering a Ricardian model setting, where countries have not yet opened up to trade. Two goods are produced exclusively by domestic labor supplies, pint glasses and kegs of Guinness.

Home and foreign maintain the following marginal productivities of labor (MPL) in producting products. The two countries labor pools  $\bar{L}=100$  are equal, meaning no differences in labor endowment.

MPL	Pint Glasses	Guinness
Home	7	9
Foreign	14	28

Consider the autarky scenario where countries do not exchange goods. Complete the following questions to obtain the two countries consumption and production equilibria.

1) Which country has comparative advantage in producing pint glasses?

2)	What	are t	he max	quan	tities	of ea	ch g	good	that	Hom	e and	Fore	eign o	can p	oroduo	ce?
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3) Sketch the PPFs of Home and Foreign in a single graph, given max output levels. Be sure to correctly label the graph for full points.

4)	) Suppose Home prefers using 3 pint glasses for every keg of Guinness consumed. Calculate the consumption bundle of Home and sketch it on a PPF graph.						

5) Suppose Foreign tends to break glasses more frequently, leading them to consume 14 pint glasses per keg consumed. Calculate the consumption bundle of Foreign and sketch it on a PPF graph.

6) Consider a migrant boom occurs at home, where the workforce becomes  $\bar{L}=120$ . Do comparative advantages change for either country? How does Home's production bundle change?