EC 380: International Economic Issues Instructor: P. Economides Problem Set 1 Fall 2022 Due: 11:59 p.m. on Friday, October 7th 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, Pots and Plants.

Home and foreign maintain the following marginal productivities of labor (MPL) in producing products. The two countries labor pools $\bar{L}=35$ are equal in both countries.

MPL	Pots	Plants
Home Foreign	2 3	5 7

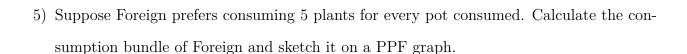
Consider the autarky scenario where countries do not exchange goods. Complete the following questions to obtain the two countries consumption and production equilibria.

1) Which country has comparative advantage in producing Plants?

2)	What	are	the :	max	quant	ities	of e	each	good	that	Home	and	Foreign	can	prod	uce?
						N	Лах	Out	put	Pots	Pla	nts				
							Iom ore:									

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 3 plants for every pot consumed. sumption bundle of Home and sketch it on a PPF graph.	Calculate the con-



6) Consider a shock to the economy where Home suddenly becomes more productive at making pots. Do comparative advantages change for a case in which $MPL_{Pots}^{H} = 8$? How does Home's production bundle 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, Air Pumps and Car Tires.

Home and foreign maintain the following marginal productivities of labor (MPL) in producting products. The two countries labor pools $\bar{L}=50$ are equal in both countries.

MPL	Air Pump	Car Tires
Home	14	8
Foreign	9	12

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 Tires?

2)	What are	e the ma	ax quan	tities o	of each	good	that.	Home	and	Foreign	can p	produce	?
							_	~					
				Max (Output	Air	Pump	p Ca	r Tir	es			
			_										
				Home									
				Foreig	n								
				roreig.	11								
			_										

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 tires for every pump consumed.	Calculate the con-
	sumption bundle of Home and sketch it on a PPF graph.	

5)	Suppose Foreign	prefers con	suming 12 t	tires for	every	pump	consumed.	Calculate th	ıе
	consumption bur	ndle of Foreig	gn and sketo	ch it on a	a PPF	graph.			

6) Consider a migrant boom occurs at foreign, where the Home workforce becomes $\bar{L}=60$. Do comparative advantages change for either country? How does Home's production bundle change?