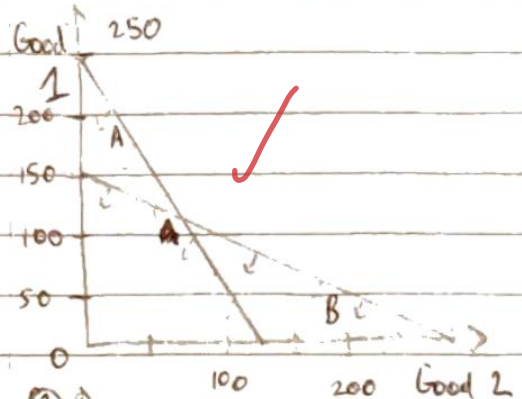
Nice (please leave more room for comments)

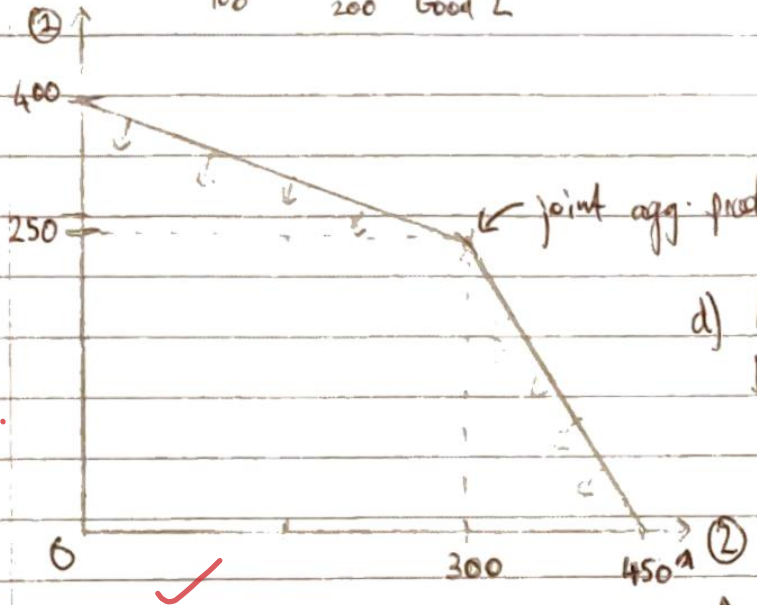
Trade tutorial sheet

2a) Good 1 / Good 2



b) No absolute advantage in good 1.
B has abs. advantage in good 2.
A's comparative advantage is in good 1;
B's is thus in good 2. ← Define.

c)



Briefly explain how you obtain this.

	Prod.	Export	Consume
d) A	① ×250	① × 100	① ×150, ② × 180
B	② ×300	② × 180	① ×100, ② × 120

e) Yes, they do both gain. Compared to autarky, A can consume 130 more of ② and B gets 20 more of ②

(Also, simply note that aggregate production is now greater, though that doesn't show both parties gained) ← exactly.

3a) (we neglect wages here?)

	B/A
Rubber	2
Trousers	1 ✓
Gas	0.75
Beauty	0.67

why are these ratios useful?

b) Yes. (assuming price = labour?) cost of Yes

	A/£	B/£
Rubber	8	32
Trousers	8	16
Gas	16	24 ✓
Beauty	12	16

c) [I thought the point was that, even when at an absolute disadvantage across all goods, both A + B benefit from specialisation and trade, i.e. B exporting to A. But, equally, it makes sense that nobody in A would want to buy B's goods. Hmm.] Lower [Would there be gains from trade except both sides can't find a price?]

Think about what were assuming about what determines the direction of trade.

d) Highest: £6, when they export beauty only) again - would there
Lowest: £2, when they import chickens only really be no trade if
e.g. wage = £1?

why would there be trade?

e) Rubber, imported. Beauty, exported. (from B's perspective).
For trousers and gas, it depends on the wage in B.

f) Rubber - £8 - A → B
Trousers - £8 - no trade as same prices?
Gas - £12 - B → A [this says nothing of demand/consumption need, which feels confusing]
Beauty - £8 - B → A
[maybe B barely needs any rubber, etc.]

g)

	A		B		
Rubber	1000	1000	500	1000	
Trousers	1000	1000	1000	1000	
Gas	500	667	667	667	
Beauty	667	1000	1000	1000	
	£8k		£16k	£8k	
	aut.	trade	aut.	trade	

The prices of products available to B have fallen. In the case of rubber, this outweighs the effect of falling wages, so purchasing power actually increases

h)
- Wages and prices need to be able to adjust and reach new equilibria in order for gains from trade to be realised [are these eq. prices determined by global supply + demand?]
- Numerical wages only tell part of the story, purchasing power is important too.
- A country at an absolute disadvantage can still benefit in some sense from opening up to free trade, via lower prices for consumers [but what would happen to employment?]

Excellent

You are doing the right thing here, which is to draw out the model's conclusions but then also ask yourself how much sense they make.