

Problem Set 3: The Theory of Comparative Advantage

1. Which of the following is not a factor of production?
 - a. Capital
 - b. Labor
 - c. Services
 - d. Land

2. The Circular Flow Diagram illustrates _____.
 - a. the fundamental movements of resources between households and firms
 - b. the formation of storm clouds
 - c. the transformation from a socialist to a capitalist economy
 - d. None of the above.

3. Which of the following is not one of the three fundamental economic questions?
 - a. What to produce?
 - b. How to produce?
 - c. For whom to produce?
 - d. When to produce?

4. How societies answer the three fundamental economic questions is reflected in their _____.
 - a. Religious system
 - b. Economic system
 - c. Folkloristic system
 - d. None of the above.

5. Which of the following statements about the production possibility frontier is **false**?
 - a. It is a line-up of all possible production combinations under given resource constraints.
 - b. Its slope is also the marginal opportunity cost of the good in the x-axis.
 - c. Under autarky it is possible to consume beyond the production possibility frontier.
 - d. Under trade it is possible to consume beyond the production possibility frontier.

6. Thomas Malthus was convinced that _____.
 - a. population will eventually outgrow the available productive capacity.
 - b. agricultural production can be increased infinitely.
 - c. fast population growth is good for the economy.
 - d. more food could be made available if people could be convinced of a healthier diet.

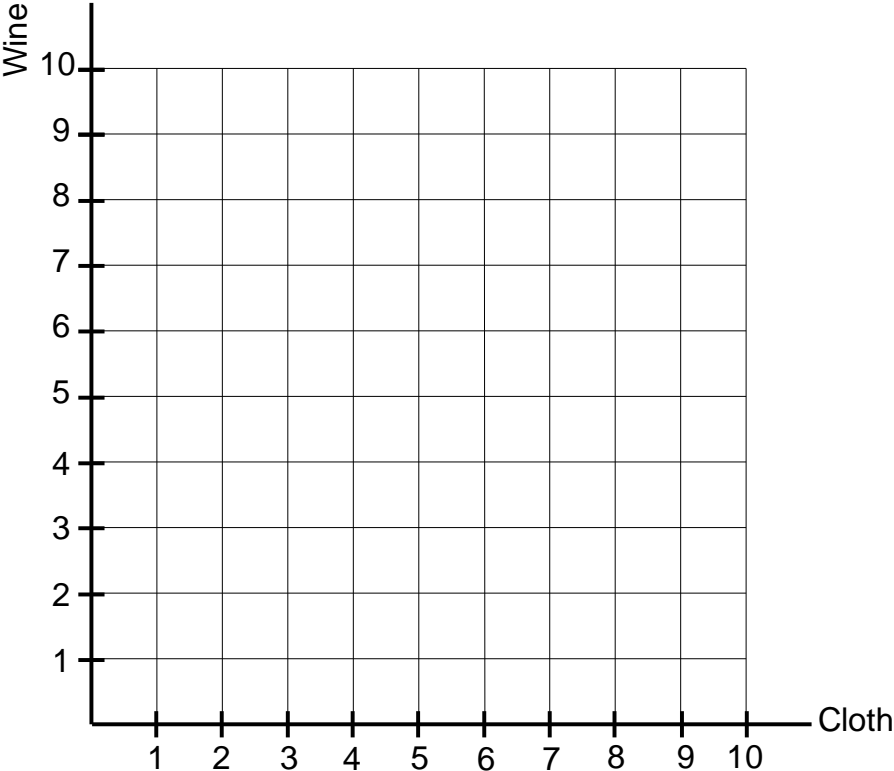
7. David Ricardo showed that _____.
 a. population will eventually outgrow the available productive capacity.
 b. agricultural production can be increased infinitely.
 c. food availability can be increased through trade.
 d. more food could be made available if people could be convinced of a healthier diet.
8. Modern trade theory employs _____.
 a. the concept of marginalism
 b. the concept of opportunity cost
 c. Answers a. and b. are correct
 d. None of the above
9. Modern trade theory was developed as a critique of _____.
 a. Mercantilism
 b. Socialism
 c. Corporatism
 d. All of the above.
10. Modern trade theory is about _____ cost advantage
 a. competitive
 b. comparable
 c. complimentary
 d. comparative
11. If the production possibilities frontier is a straight line, then “?” must be _____.

Sweaters	Gloves
4	300
6	?
8	100

- a. 100
 b. 150
 c. 200
 d. 250
12. If labor in Mexico is less productive than labor in the United States in all areas of production,
 a. then neither nation can benefit from trade.
 b. then Mexico can benefit from trade but the United States cannot.
 c. then the United States will have a comparative advantage relative to Mexico in the production of all goods.
 d. then both Mexico and the United States still can benefit from trade.

13. Suppose a gardener produces both green beans and corn in her garden. If she must give up 14 bushels of corn to get 5 bushels of green beans, then her opportunity cost of 1 bushel of green beans is
- a. 0.36 bushel of corn.
 - b. 2.8 bushels of corn.
 - c. 5 bushels of corn.
 - d. 14 bushels of corn.

Question 14-23 refer to the following scenario: There are two countries, England and Portugal. Each country can produce wine and cloth. Portugal has three workers. One Portuguese worker can produce one unit of cloth or two units of wine. England has 10 workers. One English worker can produce one unit of cloth or one unit of wine. Both countries always want to consume as many units of wine as cloth.



14. In Autarky: How many units of cloth will Portugal produce?
- a. 1
 - b. 2
 - c. 4
 - d. 5

15. In Autarky: How many units of wine will England produce?
- 1
 - 2
 - 4
 - 5
16. For England, the opportunity cost of producing one extra unit of wine is _____ forgone units of cloth
- 1
 - 2
 - 4
 - 5
17. For Portugal, the opportunity cost of producing one extra unit of cloth is _____ forgone units of wine
- 1
 - 2
 - 4
 - 5
18. Under free trade, which statement is true?
- England will specialize on wine.
 - Portugal will specialize on cloth.
 - Both a. and b. are correct.
 - None of the above is correct.
19. Under free trade, Portugal will produce how many units of wine?
- 0
 - 2
 - 4
 - 6
20. Under free trade, England will produce how many units of cloth?
- 2
 - 4
 - 6
 - 8
21. Under free trade, England will produce how many units of wine?
- 0
 - 2
 - 4
 - 6

22. Compared to joint production under autarky, how many more units of each wine and cloth will be available after trade?

- a. 1
- b. 2
- c. 3
- d. 4

23. Assume that Portugal and England sign a trade agreement, which states that each country shall consume whatever they consumed under autarky plus half of the excess (additional) production under specialization. Then, England exports _____ units of the good in which it has a comparative advantage.

- a. 1.5
- b. 2.5
- c. 3.5
- d. 4.5