

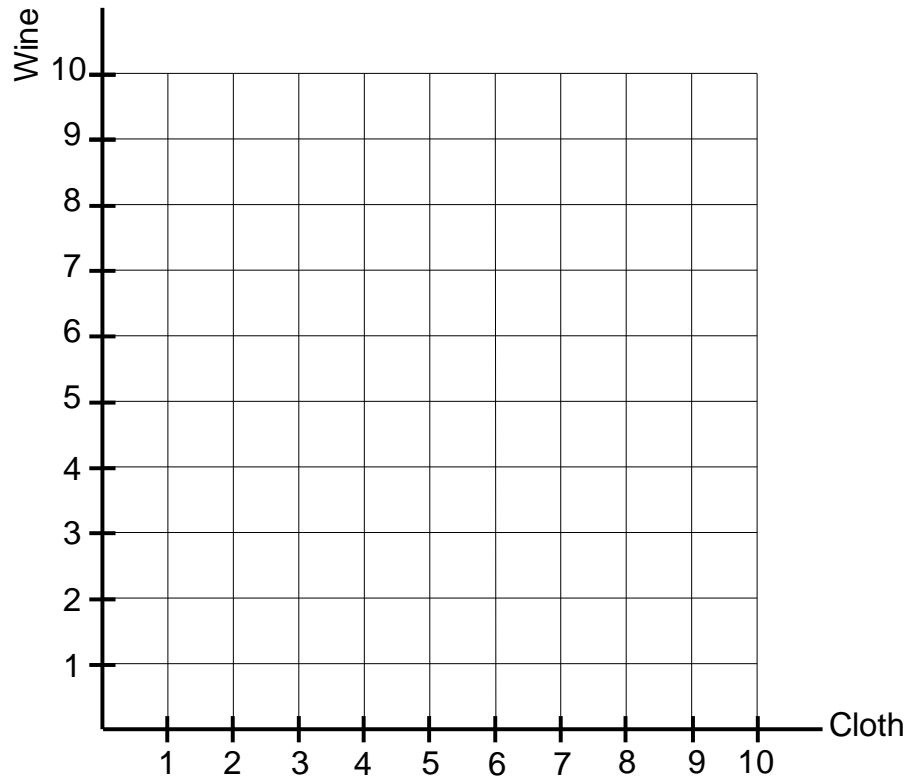
Problem Set 2: Trade-Offs, Comparative Advantage, Market System

1. 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
2. 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.
3. 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.
4. 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.

Question 5-8 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.



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

6. In Autarky: How many units of wine will England produce?
 - a. 1
 - b. 2
 - c. 4
 - d. 5

7. For England, the opportunity cost of producing one extra unit of wine is _____
forgone units of cloth
- a. 1
 - b. 2
 - c. 4
 - d. 5
8. For Portugal, the opportunity cost of producing one extra unit of cloth is _____
forgone units of wine
- a. 1
 - b. 2
 - c. 4
 - d. 5

Question 9 - 14 refer to the following scenario: 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.

9. Under free trade, which statement is true?
- a. England will specialize on wine.
 - b. Portugal will specialize on cloth.
 - c. Both a. and b. are correct.
 - d. None of the above is correct.
10. Under free trade, Portugal will produce how many units of wine?
- a. 0
 - b. 2
 - c. 4
 - d. 6
11. Under free trade, England will produce how many units of cloth?
- a. 2
 - b. 4
 - c. 6
 - d. 8
12. Under free trade, England will produce how many units of wine?
- a. 0
 - b. 2
 - c. 4
 - d. 6

13. 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
14. 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
15. Which of the following is not a factor of production?
- a. Capital
 - b. Labor
 - c. Services
 - d. Land
16. 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.