

International Trade: Problems

Consider the following two economies. In Wilson, it takes 3 hours of labor to produce a helicopter and 1 hour of labor to produce a bottle of gin. In Namath, it takes 2 hours to produce a helicopter and two hours to produce a bottle of gin. Namath has 300 hours of labor while Wilson has 600 hours.

1. Plot Wilson's production possibilities frontier.
2. Plot Namath's production possibilities frontier.
3. Does either country have an absolute advantage.
4. Which country has a comparative advantage in gin? How about helicopters?
5. Devise a trade that allows both countries to consume combinations of gin and helicopters that are outside their production possibilities frontiers.
6. Change the problem to give Namath an absolute advantage. Show how trade could still benefit both countries.
7. Suppose that helicopters cost \$10 and gin costs \$5. What is Namath's trade deficit from #5?
8. Why do advanced economies generally export goods that require relatively high amounts of skilled labor?
9. Provide an economic justification from preventing two countries from voluntarily trading with each other.