

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

We will be meeting during my office hours on Thursday. Come by around 4:00 to discuss this homework assignment and the material you are reading.

This assignment covers chapters 1 and 2.

1) (40 points) Suppose that the following table shows the number of hours that it takes somebody to make that item in each country. Assume each country has 500 hours of labor. Use that information to determine who has absolute advantage in each good and who has comparative advantage in each good. Draw the two countries' PPFs and show a trade that will enable both countries to be better off. Explain how you got your answer to each part and show all calculations.

Hours per item	USA	Mexico
Cars	20	50
Hats	5	10

2) (40 points) Suppose that the following table shows the number of items that can be made per hour in each country. Assume each country has 10 hours of labor. Use that information to determine who has absolute advantage in each good and who has comparative advantage in each good. Draw the two countries' PPFs and show a trade that will enable both countries to be better off. Explain how you got your answer to each part and show all calculations. (Note the answers will not be identical to those for question #1.)

Items per hour	USA	Mexico
Coats	20	50
Briefcases	5	10

3) (20 points) Suppose that we had an exchange rate that caused the following table to hold. Clearly the dollar cost of each item is cheaper in Mexico. Unless something changes, we would not export to Mexico. What would change to correct the situation and why would it change? Assume there is no government intervention.

\$/unit	USA	Mexico
Computers	1000	800
Desks	500	100