

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points each) All four of the views of equity described in the book have problems. For each of the views of equity, define it and explain the problem with it.

A) Egalitarian

B) Market-oriented

2) (25 points) Draw an PPF/indifference curve diagram for automobiles and toilet paper. Draw it such that we are importing automobiles and exporting toilet paper. Explain how you know what we are importing and what we are exporting. Prove we are better off than if we did not trade.

3) (30 points) Suppose that a phone takes five hours to build in the USA and two hours to build in China. A computer takes 10 hours to build in the USA and 8 hours to build in China. Which country has an absolute advantage in phones and which has an absolute advantage in computers? Explain your logic. Which country has a comparative advantage in phones and which has a comparative advantage in computers? Explain your logic. Find a trade which will make both countries better off. Explain how you know it will make both better off.

4) (15 points) What are MRT and MRS? Why should they be equal?