

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) (10 points) Which part of my web page, <http://mysite.bethanywv.edu/wcsaplar/> do you think will be most helpful? Why? Is anything missing that you would like to see? What is the URL for the first exam from this class during the last semester it was taught?

2) (10 points) Which part of the Department of Economics and Business's web page, <http://www2.bethanywv.edu/econ/> do you think will be most helpful? Why? Is anything missing that you would like to see? If you were a sophomore Business major, then what courses does the departmental web page suggest you be taking this semester?

3) Suppose it takes Mexicans 10 hours to make a hat and 15 hours to make a dress. It takes Americans 4 hours to make a hat and 10 hours to make a dress. Assume both countries have the same 300 hours of labor available.

A) (5 points) Which country has an absolute advantage in each good? Explain your logic.

B) (10 points) Which country has a comparative advantage in each good? Show all work and explain your logic.

C) (5 points) What range of relative prices would the countries be willing to trade at? Choose a price in that range for use in the rest of question. Explain your logic.

D) (15 points) Draw the supply and demand for hats such that the relative price is the price you chose in part C. Explain why the graph looks as drawn.

D) (15 points) Draw the supply and demand for dresses such that the relative price is the price you chose in part C. Explain why the graph looks as drawn.

E) (20 points) Draw the two PPF/CPF diagrams which have the two countries trading. Prove that both countries are better off with the trade than autarky.

4) (10 points) State the law of comparative advantage and prove it mathematically. Briefly explain your proof.