

Place your name on the back of this sheet of paper and nowhere else. Staple your answers 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) (25 points) Draw the back-to-back supply and demand diagrams for two countries. Explain why the left-hand half of the diagram looks as drawn. Find the price in each country assuming there are transportation costs, but those costs do not stop all trade. Explain how your diagram shows the price, the transportation costs, and the volume of exports is the volume of imports.
- 2) (10 points) China has started to “build a green fence.” They are rejecting shipments of recyclables which have too much trash mixed in with it. Although environmentalists applaud this move, there is some concern about how it would affect Africa. Explain the concern.
- 3) (25 points) Draw the product cycle diagram. Explain why it takes its shape and how it can result in intra-industry trade. In which stage do you think there is the most intra-industry trade? Explain your logic.
- 4) (15 points) State the Rybczynski Theorem. Explain the economic reasons why this makes sense. You do not need to draw a graph.
- 5) (5 points) We have not discussed import taxes called tariffs. How do you think the effects of tariffs will compare the transportation costs in Question #1. Explain your logic.
- 6) (20 points) Draw the PPF for a country which is labor abundant. Use artwork as the labor intensive good and cars as the capital intensive good. Explain why the graph looks as drawn. Illustrate an increase in the amount of capital. Explain why the curve moved as drawn.