

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 10 points. If you use double-sided printing or write on the back of scrap paper, I will give you one additional point.

1) (10 points) What part of my webpage <http://www.WCsaplarJr.info> do you think is most helpful? Explain your logic. Is anything missing which would be helpful? If you were a Managerial Economics major, then which courses would you be taking *comps* in on Tuesday Morning?

2) Suppose the USA has 100 units of labor and China has 300 units of labor. In the USA, it takes 2 units of labor to produce 1 unit of food and 10 units of labor to produce 1 computer. In China, it takes 1 unit of labor to produce 1 unit of food and 3 units of labor to produce a computer. **For each part, show all mathematics and briefly explain how you reached your conclusion.**

A) (5 points) In autarky, what would be the relative price of a computer in each country?

B) (5 points) Which country has the absolute advantage in producing each good?

C) (5 points) Which country has the comparative advantage in producing each good?

D) (5 points) Which country would specialize in which good? What relative price would be acceptable to both countries for trading computers and food?

E) (20 points) Draw the PPF and CPF for the USA and on a separate graph, draw the PPF and CPF for China. Make sure that both graphs have the same volume of trade in both goods and that the diagram shows the relative price you mentioned in Part D.

F) (10 points) Draw the world supply and demand for food which illustrates what you already drew.

G) (10 points) Draw the world supply and demand for computer which illustrates what you already drew.

H) (10 points) How would your answers to Parts A through D change if the numbers changed from L/Q to Q/L? In other words, the second sentence would start, "In the USA, you get 2 units of food from each unit of labor ..."

3) (10 points) When we answered Question #2, we assumed that comparative advantage depended solely upon the amount of labor used. What else might determine comparative advantage? Explain your logic.

4) (10 points) Indifference curves cannot cross. Explain why they cannot cross.