

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet and any graph paper used, with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (10 points) Answer EITHER Part A OR Part B.

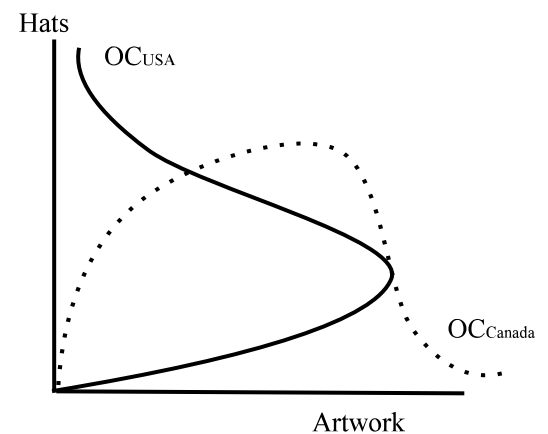
A) Is the slope of the PPF the negative of how many of Good X are given up to produce one of Good Y, or is it how many of Good Y are given up to produce one of Good X? Explain your logic.

B) We gave at least two reasons why a country might export a good. State two reasons and explain how that can lead to the country exporting that good.

2) (18 points) Answer EITHER Part A OR Part B.

A) Redraw the figure to the right in your bluebook. Which country has a comparative advantage in hats? Explain your logic. Determine whether the two places the offer curves touch are stable or unstable equilibria. Prove your conclusions.

B) Draw a normal shaped offer curve diagram for Mexico and Argentina. Have Mexico have a comparative advantage in tacos and Argentina have a comparative advantage in silverware. Add the terms-of-trade line and one trade indifference curve for each country at the point they are trading. Briefly explain how you know which offer curve belongs to which country and how you know which trade indifference curve belongs to each country.



3) (32 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand for pajamas in the USA and in Germany. Assume that the USA has a lower price of pajamas in autarky. Use the two diagrams to derive the world's supply and demand diagram. Explain how you got those lines for the world diagram.

B) Draw the PPF for the USA for telephones and sculptures. Assume the USA has a comparative advantage in telephones. Use your diagram to find two points on our offer curve. Plot those to points on the offer curve and the autarky point. Explain what you did.

4) (40 points) Suppose that in the USA, one unit of labor can make 4 suits or 8 pants. In Honduras, one unit of labor can make 2 suits or 10 pants. The USA has 100 units of labor and Honduras has 20 units of labor. **For each part, show all mathematics and briefly explain how you reached your conclusion.** In autarky, what would be the relative price of a pant in each country? Which country has the absolute advantage in producing each good? Which country has the comparative advantage in producing each good? Which country would specialize in which good? What relative price would be acceptable to both countries for trading computers and food? Draw the PPF and CPF (when the countries are trading) for **EITHER** the USA **OR** Honduras. Add indifference curves to show where they consume. Make sure the graph has the same the relative price you mentioned in earlier. Draw the world supply and demand for **EITHER** pants **OR** suits which illustrates the situation. Remember to briefly explain all graphs.