

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

- 1) (10 points) Why do open economies grow faster than closed economies?
- 2) (10 points) Why do exchange rate fluctuations affect the economy?
- 3) (30 points) Suppose that it takes Americans two hours to make a computer but four hours to make an automobile. The Japanese take one hour to make a computer and three hours to make an automobile. Which country has a comparative advantage in computers and which country has a comparative advantage in automobiles? Explain your logic. Assuming that both countries have 120 hours of labor, draw both countries' PPF and PPC. Draw the American curves on one diagram and the Japanese curves on the other diagram. Explain how you got the curves.
- 4) (30 points) Suppose that Americans make two computers per hour but four automobiles per hour. The Japanese make a computer per hour and three automobiles per hour. Which country has a comparative advantage in computers and which country has a comparative advantage in automobiles? Explain your logic. Assuming that both countries have 120 hours of labor, draw both countries' PPF and PPC. Draw the American curves on one diagram and the Japanese curves on the other diagram. Explain how you got the curves.
- 5) (20 points) State the *Law of Comparative Advantage*. Prove it and explain why it is true.