Wilfrid W. Csaplar Jr., Ph.D. Economics 360 Exam #1 2024/9/18

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet 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 10-point question should take 5 minutes.

1) (36 points) Suppose that Argentina can make 4 computers per hour or 8 paintings per hour. In Italy, they can make 5 computers per hour or 20 paintings per hour. Assume both countries have 10 hours of labor. Which country has an absolute advantage in paintings? Which country has an absolute advantage in computers? Which country has a comparative advantage in paintings? Which country has a comparative advantage in computers? What price could they trade with? Draw **ONE** of the countries' PPF & CPF curve on the same graph. Draw the S/D diagram for **ONE** of the products. **Show all work and briefly explain all of your answers.**

2) (12 points) Answer EITHER Part A OR Part B.
A) What is the slope of an indifference curve? What is the slope of the CPF? Why should those two slopes be equal at the most efficient consumption point?
B) What is the slope of the PPF? What is the slope of the CPF? Why should those two slopes be equal at the most efficient production point?

3) (12 points) Answer EITHER Part A OR Part B.
A) Draw the PPF when there are increasing returns to scale. Explain why it takes that shape.
B) State the Leontief Paradox. Give the most likely explanation and explain how it could cause it.

4) (40 points) Use this information to answer the question for EITHER Argentina OR Italy. According to the article below, in 1890, the K/L ratio in Argentina was 15 and in Italy it was 3. Let us pretend that one country exported agriculture and the other exported ships. Assume the Heckscher-Ohlin (H-O) Model applies. Draw the PPF/indifference curves/CPF diagram and the offer curve/indifference curves/TOT graphs for whichever country you chose assuming they were trading with the other country. Make sure there are at least two indifference curves on each graph. Explain how you know which good they were exporting. Explain how your graphs show the country exporting the appropriate good on both graphs. Explain how your two graphs show the same prices and quantities traded are the same. You do need to draw two offer curves, but only explain how you knew which one corresponded to the country you chose.
https://ourworldindata.org/grapher/capital-intensity-vs-labor-productivity?tab=table&time=earliest..2015