Wilf Csaplar Jr.   Economics 360   Homework #3   **Due Tuesday 2/8**

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type this assignment 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.

Graph paper may be helpful for Question #2.

1) (5 points) According to a list of our exports to India and a separate list of their exports to us, one of the countries exports airplanes and the other exports clothing. (I am not providing a link because that will tell you the answer.) Which country do you think exports which product? Explain your logic citing one of our theories.

2) (50 points) Draw a PPF diagram for cars and artwork. Suppose the country is capital abundant. Explain how your graph shows the abundance of capital. Draw two CPF, a.k.a. TOT lines with different prices, but the country is exporting the capital-intensive good. Use indifference curves to find the amount of trade in each situation. State how you found the amount of exports and imports. Use that information to draw two points on an offer curve for that country. State how you found the points. Draw the offer curve. State how you know which axis it bends towards. Draw two trade indifference curves on the offer curve through those two points. State how you know they curve the direction you drew them.

3) (25 points) Draw an offer curve diagram which has the offer curve cross three times. Determine which intersection(s) are stable and which are not. Explain how you found that.

4) (10 points) When NAFTA was extended to include Mexico in 1993, which country's labor benefitted from it? Explain your logic.

5) (10 points) The Heckscher-Ohlin Model assumes identical tastes. Explain why that is important.