

ECON 305
INTERNATIONAL ECONOMICS I
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Exercise 01
Absolute Advantage

1. The following table shows the hours of labor required to produce one unit of each commodity in each country:

	Cloth (hours/yard)	Wine (hours/Gallon)
Portugal	1	4
England	2	3

- a. Is there a basis for trade? Explain.
- b. Which country is expected to specialize in **cloth** production? In **wine** production?
- c. What is the opportunity cost of **wine** in terms of **cloth** in England? In Portugal?
- d. Suppose that terms of trade is $1W=2C$. Does opening its economy into trade make England better off or not? Show.
- e. Suppose that terms of trade is $1W=4.1C$. Which country is reluctant to open its economy into trade? Explain.