ECON 305
INTERNATIONAL ECONOMICS I
08 October 2007
Dr. Yetkiner

Exercise 02
Comparative Advantage

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

<table>
<thead>
<tr>
<th></th>
<th>Cloth (hours/yard)</th>
<th>Wine (hours/Gallon)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portugal</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>England</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

a. Is there a basis for trade? Explain.

b. Which country is expected to specialize in cloth production according to David Ricardo? In wine production?

c. What is opportunity cost of wine in terms of cloth in England? In Portugal?

d. Suppose that terms of trade is 1W=1.25C. Does opening its economy into trade make England better off or not? Show.

e. Suppose that terms of trade is 1W=0.75C. Which country is worse off by opening its economy into trade? Explain.