

**ECON 305**  
**INTERNATIONAL ECONOMICS I**  
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**Exercise 02**  
**Comparative Advantage**

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

	<b>Cloth (hours/yard)</b>	<b>Wine (hours/Gallon)</b>
<b>Portugal</b>	<b>2</b>	<b>3</b>
<b>England</b>	<b>1</b>	<b>1</b>

- 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.