

ECON 305
INTERNATIONAL ECONOMICS I
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Exercise 6
Economic Growth and International Trade

1. In a two-good world, consider the following information for a small country, which is engaged in trade.

	1995	2000	2005
Production of Good X	100 Units	120 Units	140 Units
Production of Good Y	60 Units	66 Units	86 Units
Consumption of Good X	80 Units	92 Units	110 Units
Consumption of Good Y	70 Units	80 Units	101 Units

- (a) What is the volume of trade and the trade pattern for the country in 1995? In 2000? In 2005?
- (b) What type of production effect occurs between 1995 and 2000? Between 2000 and 2005? Explain.
- (c) What type of consumption effect occurs between 1995 and 2000? Between 2000 and 2005? Explain.
- (d) What is the 'overall effect' on trade of this country's growth between 1995 and 2000? Between 2000 and 2005? Explain.

2. Countries A and B have two factors of production, capital and labor, with which they produce two goods, X and Y. Technology is the same in the two countries. X is capital intensive; A is capital abundant. Analyze the effects on the terms of trade and the welfare of the two countries of the following under small country assumption:

- a) An increase in A's capital stock.
- b) An increase in A's labor supply.
- c) An increase in B's capital stock.
- d) An increase in B's labor supply.