

**ECON 305**  
**INTERNATIONAL ECONOMICS I**

**31 October 2007**

**Exercise 05**  
**Comparative Advantage**

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

**CASE I**

	<b>Country A</b>	<b>Country B</b>
<b>Commodity X</b>	6	15
<b>Commodity Y</b>	2	12

**CASE II**

	<b>Country A</b>	<b>Country B</b>
<b>Commodity X</b>	10	5
<b>Commodity Y</b>	4	5

For each of the following cases determine the following:

- a. What are the pretrade autarkic relative prices?
- b. What are the direction of comparative advantages?
- c. What would be the effect on world output if each country would move toward specialization in the production of its comparative advantage good? Show.
- d. What would be the effect on world output if each country would move toward specialization in the production of its comparative disadvantage good? Show.