

Name _____

There are 2 countries in the world - **H and F**. Both of them can produce only two goods - **cheese and wine**. Only production factor is **labor**, which is perfectly mobile. We suppose perfect competition. The unit labor requirements at **H** in wine production is **3**, in cheese production **2**. The unit labor requirements at **F** in wine production is **6**, in cheese production **2**. **H** has **1500** labor units, **F** has **1200** labor units. The one hour's wage at **H** (without trade) is **\$12**, at **F** (without trade) is **\$6**. The total relative demand for cheese (in terms of wine) is given :

$$(Q_C + Q_C^*) / (Q_W + Q_W^*) = (12/5) - (12/5) P_C / P_W$$

where P_C / P_W is the relative cheese price in the world market.

1. (4) Draw the production possibilities frontiers for both countries.

2. (2) The price of wine at H without trade is \$:
3. (2) The price of cheese at F without trade is \$:
4. (2) Country H has a comparative advantage in:
5. (2) When there is international trade F produces only:
6. (4) Draw the total relative demand and total relative supply curves in the world market

7. (4) The equilibrium relative price of wine in the world market is:

8. (4) The one hour's wage at F (with trade) is (if one hour's wage at H is still \$12) :

9. (2) A worker at H for his hour's wage without trade can have kg of cheese or l of wine

10. (2) A worker at H for his hour's wage with trade can have kg of cheese or l of wine

11. (2) A worker at F for his hour's wage without trade can have kg of cheese or l of wine

12. (2) A worker at F for his hour's wage with trade can have kg of cheese or l of wine

Let's suppose the labor at F increases to 1400.

13. (4) The equilibrium relative price of cheese in the world market will be:

14. (4) The one hour's wage at F will be (if one hour's wage at H is still \$12):

There are 2 countries in the world - H and F. Both of them can produce only two goods - wine and cars. There are two production factors used in the production of both goods: labor (L) and physical capital (K). The wine production is more labor intensive, the production of cars is more physical capital intensive. The country H is better endowed with physical capital than the country F: $K/L > K^*/L^*$.

15. (2) If there is an international trade, the country H will specialize in, the country F will specialize in

16. (4) The support for the international trade in the country H comes from owners of

17. (4) Workers' wages in the country F ... crease with the international trade.

The Skoda car company sells its products in the world market which can be described as a perfectly competitive and in the domestic market, in which it has some sort of monopoly power. The marginal costs of its cars production is $Q/30$, where Q is the quantity of cars produced. The world price of the cars of the corresponding class is $P^W = \$ 10\ 000$. At home Skoda sees the demand for its cars: $P = 20\ 000 - Q/20$.

18. (4) The profits maximizing total production Q^T of Skoda cars is

19. (4) In the domestic market Skoda sells cars for the price $P^D = \$$

20. (2) Skoda exports cars.