Economics IV   2004/05   11.5.2005

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 $:

4. (2) Country H has a comparative advantage in:

3. (2) The price of cheese at F without trade is $:

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