International Trade
Fall 2004
Quiz 1

Please note that there are questions on both sides of this page.

Questions 1 – 6 quiz use the following information:

There are two countries in the world (Home and Foreign), and these two countries produce Wine and Cheese. Home has 1000 units of Labor, while Foreign has 1250. Both countries like to consume both Wine and Cheese. Unit labor requirements for producing Wine and Cheese are given in the following Table:

<table>
<thead>
<tr>
<th></th>
<th>Home</th>
<th>Foreign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wine</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Cheese</td>
<td>2</td>
<td>5</td>
</tr>
</tbody>
</table>

1. (1 point) What is the marginal product of labor in the Wine Industry in Home (please give a number)? ______________

2. (1 point) Suppose Home decides to be self-sufficient, and suppose the domestic price of a wheel of Cheese is equal to $10. What is the Value of the Marginal Product of Labor in the Wine industry? ______________

3. (1 point) Which country has the comparative advantage in Wine production? ____________

4. (1 point) Which country has the absolute advantage in Wine production? ____________

5. (1 point) What is the opportunity cost of Cheese (in terms of Wine) in Foreign (give a number)? ______________

6. (1 point) What is the World Relative Supply of Cheese (Cheese ÷ Wine: please give a number), if the World price of Cheese in terms of Wine is equal to \( \frac{3}{4} \)? ______________

space to show your work (not required):
Questions 7 – 10 use the graphs drawn below. The following graphs show the PPFs (solid lines), consumption opportunity lines (dotted lines), and preferred consumption points (hearts) for two countries, Home and Foreign:

7. (1 point) Which country has the comparative advantage in Wine Production (Home, Foreign, Neither)? __________________

8. (1 point) On the graph, identify Home’s imports.

9. (1 point) On the graph, identify Foreign’s exports.

10. (1 point) The World price of Cheese in terms of Wine that is implied by the graphs ________________ an equilibrium price. The World Market will be in equilibrium if this price ________________ .

A. is not, rises
B. is not, falls
C. is, rises
D. is, remains the same