1. (1 point) What is the marginal product of labor in the Wine Industry in Home (please give a number)? \( \frac{1}{a_{LW}} = \frac{1}{4} \)

2. (1 point) Suppose Home decides to be self-sufficient, and suppose the domestic price of a wheel of Cheese is equal to $10. Home produces both Wine and Cheese. What is the Value of the Marginal Product of Labor in the Wine industry? Since wages will be the same in both industries, you only have to note that the value of the marginal product of labor is \( 10 \times \frac{1}{2} = 5 \) in the Cheese Industry. The answer is $5

3. (1 point) Which country has the comparative advantage in Wine production? \( \frac{a_{LW}}{a_{LC}} = \frac{4}{2} = 2 \). \( \frac{a_{*LW}}{a_{*LC}} = \frac{5}{5} = 1 \). Foreign has the lower opportunity cost, and therefore has the comparative advantage.

4. (1 point) Which country has the absolute advantage in Wine production? Home, since it uses fewer units of labor input to produce a bottle of Wine.

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

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 \( \frac{3}{4} \)? The countries specialize in producing the good in which they have the comparative advantage. Foreign produces Wine, and Home produces Cheese. For Foreign, total Wine produced equals \( 1250 / 5 = 250 \). For Home, total Cheese produced equals \( 1000 / 2 = 500 \). The Relative supply of Cheese equals \( \frac{500}{250} = 2 \).
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)? **Home** has the higher opportunity cost of Cheese in terms of Wine (steeper PPF), and therefore has the comparative advantage in producing Wine.

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

*There is an excess supply of Cheese at the world price that is shown in the graph (There is also an excess demand for Wine, which you can see by measuring Home’s exports and Foreign’s imports).*