

International Economics: Practice Questions

- The following table shows the wheat and cloth that the US & the UK can produce with one hour of time under 4 different situations. In each case, identify which commodity the US has an absolute advantage or disadvantage in.

	Case A		Case B		Case C		Case D	
	US	UK	US	UK	US	UK	US	UK
Wheat (Kg/hr)	4	1	4	1	4	1,	4	2
Cloth (m ² /hr)	1	2	3	2	2	2	2	1

- Determine which country has a comparative advantage in wheat in the four cases.
- What is the range of the international price of cloth relative to the international price of wheat in the Cases where trade is possible?
- Consider Case A. What would be the benefit to the US and the UK if trade were to take place with relative prices equal to 1?
- Consider Case A. What would each country gain if the relative price was 2?
- When the US and the UK enter into trade, what quantity of wheat does the US produce and what quantity of cloth does the UK produce in Case A. The US has 100 hours of labour available and the UK 50 hours.