

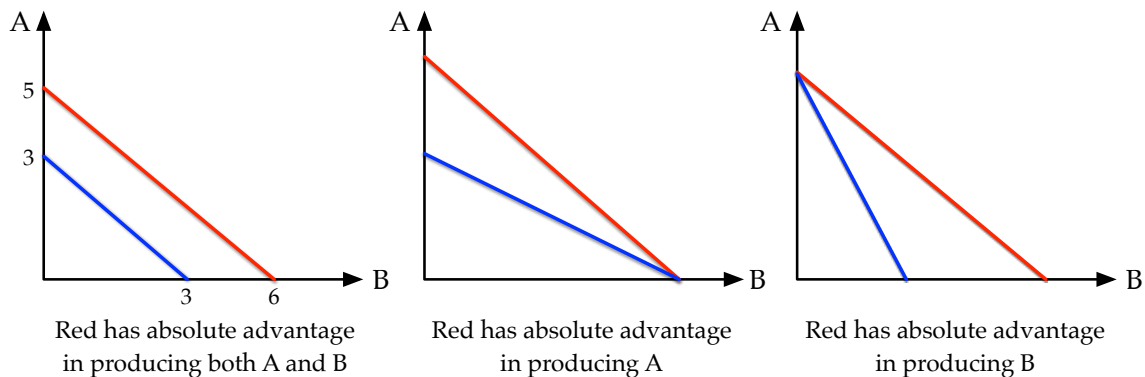
HANDOUT 2

1 Logistics

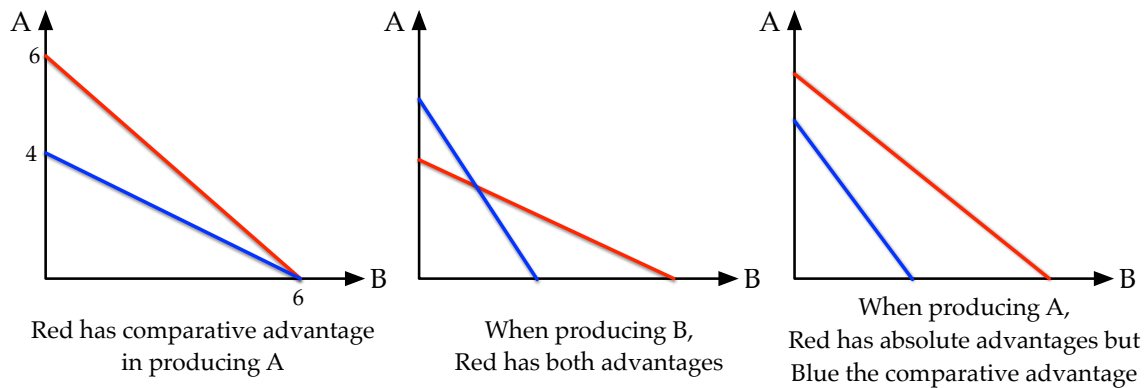
- Any comments feel free to use the anonymous [Feedback Survey](#) (on my website at *Teaching*, ECON 13)
- Office hours can be scheduled via [Calendly](#).

2 Trade

1. **Absolute advantage:** ability to produce at lower cost (less to give up) or using less resources.
e.g. How much can one worker produce.



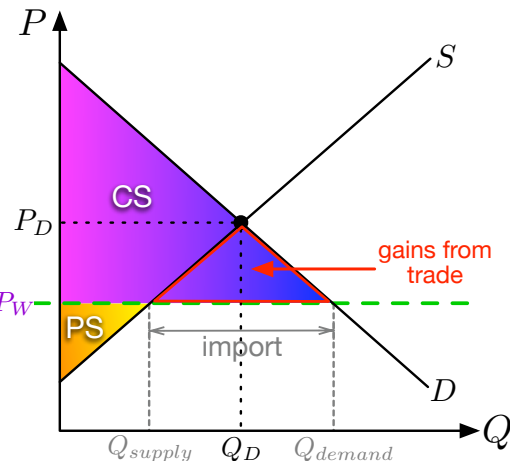
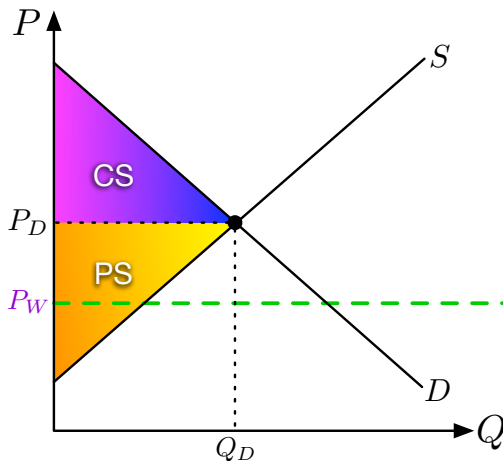
2. **Comparative advantage:** ability to produce at a lower opportunity cost.



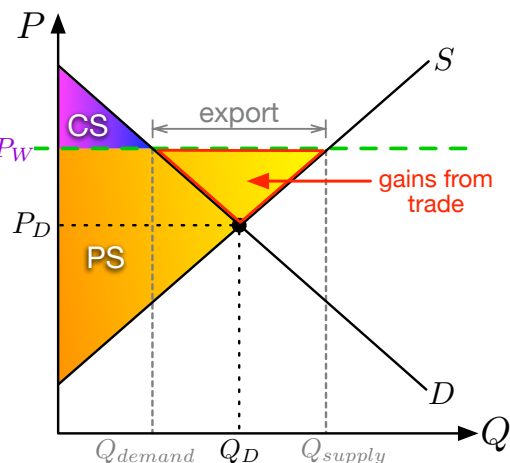
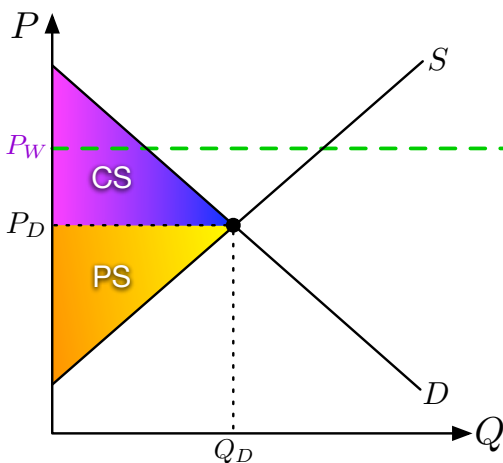
3. The agents/countries should **specialize** in the product/good that they have a **comparative advantage** then **trade** with others for other products.
4. Intra-industry trade: countries who are **similar** in educated workers and advanced technology import and export the same products at same time.
5. $\left| \text{slope of PPF} \right| = \text{opportunity cost of the horizontal production activity.}$

6. **No Trade v.s. World Trade** (everyone is a price taker, both buyers and sellers only accept world price):

- P_W : world price, the price prevails in the world market
- P_D : domestic price without trade
- **Import** ($P_W < P_D$):



- **Export** ($P_W > P_D$):

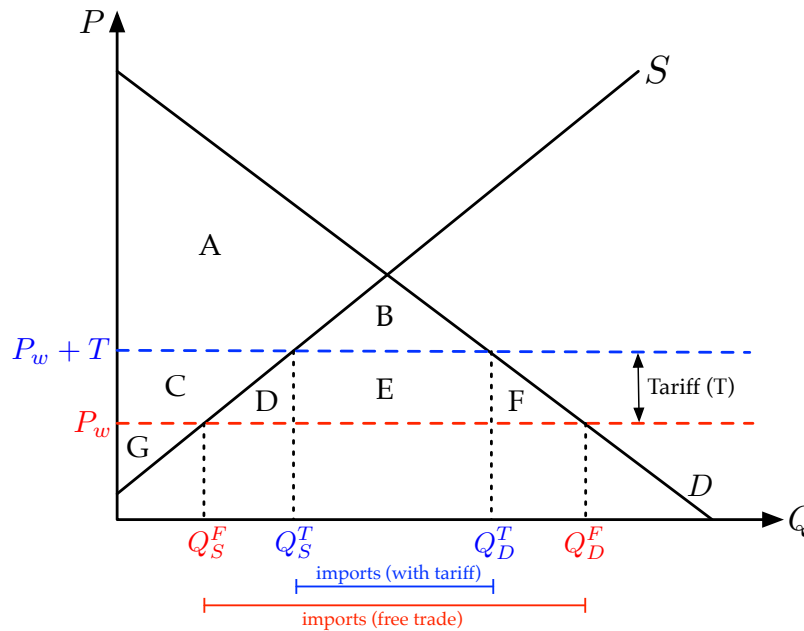


7. Welfare:

- The summation of every buyers':
 - **Willingness to buy - Price = Consumer's surplus (CS)**
 - * i.e. the triangular area between the demand curve and equilibrium price
 - **Willingness to buy = Consumer's value** (valuation to the good)
 - * i.e. "entire" trapezoid area below the demand curve
- The summation of every sellers':
 - **Price - Willingness to sell = Producer's surplus (PS)**
 - * i.e. the triangular area between equilibrium price and supply curve
 - **Willingness to sell = Cost** (area under the supply curve)
 - * i.e. "entire" trapezoid area below the supply curve
- **Total Surplus = CS + PS = Consumer's valuation - Cost**

8. Tariff: a tax on imports.

- The price facing by domestic buyers & sellers is $(P_w + T)$.



- Trade under free trade (F):
 - Total import: $Q_D^F - Q_S^F$
 - CS = A + B + C + D + E + F
 - PS = G
 - TS = A + B + C + D + E + F + G
- Trade under tariff (T):
 - Total import: $Q_D^T - Q_S^T$
 - CS = A + B
 - PS = C + G
 - Tax revenue: E (money to tax)
 - TS = A + B + C + E + G
 - Dead weight loss = D + F

3 Exercise

- If a country is an exporter of a good, then it must be the case that
 - they used an infant-industry argument to protect its producers.
 - the world price is greater than its domestic price.
 - consumer surplus is higher than a no trade situation.
 - the world price is less than its domestic price.

2. For each watch Denmark produces, it gives up the opportunity to make 50 pounds of cheese. Germany can produce one watch for every 100 pounds of cheese it produces. Which of the following is true concerning comparative advantage between the two countries?

- (a) Denmark has the comparative advantage in watches and cheese.
- (b) Germany has the comparative advantage in watches and cheese.
- (c) Denmark has the comparative advantage in watches.
- (d) Germany has the comparative advantage in watches.

3. Assume that England and Spain can switch between producing cheese and producing bread at a constant rate.

Country	Labor hours needed to make 1 unit of		Number of units produced in 40 hours	
	Cheese	Bread	Cheese	Bread
England	1	4	40	10
Spain	4	8	10	5

At which of the following prices would both England and Spain gain from trade with each other?

- (a) 16 units of bread for 16 units of cheese.
- (b) 16 units of bread for 24 units of cheese.
- (c) 16 units of bread for 48 units of cheese.
- (d) England and Spain could not both gain from trade with each other at any price.

4. A limit on the quantity of a good produced abroad that can be purchased domestically is called a(n)

- (a) excise tax.
- (b) tariff.
- (c) import quota.
- (d) None of the above is correct.

5. Assume, for Canada, that the domestic price of tomatoes without international trade is higher than the world price of tomatoes. This suggests that, in the production of tomatoes,

- (a) Canada has a comparative advantage over other countries and Canada will export tomatoes.
- (b) other countries have a comparative advantage over Canada and Canada will import tomatoes.
- (c) Canada has a comparative advantage over other countries and Canada will import tomatoes.
- (d) other countries have a comparative advantage over Canada and Canada will export tomatoes.

6. If Shawn can produce more donuts in one day than Sue can produce in one day, then
 - (a) Shawn has a comparative advantage in the production of donuts.
 - (b) Sue has a comparative advantage in the production of donuts.
 - (c) Shawn has an absolute advantage in the production of donuts.
 - (d) Sue has an absolute advantage in the production of donuts.
7. When a country that imported a particular good abandons a free-trade policy and adopts a no-trade policy,
 - (a) producer surplus decreases and total surplus decreases in the market for that good.
 - (b) producer surplus decreases and total surplus increases in the market for that good.
 - (c) producer surplus increases and total surplus decreases in the market for that good.
 - (d) producer surplus increases and total surplus increases in the market for that good.
8. A tariff differs from a quota in that a tariff is
 - (a) levied on exports, whereas a quota is imposed on imports.
 - (b) levied on imports, whereas a quota is imposed on exports.
 - (c) a tax levied on exports, whereas a quota is a limit on the number of units of a good that can be exported.
 - (d) a tax imposed on imports, whereas a quota is an absolute limit to the number of units of a good that can be imported.
9. Assume that one day's labor (one unit of labor = one day of labor) in Argentina can produce either 20 units of cloth or 2 units of wine, while in Chile one day's labor can produce either 24 units of cloth or 12 units of wine. If Argentina transfers 2 units of labor from wine to cloth and Chile transfers 1 unit of labor from cloth to wine, the increase in combined output will be:
 - (a) 12 wine; 12 cloths
 - (b) 16 wine; 16 cloths
 - (c) 8 wine; 16 cloths
 - (d) 16 wine; 8 cloths
10. When a country allows international trade and becomes an importer of a good,
 - (a) the gains of the winners fall short of the losses of the losers.
 - (b) domestic producers of the good become better off.
 - (c) domestic consumers of the good become better off.
 - (d) All of the above are correct.