

A Small Problem Set for The Ricardian Model

1. Suppose that in the US, a unit of labour produces 4 units of Clothing, and a unit of labour produces 4 units of Food. In Canada, a unit of labour produces 2 units of clothing, and a unit of labour produces 5 units of food.
 - a) For each good, which country has an absolute advantage?
 - b) For each good, which country has the comparative advantage?
 - c) Assuming that 40 hours of labour are available in each country, draw the production possibilities frontier for each country.
 - d) What are the autarky price ratios?
 - e) Suppose the world price ratio is between the two price ratios, can you tell what the relative wages are?
 - f) Draw the world production possibilities frontier and explain what goods are being produced at each point.
 - g) What range of prices is possible if one good is produced in each country?
 - h) Suppose each country produces the good in which it does not have a comparative advantage. How much is output reduced in each industry?

2. True, false or uncertain and briefly explain.
 - a) Absolute advantage determines the pattern of trade.
 - b) Comparative advantage determines the real wage.
 - c) If the home country has a comparative advantage in producing food, the wage rate in the home country will be higher than the wage in the foreign country.
 - d) If we are on the production possibilities frontier of both countries, then we are efficient.