

## ITR 301 International Trade

### Problem Set #1

Instructor: Lin Guijun

1. What is mercantilism and its implications for trade policy? How Adam Smith and David Hume had challenged mercantilism?
2. What is the theory of comparative advantage, and explain why some people believe that traditional theory may need modifying?
3. Suppose both China and U.S produce wheat and cloths. The following four scenarios show the costs of production in both countires:

Cost of each unit	A		B		C		D	
	China	U.S	China	U.S	China	U.S	China	U.S
Wheat(hours/kg)	8	2	4	1	8	2	4	2
Cloths(hours/unit)	2	4	3	2	4	4	2	1

In which product does China have absolute advantage. What can you argue about the comparative advantage that each country may have and which product should each country specialize in its production?

4. What is vertical specialization and what is horizontal specialization
5. What is Lucas puzzle and why it may happen?
6. whether it is good for a country to have too much trade surplus (under fixed exchange rate and flexible exchange rate)?

This problem set is due on March 28. If you have questions please make appointment with Ms. Zhen Haiyan via [uibezyh@yahoo.com.cn](mailto:uibezyh@yahoo.com.cn).