

ITR 301 International Trade

Problem Set #2

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1. Suppose there are three countries, the U.S., China and Japan. Each country produces product A and B. The following table shows the relationship between input and output:

Cost of each unit	The U.S.	China	Japan
A(labors/unit)	6	10	8
B(labors/unit)	4	8	8

According to comparative advantage, which product should each country import and export (compute opportunity cost)?

2. Suppose country A and B produce product X and Y, the cost is as followed:

Product	Labor	Capital
X	2	6
Y	4	2

Input cost in country A: cost of labor=\$100/unit; cost of capital=\$20/unit

Input cost in country B: cost of labor=\$60/unit; cost of capital=\$10/unit

According to comparative advantage, how to specialize in each country?

3. Unique input: labor

	Rice		Wheat	
	labor	output	labor	output
U.S.	10	120	10	500
China	40	200	100	400
Japan	10	50	10	20
Thailand	10	100	5	10

a. Which country has absolute advantage on Rice, and which one has comparative advantage on Rice?

b. How would U.S. trade with Japan?

c. If the productivity of Japan increases by 50%, will this affect the trade pattern between U.S. and Japan?

This problem set is due on April.18.