## EXERCISES SET 10 TRADE AND COMPARATIVE ADVANTAGE

- (1) Take the base case example of trade between Greece and Spain (see slides file chap11-comp-adv.ppt). With the help of a simple example, show that if the world price is 7 liters/bushel, Greece will lose by trading with Spain (compared to autarky), but Spain can gain a lot.
- (2) Take again the base case example of trade between Greece and Spain. With the help of a simple example, show that if the world price is 3 liters/bushel, Spain will lose by trading with Greece (compared to autarky), but Greece can gain a lot.
- (3) Suppose that Greece makes investments in its wheat sector only. This increases the productivity of Greek workers in the wheat sector such that they can now produce one bushel in 5 hours instead of 15 hours. The rest of the data is as in the base case.
  - a) Construct the Table of opportunity costs for each good.
  - b) Explain why this increase in the productivity of workers reverses the comparative advantages of each country.
  - c) Create a simple example to show that both countries can still gain by trading with each other.
  - d) By comparing with the base case, comment on the potential social dislocations caused by such an increase in the productivity of workers in Greece.