

International economics assignment

[Economics](#)



Why did the Mercantilism consider holdings of precious metals so important to nation-state building? (6 points) Wealth was viewed as synonymous with holdings of precious metals. Nation-states wished to become wealthy and this meant obtaining large holdings of precious metals. It is also argued by some that the shortage of coinage constrained the growth of these nation-states and that precious metals were required to increase the supply of coinage (money) in order for the countries to grow. . Assume that both the United States and Germany produce beef and computer chips with the following costs: (12 points) United States (dollars) Germany (marks) Unit cost of beef (B) 2 8 Unit cost of computer chips (C) a. What is the opportunity cost of beef (B) and computer chips (C) in each country? In the United States: the opportunity cost of one unit of beef is 2 chips; the opportunity cost of one chip is 1/2 unit of beef. In Germany: the opportunity cost of one unit of beef is 4 chips; the opportunity cost of one chip is 1/4 unit of beef. B.

In which commodity does the United States have a comparative cost advantage? What about Germany? The United States has a comparative cost advantage in beef with respect to Germany, while Germany has a comparative cost advantage in computer chips. C What is the range of mutually beneficial trade between the United States and Germany for each computer chip traded? The range for mutually beneficial trade between the United States and Germany for each unit of beef that the United States exports is: C Both the United States and Germany would gain 1 chip for each unit of beef traded. 3. “ If U. S. Productivity growth does not keep up with that of its trading partners, the United States will quickly lose its international competitiveness and not be able to export any products, and its

standard of living will fall. " Critically evaluate this statement in light of what you have learned in chapter 3 of the textbook. (10 points) This statement could be true if trade was based on absolute advantage. However, since trade can take place on the basis of comparative advantage, what counts is related cost differences.

Consequently a country can be less efficient or become less efficient in all goods and yet again from trade as long as there are relative cost differences in tributary. Thus, different rates of productivity growth may change what a country exports, but it is unlikely that it would ever take away the basis for trade, its ability to export. 4. The following table shows the number of days of labor required to produce a unit of textiles and autos in the United Kingdom and the United States: (12 points)

	Textiles	Autos
United Kingdom	3 days	6 days
United States	2 days	5 days

Calculate the number of units of textiles and autos that can be produced from 1 day of labor in each country. In the United Kingdom one day of labor can produce $\frac{1}{3}$ of a unit of textiles and $\frac{1}{6}$ of a unit of automobiles. In the United States, one day of labor can produce $\frac{1}{2}$ of a unit of textiles and $\frac{1}{5}$ of a unit of automobiles. B. Suppose that the United States has 1,000 days of labor available. Construct the production-possibilities frontier for the United States. C. Construct the U. S. Consumption-possibilities frontier with trade if the terms of trade are 1 auto: 2 units of textiles. Textiles U. S d.

Select a pre-trade consumption point for the United States, and indicate how trade can yield a consumption point that gives the United States greater consumption of both goods. 5. In the previous question, suppose that the

United States always wishes to consume autos and textiles at the ratio of 1 auto to 10 textiles. What quantity of each good would the United States consume in tributary? What combination would the United States consume with trade and complete specialization? What would be the gains from trade? (10 points) In tributary, the production (and consumption) of textiles and autos will utilize all the available 1000 days of labor.

Thus, with T = number of units of textiles produced and A = number of autos produced, $2 \text{ days / unit} T + (5 \text{ days / unit})A$. The consumption requirement is that 10 units of textiles be consumed for every unit of automobiles. Hence, total textile production is equal to $(10) \times (\text{total auto production})$, IOWA thus, given the available labor, and substituting IOWA for T , 40 units If $A = 40$ units, then textile production and trade, textile production equal 500 units. Consumption of textiles (CT) is equal to textile production minus the textile exports send to enquire auto imports, and auto imports are equal to auto consumption (CA).