

Microeconomics, Module 2: "Prices, Costs, and Trade"

Homework Assignment (2 required problems)

(The attached PDF file has better formatting.)

Updated: May 25, 2005

Problem 1 is based on the discussion of comparative advantage in Landsburg's textbook. The illustrative test questions contain similar questions (see the questions about food and clothing production in Asia and America). A one line response is sufficient for each of parts A through F. For Part G, provide a one paragraph solution.

Only wine and flour are produced in Canaan and Aram:

- Jacob, living in Canaan, needs 20 hours to produce a barrel of wine and 10 hours to produce a sack of flour (for bread).
- Laban's sons, living in Aram, need 50 hours to produce a barrel of wine and 20 hours to produce a sack of flour.

Rachel and Leah (Jacob's wives and Laban's daughters) are wine and flour traders who travel between Canaan and Aram.

- A. What is the relative cost of wine (in terms of flour) in Canaan?
- B. What is the relative cost of wine (in terms of flour) in Aram?
- C. Where is wine most costly to produce?
- D. What is the relative cost of flour (in terms of wine) in Canaan?
- E. What is the relative cost of flour (in terms of wine) in Aram?
- F. Where is flour most costly to produce?
- G. Rachel and Leah do one of the following:
 1. Carry wine and flour produced in Canaan for sale in Aram.
 2. Carry wine and flour produced in Aram for sale in Canaan.
 3. Carry wine produced in Canaan for sale in Aram and flour produced in Aram for sale in Canaan.
 4. Carry wine produced in Aram for sale in Canaan and flour produced in Canaan for sale in Aram.

Explain which of the above choices Rachel and Leah will do.

Problem 2 is based on the discussion in Landsburg's textbook and repeated in the illustrative test questions (see the questions about strawberries, raspberries, and oranges in California, Chicago, Florida, and New York.) A one paragraph solution is sufficient.

Solomon, king of Israel, and Pharaoh, king of Egypt, are related by marriage. They both have large stables of horses. All horses are raised in Egypt, and some are sold in nearby

countries. Bringing a horse across the desert from Egypt to Jerusalem is very expensive. (Solomon's palace is in Jerusalem.) The cost of bringing a horse across the desert does not depend on the quality of the horse.

Explain whether the average quality of horses is better in Pharaoh's stable or Solomon's stable. Assume that Pharaoh and Solomon have the same taste in horses and the same wealth, and there are no other items that would affect the quality of horses.