

Homework 1
Principles of Economics
Prof. Sarah West
30 points

1. **(6 points)** Chapter 1, page 19, #11
2. **(5 points)** Chapter 2, page 39, #9
3. **(4 points)** Chapter 3, page 62, #9
4. **(12 points)** *PPFs and Gains from Trade*. The table below summarizes the productivity of workers in automobile and electronics production in Mexico and the United States:

	<u>Output per worker per year</u>	
	Automobiles	Electronics
United States	7	3
Mexico	1	2

- a. Each country has 40 million workers. Below, graph each country's production possibilities frontier on separate graphs. Label graphs fully. You may assume that opportunity costs are constant.
 - b. According to the theory of comparative advantage, which country should we expect will export automobiles? Electronics? Be sure to use specific numbers to support your answers, and explain fully.
 - c. Within what range of prices would both the United States and Mexico be willing to trade automobiles for electronics? Explain.
5. **(3 points)** Define and provide real world examples for each of the following. Your definitions may be based on those found in your textbook, but your examples may not.
- a. Competitive market.
 - b. Two goods that are complements for each other.
 - c. An inferior good.