

EXERCISES FROM 1st QUIZZES OF PAST CLASSES (based on AMOS 5th edition)
NOTE: For exercises and answers from the 1st term in which I used AMOS 6th edition, see
<http://www.uoregon.edu/~whitelaw/432/>.

1. In the following statement, circle the correct term in each set of brackets and then complete each part of the sentence correctly.

If factors, goods & services were perfectly and costlessly mobile, comparative advantage:

a. [COULD , COULD NOT] help explain trade, because ...

ANS: COULD; since transportation costs equal zero, the gains from the differences in productivity are sufficient.

Word limit = 20, counting only the words after “because.”

b. [COULD , COULD NOT] help explain the existence of cities, because ...

ANS: COULD NOT; no scale economies in transportation would exist and thus no gains from transporting goods in bulk.

Word limit = 20, counting only the words after “because.”

2. The table below summarizes the productivity of workers in bread and shirts production in two parts of a region.

	Output per Hour		Opportunity cost	
	West	East	West	East
Bread	1	5		
Shirts	3	6		

- Complete the table by indicating the opportunity costs of producing bread and shirts in the East and the West.
- The East has a comparative advantage in the production of which good, BREAD or SHIRTS. (Circle the correct one.)

AMOS [5th edition] ANS:

- For bread, the west has a lower opportunity cost and thus a comparative advantage. For shirts, the east has a lower opportunity cost and thus a comparative advantage**

	Output: East	Output: West	Opportunity cost: East	Opportunity cost: West
Bread	1	5	3 shirts	6/5 shirts
Shirts	3	6	1/3 loaf	5/6 loaves

3. At the beginning of his Chp. 2 [5th edition], AMOS lists three assumptions that together preclude urban development. They are equal productivity of inputs and no scale economies in production of any output, including transportation. Finish the following statement by circling the correct term in the brackets and by completing the rest of the sentence correctly:

The residents [ARE , ARE NOT] indifferent between (a) specializing in producing shirts or producing bread and then trading and (b) producing both goods, i.e., not specializing at all, because ...

Word limit = 15, counting only the words after “because.”

ANS:

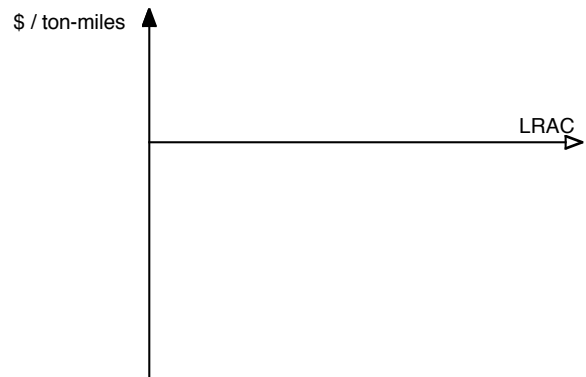
NO; because trading wouldn't compensate for the lost output. (7 words)

NO; because trading wouldn't cover the time diverted from production. (8 words)

NO; because diverting time from production to trade would decrease output. (9 words)

(AMOS [5th edition], p.20, para.2, s.5)

4. Among the three assumptions AMOS [5th edition] lists in Chp. 2 to generate a region without cities is one concerning transportation, namely, no scale economies in transportation. With a set of axes, appropriately labeled, show the long-run average cost curve that represents this assumption accurately. Word limit = 0, except for the labels on your axes and graph.



5. In Tuesday's class, paralleling AMOS [5TH EDITION], I explained why trading cities exist. Complete the following statement correctly:

The condition(s)

a. *necessary but not sufficient to explain the existence of trading cities*

AND

b. *necessary and sufficient to explain why it would be economically rational for that 12-year-old kid to haul bread in a backpack one way and shirts the other way is (are):*

Word limit = 30, counting only your words after "is (are)."

ANS: AMOS [5th edition], p.23, para.2

1. 1st possibility:

a. **"productivity is high enough that people outside the city produce enough bread and shirts for themselves and the urban traders." (20 words)**

b. **"the differences in productivity that generate comparative advantage are large enough to offset transportation costs." (15 words)**

2. 2nd possibility:

a. **"farmers produce enough to feed and clothe themselves and the urban traders." (12 words)**

b. **"the gains from trade exceed the costs of trade." (9 words)**

6. Consider Fig. 2-2 [in AMOS 5th edition; similar to Fig. 2-1 in AMOS 6th edition] on the back. Draw the corresponding figure (similar to AMOS [5th edition] Fig. 2-1 [simply a LRAC; see the figure on today's handout, SYLLABUS & TIMETABLE]) to illustrate the scale economies in cloth-making or shirtmaking, making sure you

a. label the axes and graph in your new figure clearly and unambiguously, including units of measurement.

b. indicate on your new figure with the letter "A" the point corresponding to "Factory cost" in Figure 2-2 [AMOS 5th edition].

Word limit = 0, except for your labels, units of measurement and the letter "A."

7. Consider a city-free region similar to the one AMOS posits in his Chp.2, but with one difference, namely, the households in this new city-free region engage in trade. Suppose that if a city were to develop, agricultural productivity is high enough that agricultural workers outside the city could generate enough food to feed themselves and have enough left over to feed, say, urban traders in the city. For a trading city to develop, according to AMOS, it is

A) necessary but not sufficient

C) sufficient but not necessary

E) [none]

B) necessary and sufficient

D) neither necessary nor sufficient

for us to drop the assumption of constant returns to scale in transportation and introduce scale economies such that the urban traders are more efficient at transporting shirts and bread than the individual households are. Complete the following sentence correctly:

The correct answer is _____, because ...

Word limit = 22, counting only your words after "because."

ANS: it is sensible to pay middlefolks to transport the goods, freeing up time to produce more output. (17 words)