READINGS AND READING RESPONSES
Due Monday, February 20

Instructions: Your reading responses must be typed. Answer the questions using your own words.

READINGS:
Class Notes: Comparative advantage, Trade
The Economist, “Why trade is good for you”
Rodrik, D., “Sense and non-sense in the globalization debate”

Class Notes: Comparative advantage, Trade:

1. Define Comparative advantage. How is it different to Absolute Advantage? Use specific examples

2. In the United States, the opportunity cost of 1 ton of corn is 50 bicycles. In China, the opportunity cost of 1 bicycle is 0.01 ton of corn.

   a. Determine the pattern of comparative advantage.

   b. In autarky (no trade), the United States can produce 200,000 bicycles if no corn is produced, and China can produce 3,000 tons of corn if no bicycles are produced. Draw each country’s production possibilities frontier assuming constant opportunity cost, with tons of corn on the vertical axis and bicycles on the horizontal axis.

   c. With trade, each country specializes its production. The United States consumes 1,000 tons of corn and 200,000 bicycles; China consumes 3,000 tons of corn and 100,000 bicycles. Indicate the production and consumption points in your diagrams, and use them to explain the gains from trade.

The Economist, “Why trade is good for you”

3. Besides comparative advantage, what are the additional arguments for free trade discussed in the article?

Rodrik, D., “Sense and non-sense in the globalization debate”

4. Rodrik discusses the limits of globalization. Discuss, using Rodrik’s specific examples, on the limitations of international trade and capital mobility.

5. In what ways globalization increases domestic demand for social insurance?
6. Rodrik argues that, “trade becomes contentious when it unleashes forces that undermine the social norms implicit in domestic practices.” Explain.

7. According with Rodrik, there are some widespread misconceptions about international trade. In particular, he addresses some of the fallacies advanced by the journalist William Greider. What are the arguments used by Rodrik to expose these misconceptions? Use two specific examples.