Problem Set #2
Gains From Trade

Tutorial Problems

1. The table shows for each province the number of hours required to produce one unit of each of two products. Our standard model of gains from trade predicts:

	Wheat	**Beef**
Saskatchewan	6 hours per bushel	12 hours per kg
Alberta	4 hours per bushel	6 hours per kg

   A. Alberta will produce no beef.
   B. Alberta will produce no wheat.
   C. Alberta will export beef and import wheat.
   D. Alberta will export wheat and import beef.
   E. Alberta cannot benefit from trade with Saskatchewan.

2. Suppose Saskatchewan experiences a productivity boom where it now takes half the time to produce one unit of output. Our standard model of trade now predicts:

	Wheat	**Beef**
Saskatchewan	3 hours per bushel	6 hours per kg
Alberta	4 hours per bushel	6 hours per kg