ECMA04H - December 2012

December Exam Answer Booklet Professors Krashinsky and Parkinson

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NAME: _____ _____

(Last name) (First name)

STUDENT NUMBER: _____

42. In Canada, the production of 1 unit of food (F) requires 1/20 of a unit of labour and the production of 1 unit of electronic equipment (E) requires 1/10 of a unit of labour. In China, the production of 1 unit of food (F) requires 1/3 of a unit of labour and the production of 1 unit of electronic equipment (E) requires 1/6 of a unit of labour. Canada has 100 units of labour and China has 500 units of labour. In the absence of trade, Canada produces and consumes 600 units of food and 700 units of electronic equipment, and China produces and consumes 1200 units of food and 600 units of electronic equipment. These two products and these two countries are the only ones in the world. When trade is opened up, the two countries trade food for electronic equipment at a 2-to-3 ratio (2 units of food for every 3 units of electronic equipment), and 1300 units of food and 1950 units of electronic equipment are exchanged. On the diagrams provided, draw the production possibilities curve for each country. Indicate **(POINT A)** where each country starts out before trade occurs. Indicate the point at which each country produces **(POINT P)** and consumes **(POINT C)**, and show the trading line (the consumption possibilities curve) for each country. Label your diagram as completely as possible. (8 marks)