EC 231 – Spring 2023

Homework #2

Thoroughly answer the question below. Make sure your work is shown.

Trade between the U.S. and China is partially determined by endowments. Currently, the U.S. imports textile products from China and exports farm products in return. Textile products are labor-intensive, while farm products require arable land. Assuming the U.S. is land-rich and China is labor-rich, illustrate:

-An Edgeworth Box for each nation

-Three equilibrium points of production

-Trace these three points to two PPCs

-Demonstrate the Gains to Trade