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## Trade Problem Set 40 1-2

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1. Consider a Ricardian model with two countries, England and Portugal, producing two goods, wine and corn. Suppose the unit-labor requirements in wine production are:  $a_{LW}^{\text{Eng}} = 1/3$  hour per liter, and  $a_{LW}^{\text{Port}} = 1/2$  hour per liter, while the unit-labor requirements in corn are  $a_{LC}^{\text{Eng}} = 1/4$  hour per kg, and  $a_{LC}^{\text{Port}} = 1/2$  hour per kg.

A. Which country has the absolute advantage in wine? ... in corn? Explain why.

B. Which country has the comparative advantage in wine? ... in corn? Explain why.

C. Use Ricardo's theory to describe how these two countries would take advantage of the potential benefits of trade.