

**Week 2: Workshop on International Trade Theory**

1. "The reciprocal demand theory indicates that the final international exchange ratio depends on the relative strength of each country's demand for the other country's product. The country with the greater demand for the other country's product will be willing to sacrifice more of its goods in exchange for that product. The resulting exchange ratio will distribute more of the gains from trade to the country whose good has greater demand relative to the demand of the other country." (p. 32)
2. "...production under increasing-cost conditions constitutes a mechanism that forces prices to converge and results in neither country specializing completely in the production of the good in which it has a comparative advantage. In the case of increasing costs, both countries continue to produce both goods after trade." (p. 43)
3. Problem 13, pp. 47-48.
4. Explain why in words: "A country will have a comparative advantage in goods whose production intensively uses its relatively abundant factor of production. A country will have a comparative disadvantage in goods whose production intensively uses its relatively scarce factor of production." (p. 61)
5. Explain why in words: "In general, owners of the abundant factor of production in a country should be in favor of freer international trade, while owners of the scarce factor of production would favor trade restrictions." (p. 66)