RLP-ECON · RLP Economics — Principles of Economics

Unit 4: The Global Economy

Practice Workbook. The same problems, in the same order, as the Practice sections of the online lessons.

Name _____ Period _____

Lesson 4.1 — Why Nations Trade — Comparative Advantage and Its Gains

FLUENCY

1. A worker can make 6 bushels of corn or 3 shirts a day. What is the opportunity cost of one bushel, in shirts?

2. In Ricardo's example, what is Portugal's opportunity cost of one unit of cloth, in wine?

3. Define absolute advantage and comparative advantage.

4. England's opportunity cost of cloth is 0.83 wine; Portugal's is 1.125 wine. Name a trade price of cloth, in wine, at which both gain.

APPLICATION

5. Illustrative output per worker per day: Missouri, 20 bushels of corn or 10 shirts; Vietnam, 4 bushels or 8 shirts. Who has the absolute advantage in each good? Find each place's opportunity cost of a bushel of corn and state the comparative advantages.

6. Same producers, 100 workers each. Without trade each splits its workers 50/50. Then Missouri puts 80 workers on corn and 20 on shirts, and Vietnam puts all 100 on shirts. Compare total output before and after.

7. At a trade price of 1 bushel of corn for 1 shirt, does each side gain? Show it with opportunity costs.

8. Change Ricardo's numbers: England needs 100 workers for cloth and 110 for wine; Portugal 90 for cloth and 80 for wine. Find each country's opportunity cost of wine and total output if each specializes in its comparative advantage.

CHALLENGE

9. Country A: a worker makes 10 tables or 5 chairs a day. Country B: 4 tables or 2 chairs. Is there any gain from specialization? Explain.

10. Illustrative: cheaper imports save 2.5 million Missouri households $150 a year each, while 20,000 workers in an import-competing industry lose $15,000 a year each in earnings. Compare the totals. Does this settle whether the trade is good?

REVIEW

11. CPI rises from 310.0 to 319.3. Inflation?

12. Unemployed 5.5 million; employed 164.5 million. Rate?

Lesson 4.2 — Exchange Rate Lab — What a Stronger or Weaker Dollar Does

FLUENCY

1. If $1 buys 150 yen, what does 1 yen cost in dollars?

2. A 5,400-peso ceramic lamp from Guadalajara: what does it cost a Missouri buyer at 18 pesos per dollar, and at 20?

3. The euro moves from $1.10 to $1.05. Did the dollar appreciate or depreciate against the euro?

4. The dollar appreciates. Does that help or hurt a Missouri soybean exporter selling abroad?

APPLICATION

5. A Missouri-made product sells for $30 a unit (illustrative). What does it cost a buyer in Japan at 140 yen per dollar, and at 155? By what percent did the yen price rise?

6. A German family budgets €2,000 for a Missouri trip. How many dollars is that at $1.08 per euro, and at $1.20? Did the dollar appreciate or depreciate, and who in Missouri benefits?

7. A Kansas City importer buys ¥3,000,000 of parts. What do they cost at 150 yen per dollar, and at 135? Did the dollar strengthen or weaken, and by what percent did the dollar cost rise?

8. The Fed raises interest rates while other central banks do not. Using supply and demand for dollars, predict what happens to the dollar, and then to Missouri's soybean exports.

CHALLENGE

9. A Missouri pork exporter sells to Japan at a fixed ¥700 a kilogram; it costs $3.60 a kilogram to produce (illustrative). What is the dollar margin per kilogram at 150 yen per dollar and at 170?

10. The rate moves from 17 to 19.5 pesos per dollar. By what percent did the dollar appreciate against the peso, and by what percent did the peso depreciate against the dollar? Why are they different?

REVIEW

11. Nominal wages rise 5% and prices 2%. About how much did real wages change?

12. A firm makes 720 units with 24 workers. Productivity per worker?

Lesson 4.3 — Deliberation Lab — Tariffs Then and Now: Smoot-Hawley and Today's Debate

FLUENCY

1. A 25% tariff on an $800 imported washing machine adds how much? What does it cost buyers if fully passed on?

2. How does a quota differ from a tariff?

3. In what year was Smoot-Hawley passed, and roughly how much did world trade fall from 1929 to 1934?

4. Which argument did Hamilton make in 1791?

APPLICATION

5. An illustrative U.S. washing-machine market: Qd = 2,000 − 2P and domestic Qs = −400 + P (thousands of machines, P in dollars). Imports are available at the world price of $500. Find domestic production, consumption and imports. A $100 tariff raises the price to $600: find them again, and the tariff revenue.

6. A trading partner puts a 50% retaliatory tariff on Missouri pork priced at $3.00 a pound (illustrative). What do buyers there pay? If exports to that country fall from 200 million to 120 million pounds, what revenue do producers lose at $3.00?

7. A world trade index is 100 in 1929 and 35 in 1934 (illustrative). What is the percent fall? Name two causes the lesson gives.

8. Match each group with its usual position on new tariffs: (a) unions in import-competing industries; (b) Missouri farm exporters; (c) manufacturers using imported inputs; (d) national-security officials.

CHALLENGE

9. Steel is 20% of the cost of a $10,000 machine made in Missouri. A 25% tariff raises steel prices by the full 25%. By how much does the machine's cost rise? Who gains and who loses?

10. Compare the premises of the 1791 and 1930 arguments. What does each assume, and which applies better to semiconductors today?

REVIEW

11. Real GDP is $22.5 trillion one year and $23.0 trillion the next. Real growth?

12. A tariff is added to imported shoes. Which curve shifts in the U.S. shoe market, and what happens to price?

Lesson 4.4 — Workshop — Capital, Labor and Borders in a Global Economy

FLUENCY

1. FDI or portfolio investment? (a) A Japanese automaker builds a U.S. plant. (b) A pension fund buys shares of a German company.

2. What are remittances?

3. What is capital flight, and when did it destabilize economies?

4. Define reshoring.

APPLICATION

5. In 2024, 309,000 Missouri residents were foreign-born, which was 4.9% of the state's population (Census Bureau American Community Survey, as tabulated by USAFacts). About how large was Missouri's population? The national foreign-born share was 14.8%: how many times Missouri's share is that?

6. A worker in Kansas City earns $3,200 a month and sends 15% home to Mexico. How much a month and a year? How many pesos a year at 18 pesos per dollar?

7. An illustrative construction labor market: Ld = 900 − 10W, Ls = −300 + 30W (thousands of workers). Immigration shifts supply to Ls = −200 + 30W. Find both equilibria. Then include the extra demand for housing that new residents create: Ld = 950 − 10W. What happens?

8. Foreign and international investors held $9.36 trillion of federal debt in the first quarter of 2026, when debt held by the public was $31.45 trillion (Treasury data via FRED). What share is that, and what does it mean for U.S. borrowing?

CHALLENGE

9. A part costs $14 to make in Missouri. Abroad it costs $8 for labor and materials, $2 for overhead and $1.50 for shipping, plus a tariff on the landed cost. Compare the costs with a 10% tariff and with a 25% tariff. Where is it made?

10. Label each positive or normative: (a) "Trade agreements limit what a country can change on its own." (b) "The U.S. should leave agreements that limit its sovereignty." (c) "Investment screening has reduced Chinese investment in U.S. technology firms."

REVIEW

11. A 20% tariff on a $450 import, fully passed on: new price?

12. Nominal GDP $26.0 trillion, price index 125: real GDP?

Unit 4 checkpoint

1. Country A makes 10 cloth or 5 wine per worker; Country B makes 6 cloth or 6 wine. Which has the comparative advantage in wine?
   A. A
   B. B
   C. Neither
   D. Both
2. True or false: A country with an absolute advantage in every good cannot gain from trade.
3. Using Ricardo's numbers, England's opportunity cost of one unit of wine is _____ units of cloth.
4. The dollar moves from 18 to 20 pesos. A 3,600-peso chair now costs a Missouri buyer:
   A. $200
   B. $180
   C. $220
   D. $20

5. True or false: A stronger dollar helps Missouri exporters.
6. At $1 = 20 pesos, a $50 case of pork costs _____ pesos; higher U.S. interest rates tend to make the dollar _____.
7. Who pays most of a tariff on imported goods, according to most studies of recent U.S. tariffs?
   A. Foreign governments
   B. Domestic buyers through higher prices
   C. Nobody
   D. Only foreign workers
8. True or false: Most economists see Smoot-Hawley as the main cause of the Great Depression.
9. A 25% tariff on a $600 import raises its price to $_____ if fully passed on.
10. A Japanese automaker builds a plant in Tennessee. This is:
    A. Portfolio investment
    B. Foreign direct investment
    C. A remittance
    D. A tariff
11. Which is a positive statement?
    A. The U.S. should raise tariffs
    B. Retaliatory tariffs tend to reduce Missouri pork exports to the country that imposes them
    C. Trade is unfair
    D. Borders should be closed
12. True or false: Comparative advantage shows that every worker gains from trade.

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