

Pop-quiz 1

EC 201

September 28, 2021

Answer the first part in no more than three sentences. For the second part, answer in just one sentence.

Peter Pundit, an economics reporter, states that the European Union (EU) is increasing its productivity very rapidly in all industries. He claims that this productivity advance is so rapid that output from the EU in these industries will soon exceed that of the United States and, as a result, the United States will no longer benefit from trade with the EU.

1. Do you think Peter Pundit is correct or not? If not, what do you think is the source of his mistake?
 - He is incorrect—he confuses absolute advantage with comparative advantage. Even if the EU had an absolute advantage over the United States in every product it produced, the United States would still have a comparative advantage in some products. And the United States should continue to produce those products: trade will make both the EU and the United States better off.
2. If the EU and the United States continue to trade, what do you think will characterize the goods that the EU sells to the United States and the goods that the United States sells to the EU?
 - You should expect to see the EU sells those goods in which it has the comparative advantage and the United States sells those goods in which it has the comparative advantage.