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American University Of The Middle East

Summer 2020 – Individual Assignment 2 – (15%)

ECON252 – Macroeconomics- O1

Name	ID



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Problem 1: (20 points)

Maria can read 20 pages of economics in an hour. She can also read 50 pages of sociology in an hour. She spends 5 hours per day studying.

- a) Draw Maria's production possibilities frontier for reading economics and sociology.
- b) What is Maria's opportunity cost of reading 100 pages of sociology?



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Problem 2: (40 points)

Suppose Argentina each month can produce either 500 pounds of coffee and no tea, or 250 pounds of tea and no coffee, or any combination in between. Brazil each month can produce either 400 pounds of coffee and no tea, or 400 pounds of tea and no coffee, or any combination in between.

- a) Which country has an absolute advantage in producing Tea? Which country have absolute advantage in producing Coffee? Explain.
- b) Which country has a comparative advantage in coffee production? Which country has a comparative advantage in Tea production? Explain.
- c) Which country should specialize in coffee? Which country should specialize in Tea? Explain.
- d) If there are trade between Argentina and Brazil, how much will be the production of each good in each country?
- e) Assume that in autarky people in Argentina consume 200 pounds of coffee and 150 pounds of tea. People in Brazil consume 200 pounds from each good. Assume now that the two countries open to trade. What is the gain from trade if each country exports all the excess of the good he is producing in exchange for the other good he needs?



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Problem 3: (40 points)

	2010 (base year)		2017		2018	
Product	Quantity	Price	Quantity	Price	Quantity	Price
Boots	1000	20	1200	25	1250	25
Burger	5000	3.5	5500	4	5500	4.5
Smartphones	1500	225	2000	250	2100	275
Bread	3000	1	3200	1	3400	1
Leather	600	8	700	10	800	12

Consider a small economy producing five goods. Note that half of the bread is used in burger production and leather is totally used in boots production.

Answer the following questions:

1. Calculate nominal and real GDP of the economy in 2017 and 2018.
2. Calculate the real GDP growth rate in 2018. Interpret.
3. Calculate GDP Deflator in 2017 and 2018.
4. Calculate inflation rate in 2018.