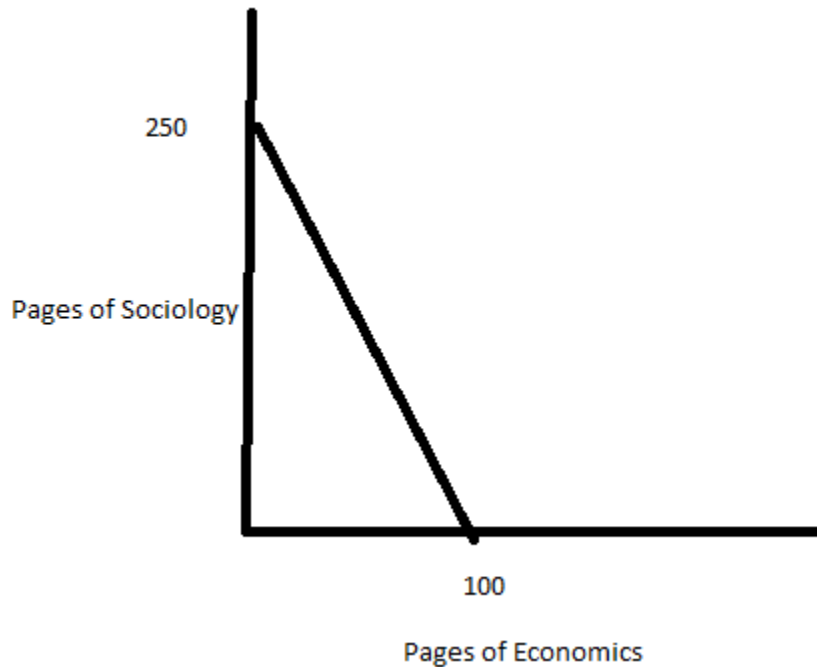


Problem 1

a)



b)

Opportunity cost of reading 100 pages of sociology is $100 \times (20/50)$

=40 pages of economics

Problem 2

a)

Brazil has an absolute advantage in the production of tea since it can produce 400 tea while Argentina can produce just 250 tea if it utilizes all its time producing tea.

Argentina has an absolute advantage in the production of coffee since it can produce 500 coffee while Brazil can produce just 400 coffee if it utilizes all its time producing coffee.

b)

Argentina has comparative advantage in coffee production since it sacrifices just 0.5 pounds of tea for 1 pound coffee while Brazil's opportunity cost of 1 pound coffee is 1 pounds of tea.

Brazil has comparative advantage in tea production since it sacrifices just 1 pounds of coffee for 1 pound tea while Argentina's opportunity cost of 1 pound tea is 2 pounds of coffee.

C)

Argentina should specialize in coffee

Brazil should specialize in tea

d)

If there is trade, Argentina will produce 500 pounds of coffee and Brazil will produce only 400 pounds of tea.

e)

Gain from trade

100 pounds coffee for Brazil

50 pounds tea for Argentina

Problem 3

1. Nominal GDP in 2017 and 2018

2010			2017			2018		
1000	20		1200	25	30000	1250	25	31250
5000	3.5		5500	4	22000	5500	4.5	24750

1500	225		2000	250	500000	2100	275	577500
1500	1		1600	1	1600	1700	1	1700
					553600			635200

Real GDP in 2017 and 2018

2010			2017			2018		
1000	20		1200	25	24000	1250	25	25000
5000	3.5		5500	4	19250	5500	4.5	19250
1500	225		2000	250	450000	2100	275	472500
1500	1		1600	1	1600	1700	1	1700
					494850			518450

2. Real GDP Growth rate = $(518450/494850)-1$
=4.77%

3. GDP Deflator
2017= $553600/494850$
=111.87%
2018= $635200/518450$
=122.52%

4. Inflation rate 2018
= $(122.52/111.87)-1$
=9.52%