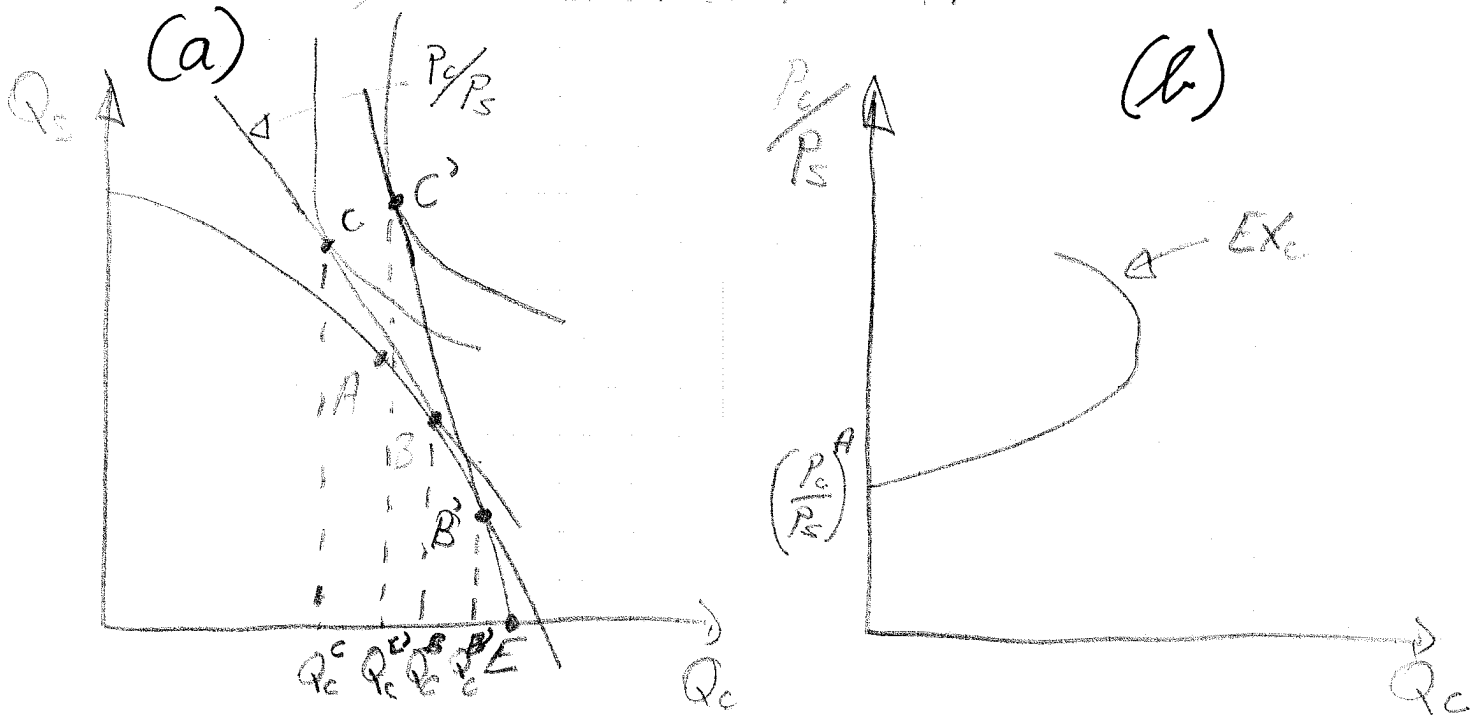


7) a) An ever-increasing computer price on world markets:



As P_C increases further, the price line P_C/P_S becomes more and more steep. Production moves S-E along the PPF, say from point B to B'.

b) If the slope of price line P_C/P_S becomes steeper, one obtains that exports of computers begin to fall (not shown on graph) as the production and consumption levels of computers become almost the same.

This suggests the possibility of a backward-bending export supply curve on panel (b).

c) As mentioned in part b), the export supply curve may be backward bending.

As P_c/P_f becomes very high, people become very rich by exporting computers. This gives them the opportunity to export less computers in exchange for more shoes. In other words, as terms of trade improve, the income effect initially dominates. Eventually, the substitution effect takes over.

Income effect \Rightarrow Increase supply in order to benefit from higher prices.

Substitution effect \Rightarrow Given the benefits from higher prices, one prefers to supply less.

#10) a) According to the Stolper-Samuelson theorem, since soybean production is land-intensive, land returns will increase in countries that export soybeans.

This means that landowners benefit from F.T. in soybeans in Brazil, Canada and the USA.

b) Countries that import soybeans are likely to see the price of soybeans fall from F.T. in soybeans. This means that the return to land will drop (Stolper-Samuelson theorem).

Land owners therefore lose in the following countries: Australia, China, France, Ireland, Japan, Mexico, Russia.

c) The effect on land returns is likely to be rather small in Australia and Russia given the relatively small effect of F.T. on soybean imports.