Ia) U.S. has comparative advantage in fruit, since each F costs 1/4 C in the U.S., while each F costs 2/5 C in Thailand. Therefore, the U.S. has a lower price of fruit and will export fruit.

Thailand has comparative advantage in cookies, since each C costs 5/2 F in Thailand, while each C costs 4F in the U.S.. Therefore, Thailand has a lower price of cookies and will export cookies.

1b) Graphs to the left
1c) Graph below. If Thailand produced only cookies, they could produce 10 as we can see in 1b) above. If they sold all these cookies at the price of 3, they could get 30 fruit, which corresponds to point Z in the graph below.

1d) Given the information, Thailand would produce at point B and consume at point C in the graph below. The trade triangle would be triangle BDC. Thus, Thailand would be exporting 5 cookies to get 15 fruit.
1d continued) U.S. would therefore export 15 fruit to get 5 cookies. Remember, trade has to be balanced. The graph would look like the one below. Trade triangle is again marked as triangle BCD.

1e) Note: e=1, w=3, w*=1.

For US: Price of Fruit (PF) in baht = (w) x (e) x (aLF) = 15 baht
Price of Cookies (PC) in baht = (w) x (e) x (aLC) = 60 baht

For Thailand: PF* in baht = (w*) x (aLF*) = 20 baht
PC* in baht = (w*) x (aLC*) = 50 baht
Thus, since PF < PF* in baht, the U.S. exports fruit and since PC* < PC, Thailand will export cookies and this is a plausible trade equilibrium.

Now, if Thailand devalues the currency so that e=2, the following occurs:

PF = 30 baht
PC = 120 baht
PF* = 20 baht
PC* = 50 baht

Now, Thailand has cheaper prices in both goods, suggesting it should export both goods. But trade cannot occur in a two country/ two good model unless each country is exporting one of the goods and importing the other good. Thus, a trade equilibrium is not possible in this example for the new exchange rate and given the wages stay the same!
1f) Note in 1e) above, as the baht was devalued, Thailand’s goods prices got much cheaper relative to the U.S. prices and made Thailand’s goods much more likely to be exported. The converse is that the U.S. goods prices became much more expensive relative to Thailand’s prices. Thus, if Thailand is importing from the U.S., imports become much more expensive. Thus, we would expect a devaluation to be favored by exporters because it makes their prices less expensive to the rest of the world. However, importing firms and consumers will have to pay higher prices for imported goods and they will be unhappy with a devaluation of the currency.

2) HERE'S HOW I WOULD ANSWER IT. The theory of comparative advantage suggests that any trading country will gain from trade, regardless of their level of development. A less-developed country may not be as technologically advanced as the developed country, but it

3a) The case where the international price of roses is GREATER than the autarky price:

![Graph showing international trade with rose prices higher than autarky price]

The case where the international price of roses is LESS than the autarky price:

![Graph showing international trade with rose prices lower than autarky price]
3b) If preferences stay the same, but technology of producing roses increases, the relative price of roses IN AUTARKY will go down. One way of thinking of it is that demand (preferences) is staying the same, but supply (from increased potential to produce) goes up and this puts pressure on the price to go down. Graphically, compare P1 to P2 in the figure below. As the PPF expands along the ROSES axis, the price of roses goes down (from P1 to P2)

How does this affect trade? In this case, the change in autarky prices increases the country’s comparative advantage in roses. If the international price of roses stays the same, the country will then certainly trade a greater amount of goods and experience a greater gain in welfare.