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Econ 280—Bethany College

**Homework 07**

Answer all the following on a ***typed, stapled*** (if applicable)separate sheet of paper. You do not need to type equations and graphs. I charge 25 cents to staple your homework. Make sure that you justify your answers, use your own words, and show your work. All questions are equally weighted.

1. North Korea is the most isolated countries on the planet. For over sixty years, its citizens have been largely cut off from all outside influences while its government maintains a military dictatorship so oppressive, it resembles George Orwell’s *1984*. Once a unified peninsula with a common language and culture, the differences between communist North and capitalist South are now tremendous. (For example, South Korea’s GDP per capita is more than ten times North Korea’s.) Imagine the dictatorship collapsed and peninsula reunified under the South Korean government. Trade and investment with the North was now possible. But because of its communist history property rights are tenuous.

Suppose you built a mine in the North to take advantage of the cheap labor and abundant mineral resources. But because of poorly enforced property rights, the mine is a commons, where the locals could share in the harvesting of the resource. Because of that, you decide to organize the mine as a commons, where the community harvests ore and you pay each worker for ore that person harvests. They consult you on how best for them to set up their communal mine. Being as specific as possible (perhaps with hypothetical examples), advise the community using one of Elinor Ostrom’s design principles and justify your advice with reference to the importance of local knowledge.

1. We discussed complications with antidumping laws. Select one of those issues and indicate why it complicates the goals of AD laws.
2. What is the difference between offshoring and outsourcing? How does the concept of offshoring and/or outsourcing help illustrate the law of one price (especially with regards to labor)?
3. Why is judging the working conditions in developing countries by Western standards a deceptive approach, especially in the context of so-called sweatshops? In answering this question, be sure to explain why workers in developing countries would want to work under such harsh conditions.
4. Consider the following information and, in each scenario, indicate which country’s currency—the US dollar or the Australian dollar—will appreciate. Justify your answer.
   1. US interest rates go up while the Australian interest rates stay the same.
   2. Thanks to Chinese demand for minerals, the mineral-rich and nearby Australian mining industry booms relative to the US’s.
   3. Next year, suppose forecasters believe the rate of inflation will be 3% in the US and 2% in Australia. Currently, assume both inflation rates are 1%.
   4. India develops a new breed of chicken which Australians find very tasty but Americans find disgusting.