

INTERNATIONAL TRADE AND THE WORLD ECONOMY

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Answers to * exercises in chapter 16 of the Study Guide

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The * exercises in chapter 16 are: 16.1.

Question 16.1

16.1A.

Economic theory distinguishes between the quality approach (a new good delivers similar services as an old good but at a different quality level, usually replacing the old product) and the variety approach (an new good delivers dissimilar services than an old good, both products usually continue to be sold on the market).

16.1B.

The Solow growth model uses neither approach as no new goods are introduced.

16.1C.

The endogenous growth model discussed in the book uses the variety approach to explain economic growth. The economy expands by producing ever more varieties.

16.1D.

The geographical economics model discussed in the book also uses the variety approach. The extent of the market determines the number of introduced varieties.