

**9. Correct. The answer is false not true.** Although USA has an absolute advantage in both goods, there still could exist relative prices difference in the two countries. Suppose it takes USA 2 labors to produce 1 R and 4 labor to produce 1 N, while China takes 9 labors to produce 1 R and 6 labor to produce 1 N. We can find that USA has an absolute advantage in both goods. However, in USA  $R = (1/2) N$ , while in China,  $R = 1.5N$ . R is relatively cheaper in USA and N is relatively cheaper in China. We relocate resources a little, let USA produces 1 less N and move the labor to R, then USA can produce 2 more R and have China produce 1 less unit of R and move the labor to N, then, China can produce 1.5 more N. Seen from the perspective of the world, N increases  $0.5(-1(\text{USA}) + 1.5(\text{China})) = 0.5$ , and R increases  $1(2(\text{USA}) + 1(\text{China})) = 1$ . Therefore, we can find that by specialization, there is a potential for gain.