

Why do individuals, organizations, and nations trade?

Do you think people and businesses in the United States should trade with people and businesses in other countries, or would it be better for us to make everything we consume for ourselves?

Comparative advantage occurs when one person or producer can produce at a lower opportunity cost than another person or producer.

What is the definition of **Opportunity cost**?

Who Should Do What?

Worker	Salads	Pizzas
Nino	36	9
Tony	12	6

Who Should Do What?

1. Nino's opportunity cost of producing 9 pizzas is ____ salads. Therefore, his opportunity cost of producing 1 pizza is ____ salads.
2. Tony's opportunity cost of producing 6 pizzas is ____ salads. Therefore, his opportunity cost of producing 1 pizza is ____ salads.
3. Nino's opportunity cost of preparing 36 salads is ____ pizzas. Therefore, his opportunity cost of preparing 1 salad is ____ of a pizza.
4. Tony's opportunity cost of preparing 12 salads is ____ pizzas. Therefore, his opportunity cost of preparing 1 salad is ____ of a pizza.

Who Should Do What?

1. Nino's opportunity cost of producing 9 pizzas is **36** salads. Therefore, his opportunity cost of producing 1 pizza is **4** salads.
2. Tony's opportunity cost of producing 6 pizzas is **12** salads. Therefore, his opportunity cost of producing 1 pizza is **2** salads.
3. Nino's opportunity cost of preparing 36 salads is **9** pizzas. Therefore, his opportunity cost of preparing 1 salad is **1/4** of a pizza.
4. Tony's opportunity cost of preparing 12 salads is **6** pizzas. Therefore, his opportunity cost of preparing 1 salad is **1/2** of a pizza.

Who Should Do What?

5. Who has the lower opportunity cost for making pizzas?

6. Who has the lower opportunity cost for preparing salads? _____
7. Who has the comparative advantage in producing pizzas? _____ Salads? _____
8. How will specialization affect the running of the pizza shop?

Who Should Do What?

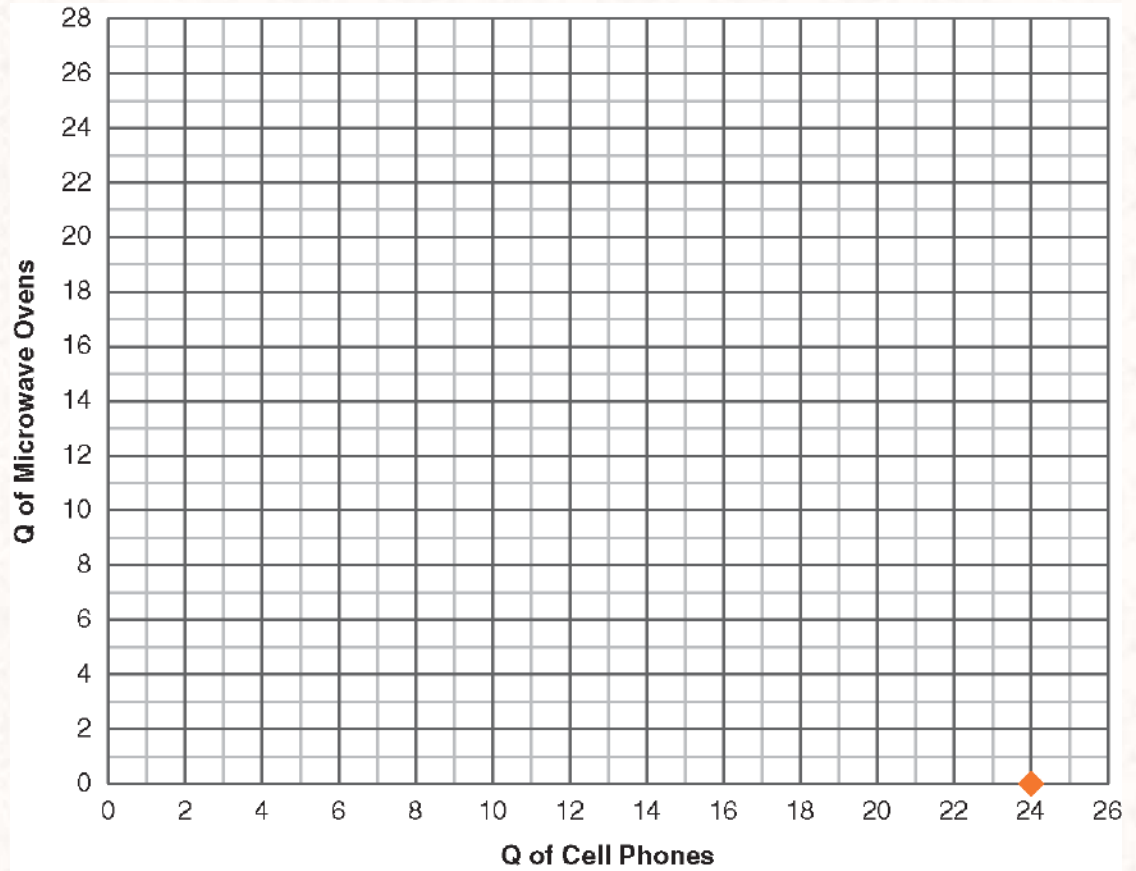
5. Who has the lower opportunity cost for making pizzas?
Tony
6. Who has the lower opportunity cost for preparing salads? **Nino**
7. Who has the comparative advantage in producing pizzas? **Tony** Salads? **Nino**
8. How will specialization affect the running of the pizza shop? **Tony will specialize in pizzas and Nino will specialize in salads.**

Production Possibilities Frontier

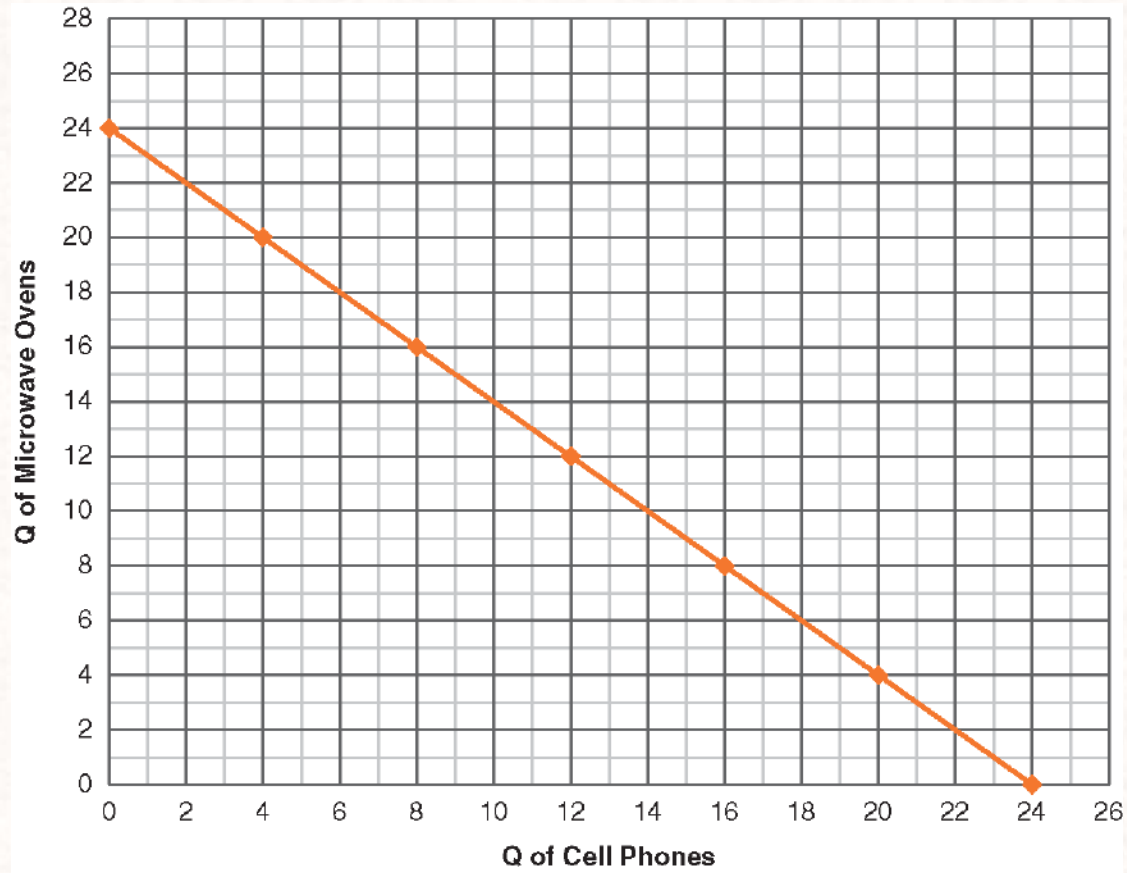
A table or graph that shows the full employment capacity of an economy in the form of possible combinations of two goods, or two bundles of goods, that could be produced with a given amount of productive resources and level of technology.

Country A

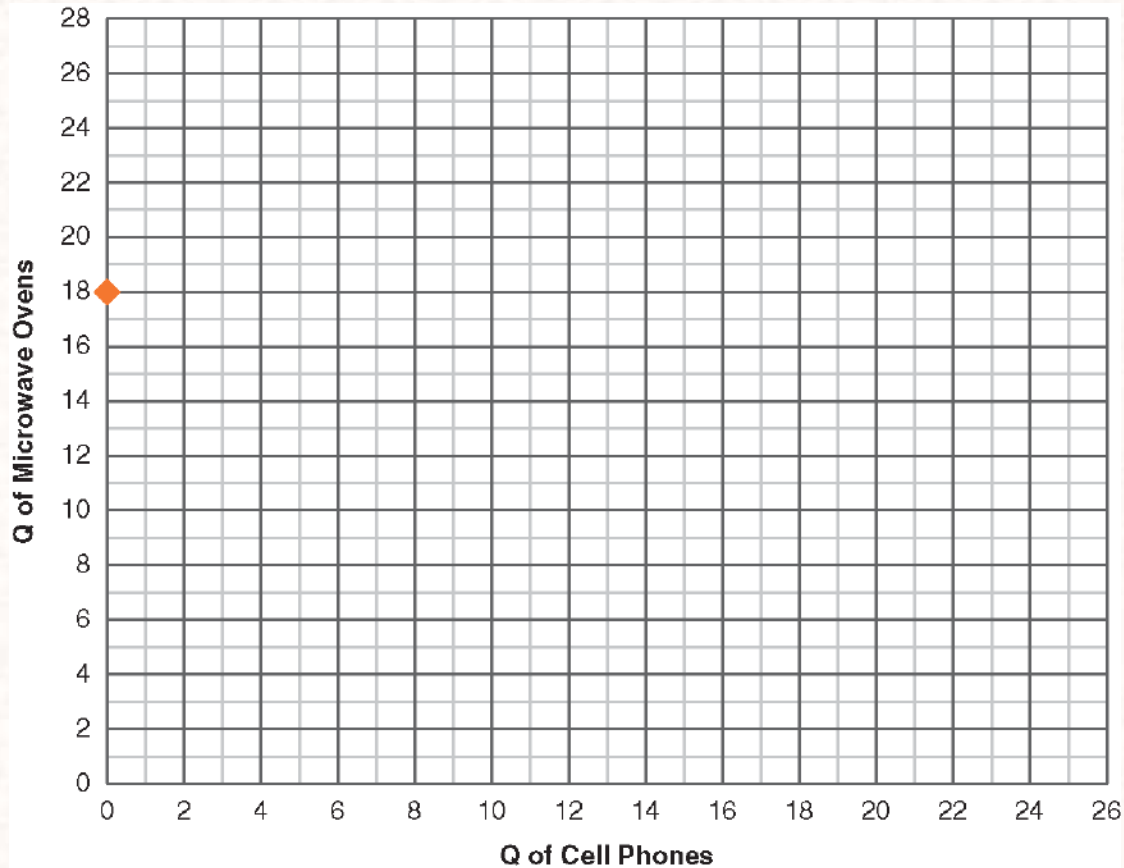
Cell Phones	Microwaves
24	0
20	4
16	8
12	12
8	16
4	20
0	24



Country A



Country B

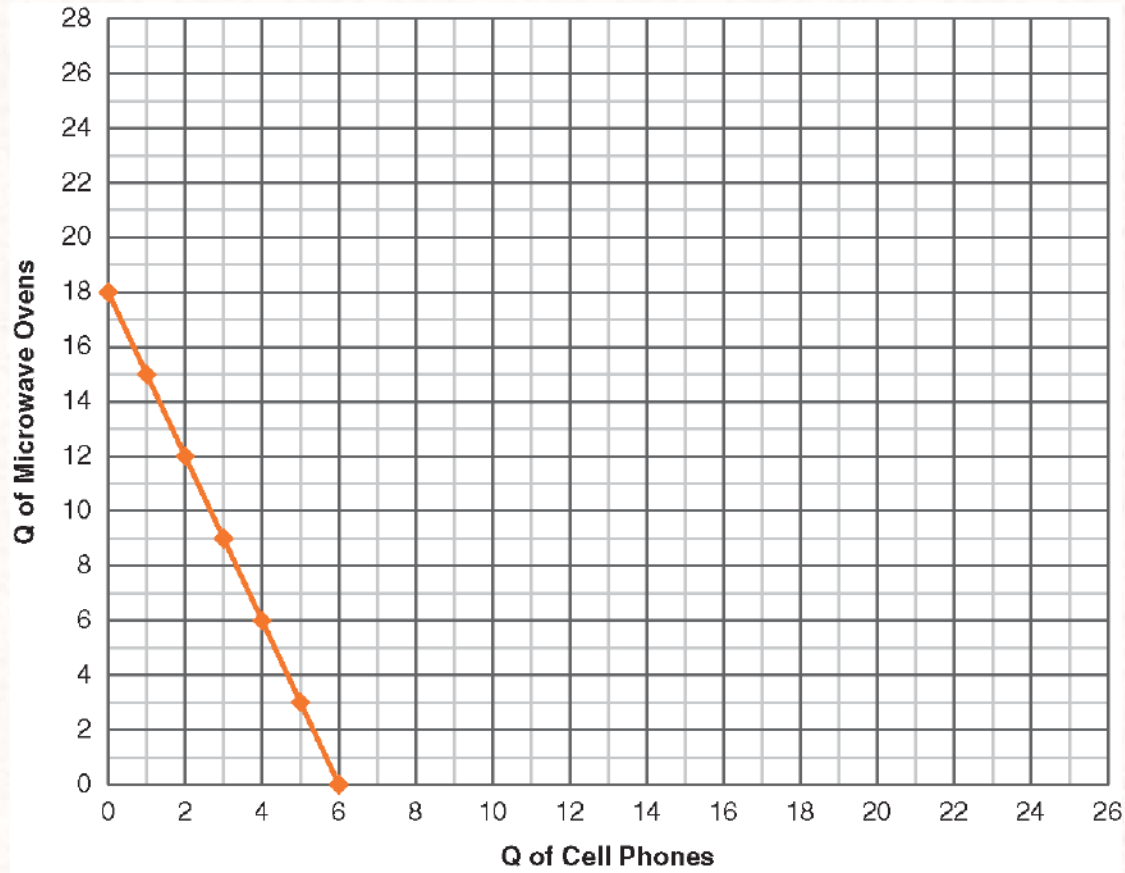


Cell Phones	Microwaves
0	18
1	15
2	12
3	9
4	6
5	3
6	0

Country A

1. What is the opportunity cost of producing 4 cellphones?
2. What is the opportunity cost of producing 1 cellphone?
3. What is the opportunity cost of producing 4 microwave ovens?
4. What is the opportunity cost of producing 1 microwave oven?

Country B



Country B

5. What is the opportunity cost of producing 1 cellphone?
6. What is the opportunity cost of producing 3 microwave ovens?
7. What is the opportunity cost of producing 1 microwave oven?
8. Which country has the lower opportunity cost of producing cellphones?
Microwave ovens?

Absolute Advantage

- The ability to produce more units of a good or service than some other producer, using the same quantity of resources.
- When a worker in one country can produce more of a good than a worker in another country.

Specialization and Trade

	Cheese	Wheat
United States	3	12
France	2	4

- Which country has an absolute advantage in Cheese? _____ In wheat? _____
- Which country has a competitive advantage in Cheese? _____ In wheat? _____

Specialization and Trade

United States				
	A	B	C	D
Cheese	0	100	200	300
Wheat	1200	800	400	0
France				
	A	B	C	D
Cheese	0	50	100	200
Wheat	400	300	200	0

Ticket in the Door

1. Trade usually:
 - a. decreases specialization
 - b. decreases consumption
 - c. increases unemployment
 - d. increases output
2. When a worker in one country can produce more of a good than a worker in another country, the worker in the first country
 - a. has an absolute advantage in producing that good
 - b. has an absolute disadvantage in producing the good
 - c. always will have a comparative advantage in producing that good
 - d. will never have a comparative advantage in producing that good

Worker Production		
	Strawberries	Cucumbers
Country A	10 lbs/hr	30 lbs/hr
Country B	10 lbs/hr	20 lbs/hr

3. Which country has the comparative advantage in producing strawberries?
 - a. Country A
 - b. Country B
 - c. Neither country
 - d. Both countries

Ticket in the Door

1. If the country of Outbackistan has an absolute advantage in the production of jeans, but a comparative advantage in the production of shirts, the country
 - a. has no reason to trade
 - b. should trade both
 - c. should import jeans and export shirts
 - d. should export jeans and import shirts

Worker Production		
	Shirts	Jeans
Outbackistan	40	50
Tangerinistan	20	40

2. What is the opportunity cost:
 - a) 1 Shirt in Outbackistan
 - b) 1 pair Jeans in Tangerinistan
 - c) 1 Rumba in Mali
 - d) 1 Altoid in Caicos

Worker Production		
	Rumbas	Altoids
Mali	15	500
Caicos	20	500

3. Which country has a comparative advantage in Altoids?

Show your Work!

Ticket out the Door

1. If the country of Outbakistan has an absolute advantage in the production of jeans, but a comparative advantage in the production of shirts, the country
 - a. has no reason to trade
 - b. should trade both
 - c. should import jeans and export shirts
 - d. should export jeans and import shirts

2. When a country moves from a free trade position and imposes a tariff on imports, this causes a/an
 - a. decrease in revenue to the government.
 - b. decrease in the variety of goods in the market.
 - c. decrease in the quantity of goods available in the market.
 - d. increase in the quantity of goods available in the market.

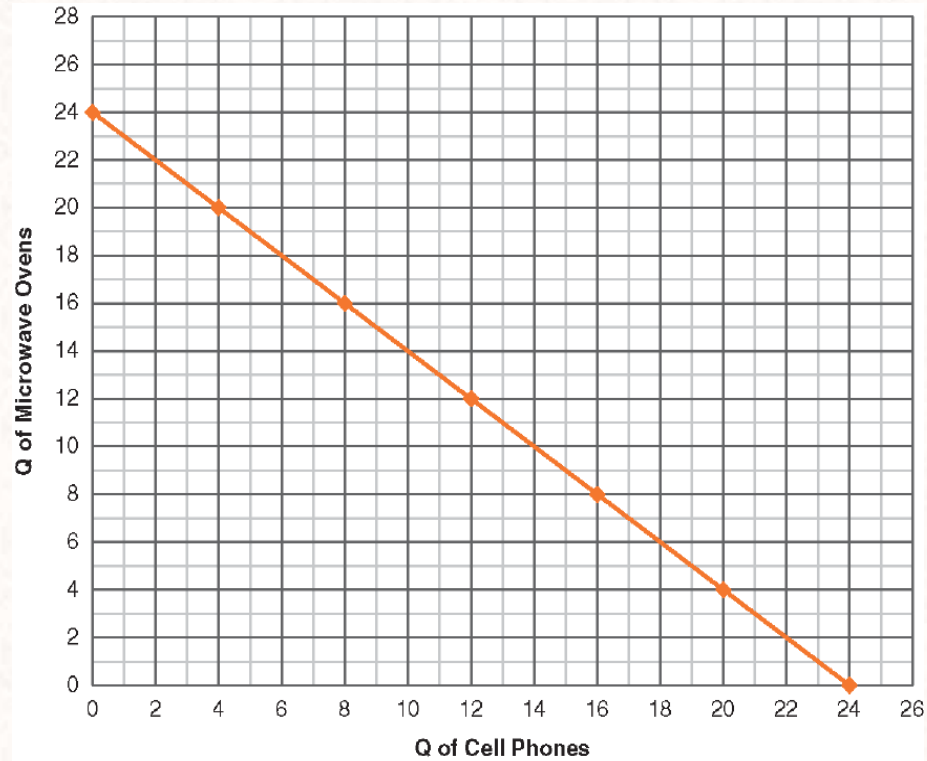
3. A tariff is a tax placed on
 - a. imported goods that raises the domestic price above the world price.
 - b. imported goods that lowers the domestic price below the world price.
 - c. exported goods that lowers the domestic price below the world price.
 - d. exported goods that keeps the domestic price the same as the world price.

Worker Production		
	Rumbas	Altoids
Mali	15	500
Caicos	20	500

4. Which country has a comparative advantage in Altoids?

COMPARATIVE ADVANTAGE

Country A



Country B

