

Your name (first name, then last name): \_\_\_\_\_

Your TA's name: \_\_\_\_\_

SUNY-Binghamton Economics 160, Principles of Microeconomics, Christopher Hanes  
Problem set 2 Absolute advantage, comparative advantage

1) Consider Japan and America. Each produces cars and movies. Each country has 100 (million) hours of labor to use in production.

a) If America produces 3 movies/hour and 1 car/hour, Japan produces 2 movies/hour and 2 cars/hour

what is the opportunity cost of a car in Japan? \_\_\_\_\_ in America? \_\_\_\_\_

what is the opportunity cost of a movie in Japan? \_\_\_\_\_ in America? \_\_\_\_\_

which country (America, Japan or neither)

has an absolute advantage in cars? \_\_\_\_\_ in movies? \_\_\_\_\_

has a comparative advantage in cars? \_\_\_\_\_ in movies? \_\_\_\_\_

Are there potential gains from trade here? \_\_\_\_\_ (yes or no)

If your answer was yes, describe the pattern of mutually beneficial trade:

Japan produces \_\_\_\_\_ and exchanges this good for \_\_\_\_\_ from America.

America produces \_\_\_\_\_ and exchanges this good for \_\_\_\_\_ from Japan.

b) If America produces 3 movies/hour and 2 cars/hour, Japan produces 3 movies/hour and 4 cars/hour

what is the opportunity cost of a car in Japan? \_\_\_\_\_ in America? \_\_\_\_\_

what is the opportunity cost of a movie in Japan? \_\_\_\_\_ in America? \_\_\_\_\_

which country (America, Japan or neither)

has an absolute advantage in cars? \_\_\_\_\_ in movies? \_\_\_\_\_

has a comparative advantage in cars? \_\_\_\_\_ in movies? \_\_\_\_\_

Are there potential gains from trade here? \_\_\_\_\_ (yes or no)

If your answer was yes, describe the pattern of mutually beneficial trade:

Japan produces \_\_\_\_\_ and exchanges this good for \_\_\_\_\_ from America.

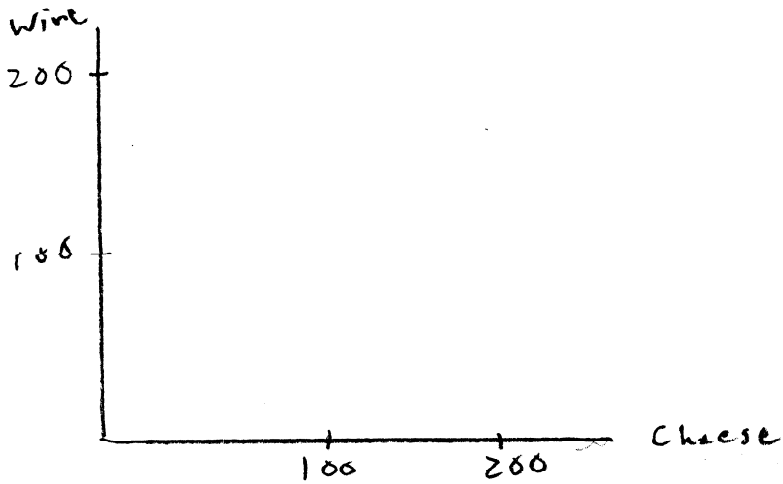
America produces \_\_\_\_\_ and exchanges this good for \_\_\_\_\_ from Japan.

2) Consider the country of Boetia. Boetia has 50 hours of labor to use in production. Boetia produces just two goods: wine and cheese.

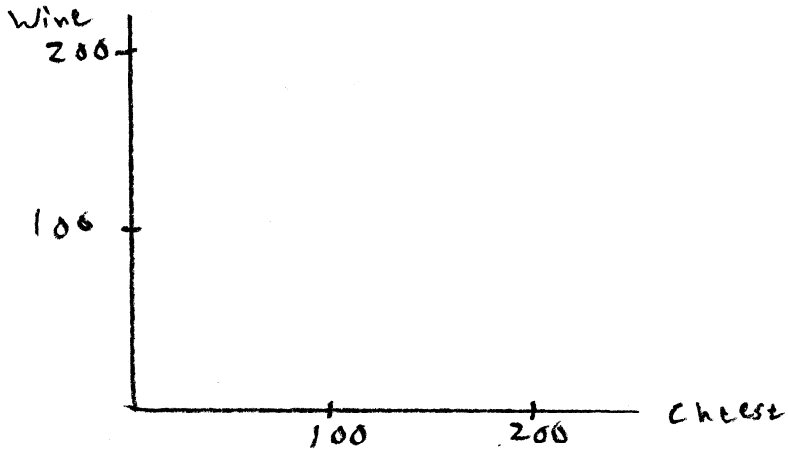
If Boetia produces 4 wines (gallons)/hour and 2 cheeses (wheels)/hour,

a) what is the opportunity cost of wine? \_\_\_\_\_ of cheese? \_\_\_\_\_

b) On the graph, draw Boetia's PPF:

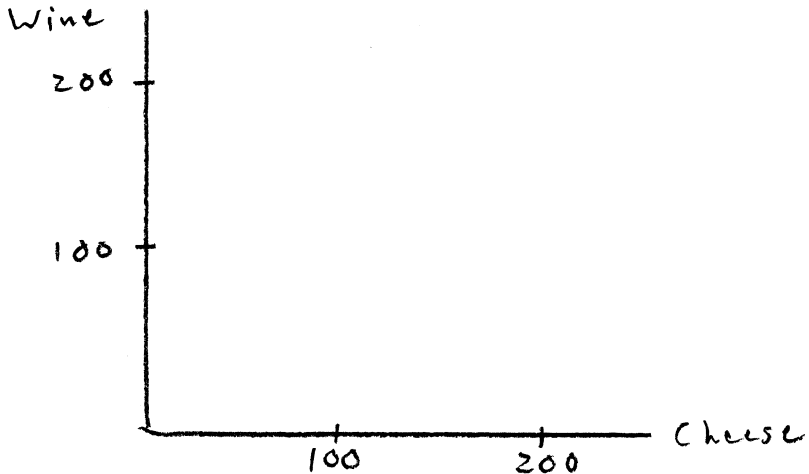


c) Another country, Attica, offers to give wine in exchange for cheese: specifically, 1 wine for a cheese. On the graph below, draw Boetia's PPF with a solid line. With a dotted line, draw the combinations of wine and cheese Boetia could consume if it specialized in the production of cheese, and traded some or all of the cheese to Attica getting one wine per cheese.



If this is the deal, what is better for Boetia: trade with Attica or autarky? \_\_\_\_\_

d) Thebes offers to give cheese in exchange for wine: specifically, 1 cheese for a wine. On the graph below, draw Boetia's PPF with a solid line. With a dotted line, draw the combinations of wine and cheese Boetia could consume if it specialized in the production of wine, and traded some or all of the wine to Thebes getting one cheese per wine.



If this is the deal, what is better for Boetia: trade with Thebes or autarky? \_\_\_\_\_