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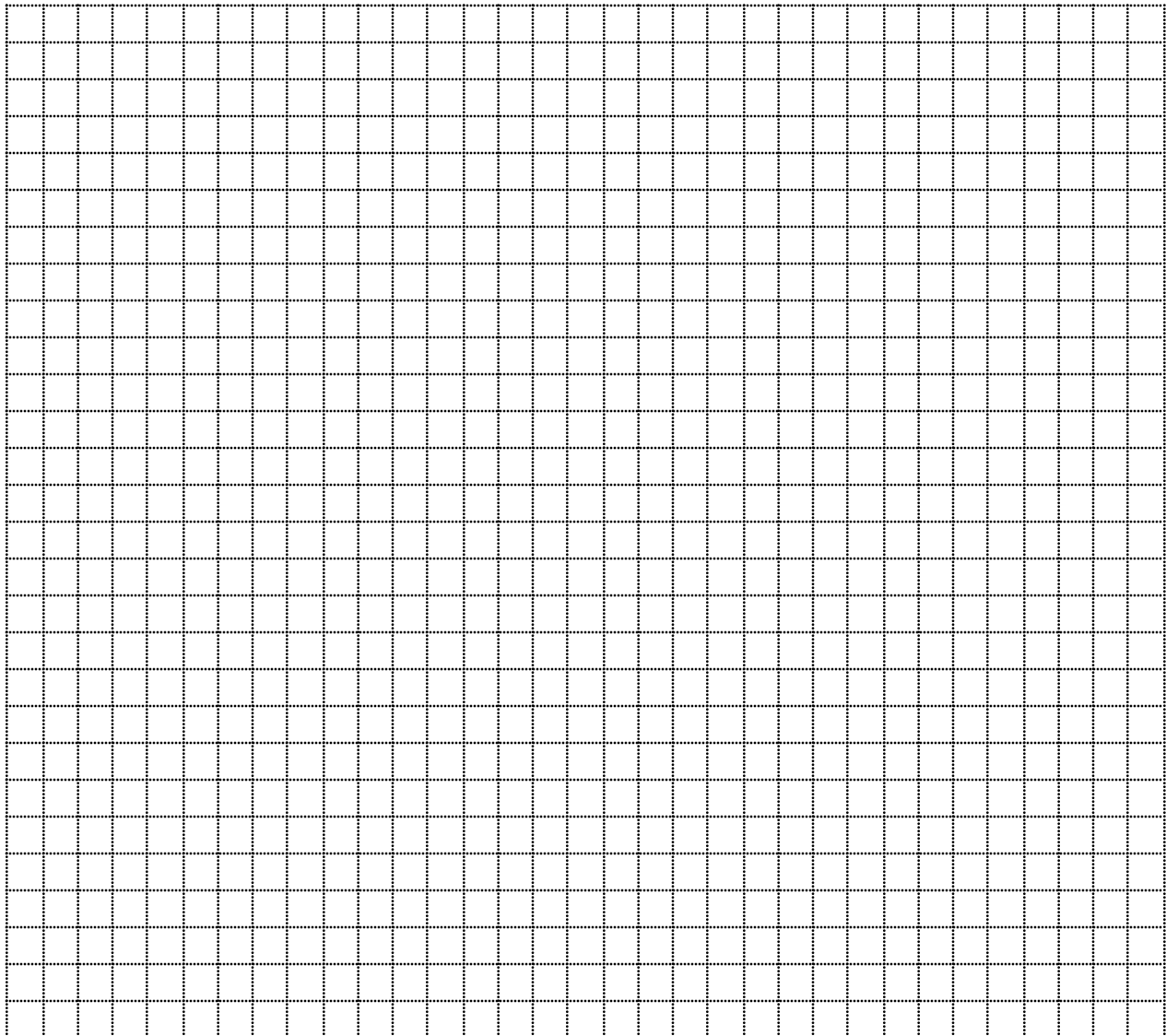
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Economics

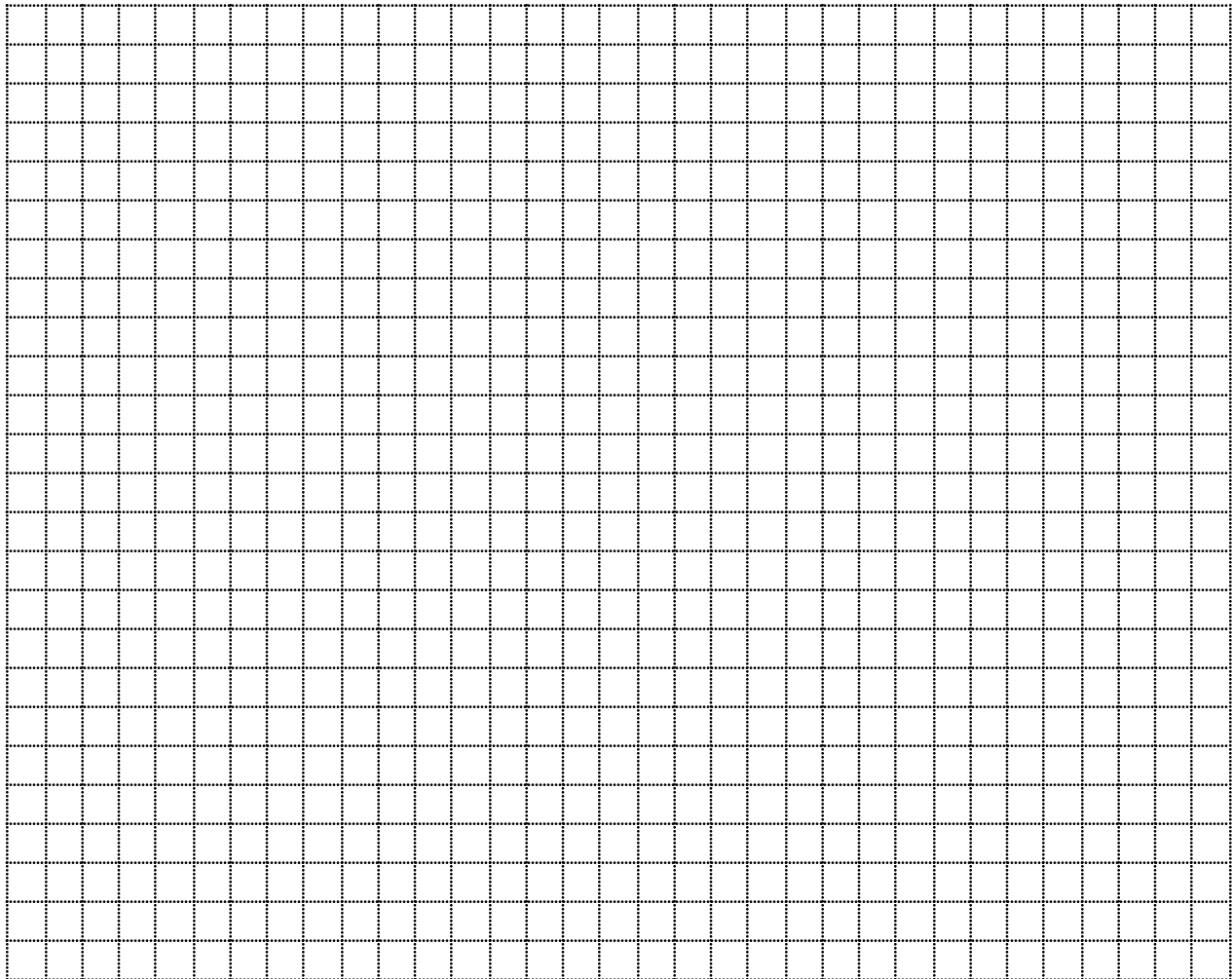
Comparative Advantage and Trade Practice Problems

Practice Problems:

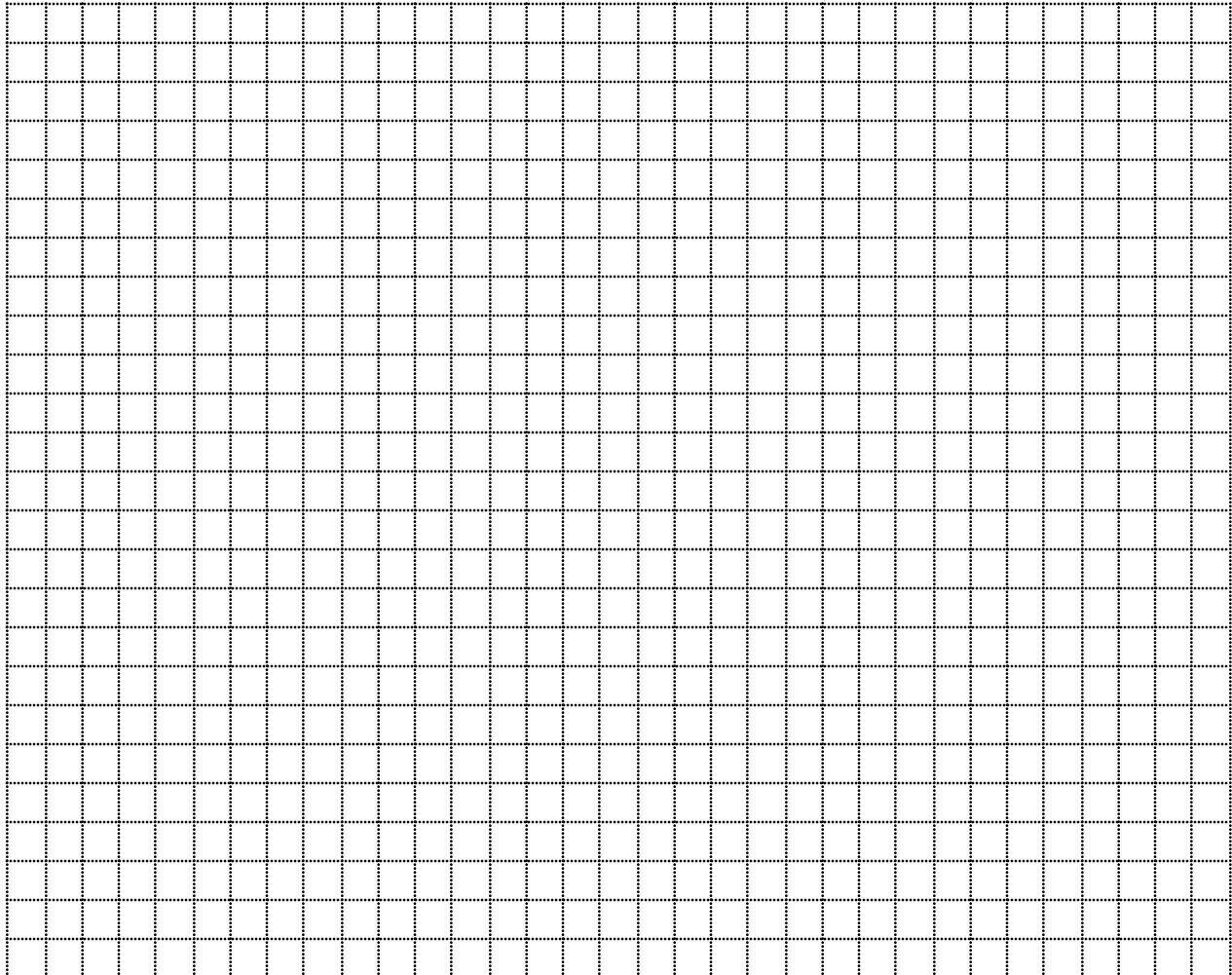
1. Adam and Jerry own a café where only espresso and doughnuts are served. Adam can make 100 espressos an hour or he can make 20 doughnuts an hour. Jerry can make 120 espressos an hour or he can make 40 doughnuts an hour. Suppose they work 10 hours per day. Also suppose that they know they must always make 800 espressos a day and as many doughnuts as they can. Who does what task in the café and for how long? How many doughnuts will they produce?



2. The United States and Great Britain are two nations that can produce either guns or butter. In any given Month, the U.S. can either produce 100 pounds of butter or 50 guns, while Great Britain can either produce 120 pounds of butter or 40 guns.
- make two graphs, one for each nation, that displays each nation's PPF (put butter on the horizontal axis).
 - Suppose both nations use half of its time each month to produce butter and the other half to produce guns. How much of each good does each nation make? Locate this point on their PPF.
 - Given part (b), how many guns and how much butter is produced total from both nations if each make both goods, spending half their month producing each good?
 - Suppose they agree to specialize and agree that each will spend the entire month making only one good. Which nation has the comparative advantage in which good? When they specialize, how much of each good is made in the economy?
 - What would a successful trade between the US and Great Britain look like? How much of each good will each nation have after the trade? Show these points on their respective PPF.



3. Bob and Ray both produce a publication that only includes jokes and advertisements in it. Each man produces a publication per day and works 10 hours a day. Bob can write four jokes each hour or write five advertisements each hour. Ray can write three jokes each hour or write six advertisements per hour.
- If each man produces their publication separately, how many jokes and advertisements will be included in each? Show this point on each man's PPF.
 - How many jokes and advertisements will they have produced total?
 - Suppose they two men agree to work together in publishing their publication. How should they produce jokes and advertisements in order to maximize their output for their publications? What is the total amount of jokes and advertisements that the men produce in a single work day?
 - How might the two men divide their production between themselves? Is this a good economic decision for them? Explain.



4. Germany and Switzerland are two nations that are particularly good at producing chocolate and skis. Over the course of one month, Germany can produce 160 pounds of chocolate or 100 pairs of skis. Switzerland, however, because it is a smaller nation with fewer resources, can only produce 100 pounds of chocolate or 60 pairs of skis over the same amount of time.
- Create a PPF for both nations.
 - Should Germany seek to trade with Switzerland? If so, go through the steps and figure out what a successful trade between the two nations would look like and then locate these points on their PPFs.

