

Gains From Trade Practice

SLOBOVIA PRODUCTION POSSIBILITIES TABLE						
	<i>Product Alternatives</i>					
Product	A	B	C	D	E	F
Cams	1,500	1,200	900	600	300	0
Widget	0	100	200	300	400	500

UTOPIA PRODUCTION POSSIBILITIES TABLE					
	<i>Product Alternatives</i>				
Product	A	B	C	D	E
Cams	4,000	3,000	2,000	1,000	0
Widget	0	200	400	600	800

- a) Plot the production possibilities data for each of the two countries separately.
- b) What is each country's cost ratio of producing Cams and Widgets?
- c) Which nation should specialize in which product?
- d) Show the trading possibilities lines for each nation if the actual terms of trade are 1 Widget for 4 Cams. (Plot these lines on your graph.)
- e) Suppose the optimum product mixes before specialization and trade were alternative D in Slobovia and alternative B in Utopia. What would be the gains from specialization and trade?