Introduction to Trade   Unit 1B

Quiz: Comparative Advantage & Gains from Trade   Chapter 6

Suppose a worker in Germany can produce 15 computers or 5 tons of grain per month. Suppose a worker in Poland can produce 4 computers or 4 tons of grain per month. For simplicity, assume that each country has only one worker.

a) Complete the following table (on your answer sheet):

	Computers	Grain
Germany		
Poland		

b) Graph the Production Possibilities Frontier for each country (2 separate graphs).

c) In Germany, what is the opportunity cost of a computer? For a ton of grain?

d) In Poland, what is the opportunity cost of a computer? For a ton of grain?

e) Which country has the absolute advantage in producing computers? grain?

f) Which country has the comparative advantage in producing computers? grain?

g) In which good should each country specialize?

h) Suppose Germany and Poland settle on a price of 2 computers for 1 ton of grain. Suppose that each country specializes in production and they trade 4 computers for 2 tons of grain. Plot the final consumption points on the graphs you made in part b) above. Are these countries consuming inside or outside their production possibilities frontier?

i) How would your analysis change if you assumed, more realistically, that each country had 10 million workers?