Barick Chung

Employment:
2022-present Associate Professor (Teaching), Economics, CUSZSZ.
2014-2022 Senior Lecturer, School of Management and Economics, CUSZSZ.
2012-2014 Lecturer, School of Economics and Finance, University of Hong Kong.
2006-2012 Instructor, Department of Economics, CUHKHK.

Education:
2003-2007 Ph.D. (Business) Indiana University – Bloomington.
1987-1991 BS.Sc. (Economics) Chinese University of Hong Kong – Hong Kong.

Research paper:
Chung, Barick, "Two Level Price Discrimination and Vertical Relationship" (March 05, 2012). Available at SSRN: http://ssrn.com/abstract=1997070.

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ECO 2011 (Sections L07-10)
Basic Microeconomics

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David Ricardo
(1772 – 1823)
http://en.wikipedia.org/wiki/David_Ricardo
accessed 20110115

"David Ricardo (19 April 1772 – 11 September 1823) was an English political economist, often credited with systematizing economics, and was one of the most influential of the classical economists, along with Thomas Malthus, Adam Smith, and John Stuart Mill. He was also a member of Parliament, businessman, financier and speculator, who amassed a considerable personal fortune. **Perhaps his most important contribution was the law of comparative advantage, a fundamental argument in favor of free trade among countries and of specialization among individuals.** Ricardo argued that there is mutual benefit from trade (or exchange) even if one party (e.g. resource-rich country, highly-skilled artisan) is more productive in every possible area than its trading counterpart (e.g. resource-poor country, unskilled laborer), as long as each concentrates on the activities where it has a relative productivity advantage."

Peter's productivity:

2  per hour

Internet photo

4  per hour

6 hours

Susan's productivity:

Internet photo

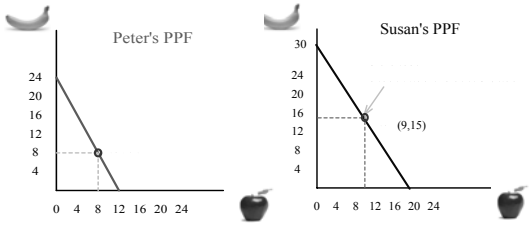
3  per hour

5  per hour

6 hours

No trade

Susan's production = 9 **apples + 15 bananas**
Peter's production = **8 apples + 8 bananas**



Suppose that now Peter specializes completely by allocating all 6 hours to picking bananas, and Susan specializes completely by allocating all 6 hours to picking apples.

Susan's new production : 18 **apples + 0 bananas**
Peter's new production : **0 apples + 24 bananas**

Total new output : 18 **apples + 24 bananas**

Suppose that Peter trades 15 bananas with Susan in return for 8 apples.

Susan' new consumption : **10 apples + 15 bananas**
Peter's new consumption : **8 apples + 9 bananas**

Frank and Bernanke, 2010, *Principles of Microeconomics*:

"To have a comparative advantage at a task"

is equivalent to:

"To have a lower opportunity cost of performing it"

Pindyck and Rubinfeld, p. 230:

Opportunity cost: Cost associated with opportunities forgone when a firm's resources are not put to their best alternative use.

Economic cost (opportunity cost): The cost of something is what you give up to get it (the item).

Mankiw, Gregory, 2012, *Essentials of Economics*, pp.236-7:

Opportunity cost of an item refers to all those things that must be forgone to acquire that item. When economists speak of a firm's cost of production, they include all the opportunity costs of making its output of goods and services.

While some of a firm's opportunity costs of production are obvious, others are less so. When Caroline pays $1,000 for flour, that $1,000 is an opportunity cost because Caroline can no longer use that $1,000 to buy something else. Similarly, when Caroline hires workers to make the cookies, the wages she pays are part of the firm's costs. Because these opportunity costs require the firm to pay out some money, they are called explicit costs. By contrast, …

Mankiw, Gregory, 2012, *Essentials of Economics*, pp.236-7:

…

By contrast, some of a firm's opportunity costs, called implicit costs, do not require a cash outlay. Imagine that Caroline is skilled with computers and could earn $100 per hour working as a programmer. For every hour that Caroline works at her cookie factory, she gives up $100 in income, and this forgone income is also part of her costs. The total cost of Caroline's business is the sum of the explicit costs and the implicit costs.

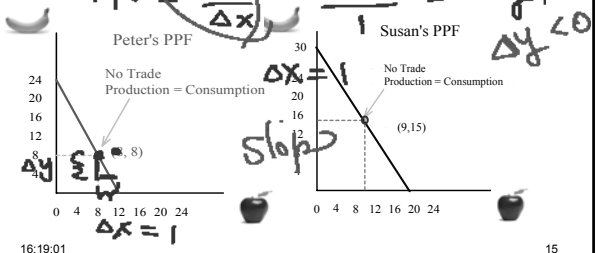
Food Clothes

Opportunity costs:

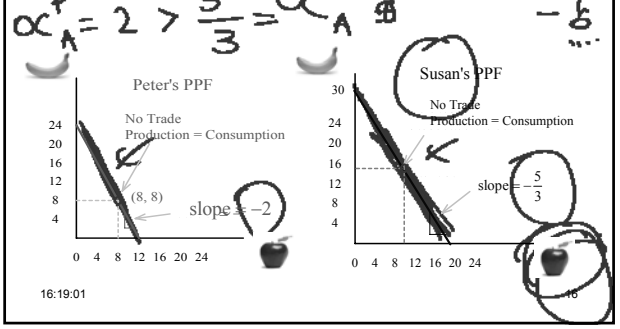
Peter: To pick 1 apple, the individual has to give up the output of 2 bananas, and to pick 1 banana, he has to give up ½ apple.

Susan: To pick 1 apple, the individual has to give up the output of 5/3 bananas, and to pick 1 banana, she has to give up 3/5 apple.

Susan's production = 9 **apples + 15 bananas**
Peter's production = **8 apples + 8 bananas**



Susan's production = 9 **apples** + 15 **bananas**
Peter's production = 8 **apples** + 8 **bananas**



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