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The comparative advantages a country may have in producing a good can be identified by considering if the opportunity cost of producing that good is lesser in that country than it is to others. As stated in the hypothetical storyline above, Sri Lanka economy can ultimately produce 1,000 bags of rice or 3,000 bags of tea. If she produces the 1,000 bags of rice, she cannot produce tea. If she produces the 3,000 bags of tea, she cannot produce rice. On the other hand, Kenya’s economy can produce 1,000 bags of rice or 1,000 bags of tea. If she produces 1,000 bags of rice, she cannot produce tea. If she produces 1,000 bags of tea, she cannot produce rice.

To begin with, Sri Lanka usage of her resources can be illustrated in a graph where the Production Possibility Frontier will be the joining of the rice and tea bags. This represents the economy’s production with the given resources at the highest point. Sri Lanka makes and uses 400 bags of rice and 1,800 bags of tea before trading. Kenya’s usage of her resources can also be illustrated in a graph where the Production Possibility Frontier would be the highest point she can produce her goods. On the other hand, Kenya makes and consumes 500 bags of rice and 500 bags of tea before trading.

When it comes to trading, each economy must find out its competitive advantage by specializing in the good that puts them in a favorable position. We can begin by looking at the production Sri Lanka economy can decide to produce. Sri Lanka can either produce 1,000 bags of rice or 3,000 bags of tea. This shows that 1 bag of rice is equivalent to 3 bags of tea. In other words, the opportunity cost is shown on how if they decided to produce 1 bag of rice, they have to give up 3 bags of tea or if they decide to produce 1 bag of tea, they have to give up 1/3 bag of rice. When we look at the production of Kenya, we can automatically see that 1,000 bags of rice or 1,000 bags of tea. This shows that 1 bags of rice are equivalent to 1 bag of tea. In order for Kenya to produce 1 bag of rice, they will have to give up 1 bags of tea. The same goes for tea, if they want to produce 1 bag of tea, they would have to give up one bag of rice.

At this point, we can see both of the countries comparative advantages. Kenya’s comparative advantage is seen in the making of rice because it’s opportunity cost is lower than Sri Lanka’s in the production of rice and Sri Lanka’s comparative advantage is seen in the making of tea because its opportunity cost is lower in the production of tea. After specialization of both countries, the trading price is set at one bag of rice for two bags of teas as stated in the storyline. In order for Kenya to keep 550 bags of rice after the trade, it would have to sell 450 bags of rice to Sri Lanka and Sri Lanka would give 900 bags of teas to Kenya while keeping the trading price that is set.