

EC201

Week 1 Discussion

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PLC 821

Tue 1-3pm

Example 1

Argentina, 10,000 hours of labor/month:

- producing 1 lb. coffee requires 2 hours;
- producing 1 bottle wine requires 4 hours

Brazil, 10,000 hours of labor/month:

- producing 1 lb. coffee requires 1 hour
- producing 1 bottle wine requires 5 hours

1. Which country has an absolute advantage in the production of coffee?
2. Which country has a comparative advantage in the production of wine?

Example 2

If the US spends all of its labor making wheat, it can make 5,000 tons. If it spends all of its labor making computers, it makes 500. Or any combination in between (I've given you the intercepts, you can draw the straight line between them).

Japan can make 1,200 tons of wheat or 240 computers

1. Draw the PPFs
2. Who has absolute advantages for each good?
3. Who has comparative advantages for each good?