

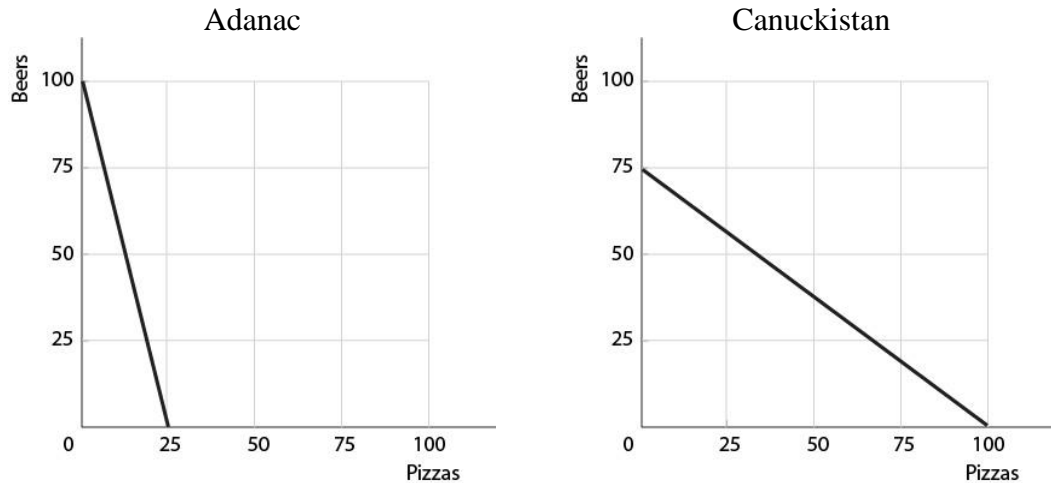
Short Answer Problem

Two countries, Adanac and Canuckistan, produce only beer and pizza. In one month:

Adanac can produce a maximum of 100 beers and zero pizzas,
or zero beers and 25 pizzas.

Canuckistan can produce a maximum of 75 beers and zero pizzas,
or zero beers and 100 pizzas.

The two countries' production possibilities frontiers are graphed below.



Use this information to answer the following questions.

- (2) A) Fill in the table.

	<u>Opportunity Cost of One:</u>	
	<u>Beer</u>	<u>Pizza</u>
Adanac	0.25 pizza	4 beers
Canuckistan	4/3 pizza	0.75 beer

- (2) B) What does the shape of Adanac's production possibilities frontiers tell us about:
- i) inputs? **Adanac has a comparative advantage in producing beer**
- ii) what happens to opportunity cost of producing pizza as pizza production increases?
he opportunity cost of producing pizza stays the same, reflecting the linear relationship between the two goods.
- (1) C) Both countries make smart choices and decide to specialize and trade.

- i) Which country(s) will specialize in producing beer?

Both Countries
☒ Adanac (CIRCLE ONE)
☐ Canuckistan
☐ Neither Country

- ii) Which country(s) will specialize in producing pizza?

Both Countries
☐ Adanac (CIRCLE ONE)
☒ Canuckistan
☐ Neither Country

- (3) D) After specialization, trade occurs and 25 pizzas are traded for 50 beers.

- i) **On the Adanac graph, plot the point where Adanac ends up after trade.**

The coordinates of that point are

(25 pizzas and 50 beers)

- ii) **On the Canuckistan graph, plot the point where Canuckistan ends up after trade.**

The coordinates of that point are

(75 pizzas and 50 beers)

- E) Explain in one sentence how the location on the graphs of the points from part D) represent mutually beneficial gains from trade.

As we just shown if they both specialize and then trade they both will have quantities of goods that were previously impossible, thus it is mutually beneficial

2. Which will cause a *decrease* in quantity demanded?
- A) decrease in the number of consumers
 - B) decrease in income
 - C) increase in income
 - ☒ D) rise in the price of the product
 - E) fall in the price of the product
3. Your instructor advised you to study for at least a week before your economics test. If you ignored his advice and only studied for one hour just before the test, your studying probably has _____ total benefits and _____ marginal benefits.
- A) zero; infinite.
 - B) high; low.
 - ☒ C) low; high.
 - D) high; high.
 - E) low; low.
4. Which could *not* cause an increase in demand for a service?
- A) increase in income
 - B) decrease in income
 - ☒ C) decrease in the price of a substitute
 - D) decrease in the price of a complement
 - E) increase in preferences for the service