Week 2 Discussion Section

Part 1

As the manager at a local florist, you supervise two employees, Anita and Jerome. There are two tasks that need to be completed: floral arrangements and flower delivery. It takes Anita 30 minutes to finish one floral arrangement and it takes her 40 minutes to make one delivery. It takes Jerome 10 minutes to finish one floral arrangement and it takes him 30 minutes to make one delivery.

1. Who has absolute advantage in each task?

2. What are Anita and Jerome's opportunity costs of making one floral arrangement?

3. What are Anita and Jerome's opportunity costs of making one flower delivery?

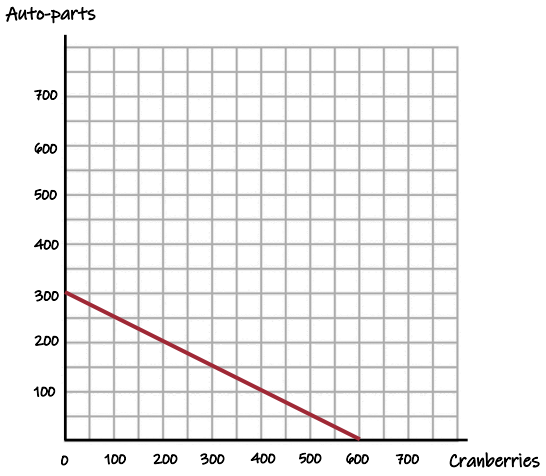
4. Who has comparative advantage in floral arrangements? What about flower deliveries?

5. Suppose, initially, Jerome and Anita each spent 4 hours each day doing floral arrangements and 2 hours each day doing deliveries. If you changed their tasks so that each employee did nothing but the task for which they had a comparative advantage, how many more floral arrangements would your store make, and how many more flower deliveries?

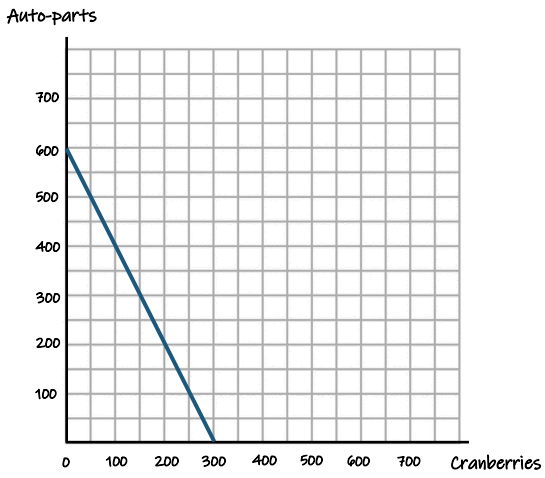
Part 2

Consider the two Midwestern states, Wisconsin and Michigan. Below are their production possibilities frontiers for cranberries and auto-parts.

Wisconsin's Production Possibilities Frontier



Michigan's Production Possibilities Frontier



Currently, Wisconsin produces 400 bushels of cranberries and 100 auto-parts; Michigan produces 0 bushels of cranberries and 600 auto-parts. Suppose that Wisconsin and Michigan decide to trade 100 bushels of cranberries for 150 auto-parts.

6. Which state should export cranberries? Which state should export auto-parts?

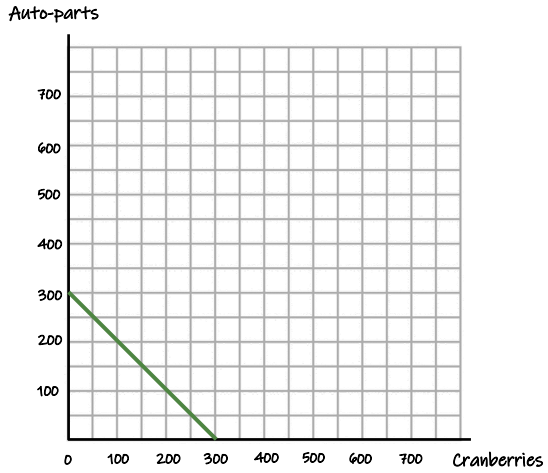
7. Will both states gain from this trade? How do you know?

Now suppose that Wisconsin and Michigan decide to merge into the mega-state "Wischigan".

8. Given the two states' individual production possibilities, form the joint production possibilities frontier for Wischigan on the graph on page 4. Make sure to accurately label all intersection points and slopes.

Wischigan is now considering merging with Indiana to form the even larger midwestern mega-state "Wiscindigan". Indiana has the following production possibilities frontier for cranberries and auto-parts.

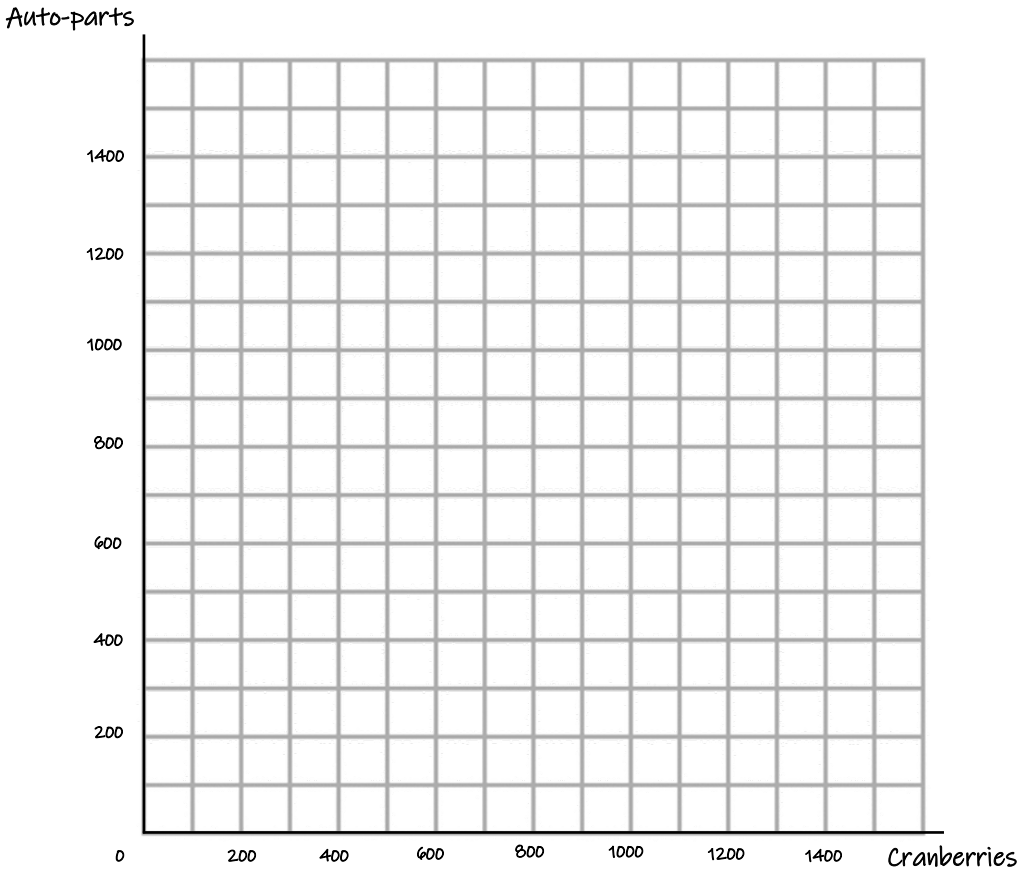
Indiana Production Possibilities Frontier



9. Given the three states' individual production possibilities, form the joint production possibilities frontier for Wiscindigan on the graph on page 5. Make sure to accurately label all intersection points and slopes.

10. Explain why the joint production possibilities frontier for Wiscindigan has this shape. Specifically, how does the shape relate to opportunity cost and specialization?

Wischigan Production Possibilities Frontier



Wiscindigan Production Possibilities Frontier