

Sum 1:

Kristen and Anna live in the beach town of Santa Monica. They own a small business in which they make wristbands and pot holders and sell them to people on the beach. As shown in the table on the following page, Kristen can make 15 wristbands per hour but only 3 pot holders. Anna is a bit slower and can make only 12 wristbands or 2 pot holders in an hour.

	OUTPUT PER HOUR	
	WRISTBANDS	POT HOLDERS
Kristen	15	3
Anna	12	2

- a. For Kristen and for Anna, what is the opportunity cost of a pot holder? Who has a comparative advantage in the production of pot holders? Explain your answer.
- b. Who has a comparative advantage in the production of wristbands? Explain your answer.
- c. Assume that Kristen works 20 hours per week in the business. Assuming Kristen is in business on her own, graph the possible combinations of pot holders and wristbands that she could produce in a week. Do the same for Anna.
- d. If Kristen devoted half of her time (10 out of 20 hours) to wristbands and half of her time to pot holders, how many of each would she produce in a week? If Anna did the same, how many of each would she produce? How many wristbands and pot holders would be produced in total?
- e. Suppose that Anna spent all 20 hours of her time on wristbands and Kristen spent 17 hours on pot holders and 3 hours on wristbands. How many of each item would be produced?
- f. Suppose that Kristen and Anna can sell all their wristbands for \$1 each and all their pot holders for \$5.50 each. If each of them worked 20 hours per week, how should they split their time between wristbands and pot holders? What is their maximum joint revenue?

Sum 2:

The countries of Figistan and Blah are small island countries in the South Pacific. Both produce fruit and timber. Each island has a labor force of 1,200. The following table gives production per month for each worker in each country.

	BASKETS OF FRUIT	BOARD FEET OF TIMBER
Figistan workers	10	5
Blah workers	30	10

Productivity of one worker for one month

- Which country has an absolute advantage in the production of fruit? Which country has an absolute advantage in the production of timber?
- Which country has a comparative advantage in the production of fruit? of timber?
- Sketch the ppf's for both countries.
- Assuming no trading between the two, if both countries wanted to have equal numbers of feet of timber and baskets of fruit, how would they allocate workers to the two sectors?
- Show that specialization and trade can move both countries beyond their ppf's.