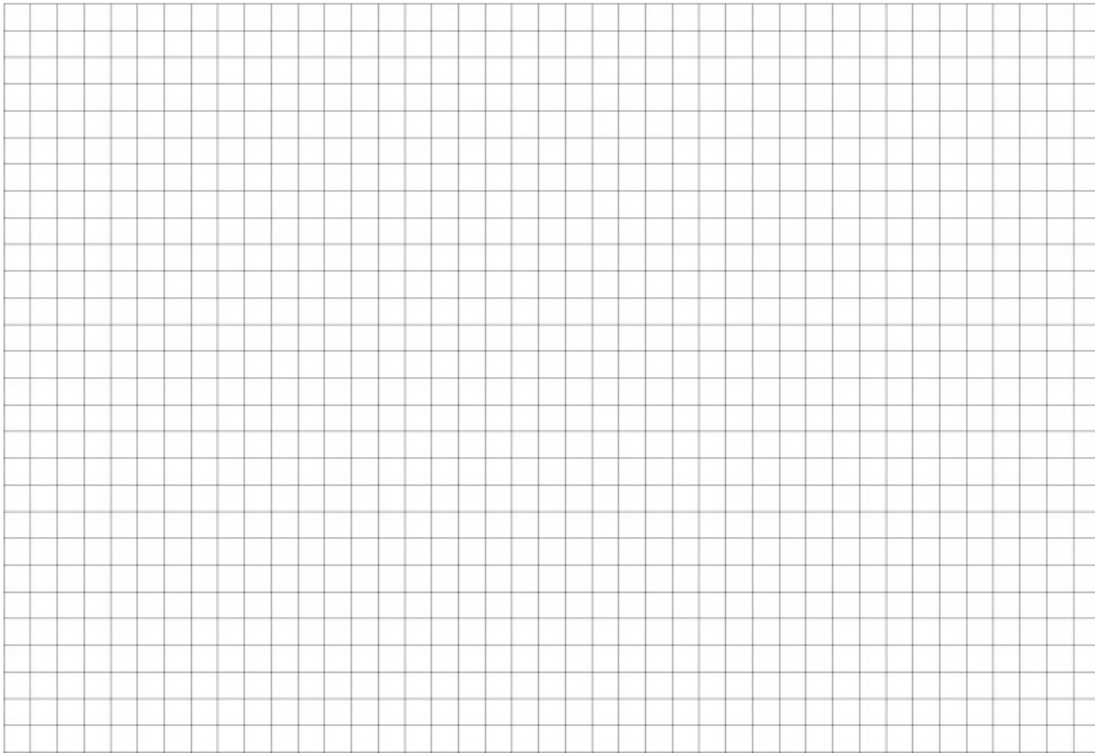


# Econ 0100 | Demo A

## The *Alternative* Hogsmeade Candy Shop Saga

### Q1 | Advantages

Honeydukes and Zonkos are two candy shops in Hogsmeade, the only all-wizarding village in Britain. Both Honeydukes and Zonkos are operated by their owners and make two types of popular candy, Chocolate Frogs ( $F$ ) and Ice Mice ( $M$ ). Honeydukes, devoting all their resources to either good, can make 10 pounds of  $F$  or 8 pounds of  $M$ . Zonkos can make 20 pounds of  $F$  or 5 pounds of  $M$ . Which shop has the absolute advantage (AA) in Ice Mice,  $M$ ? Which shop has the comparative advantage (CA) in Ice Mice,  $M$ ? Two tables may be helpful in answering this question.



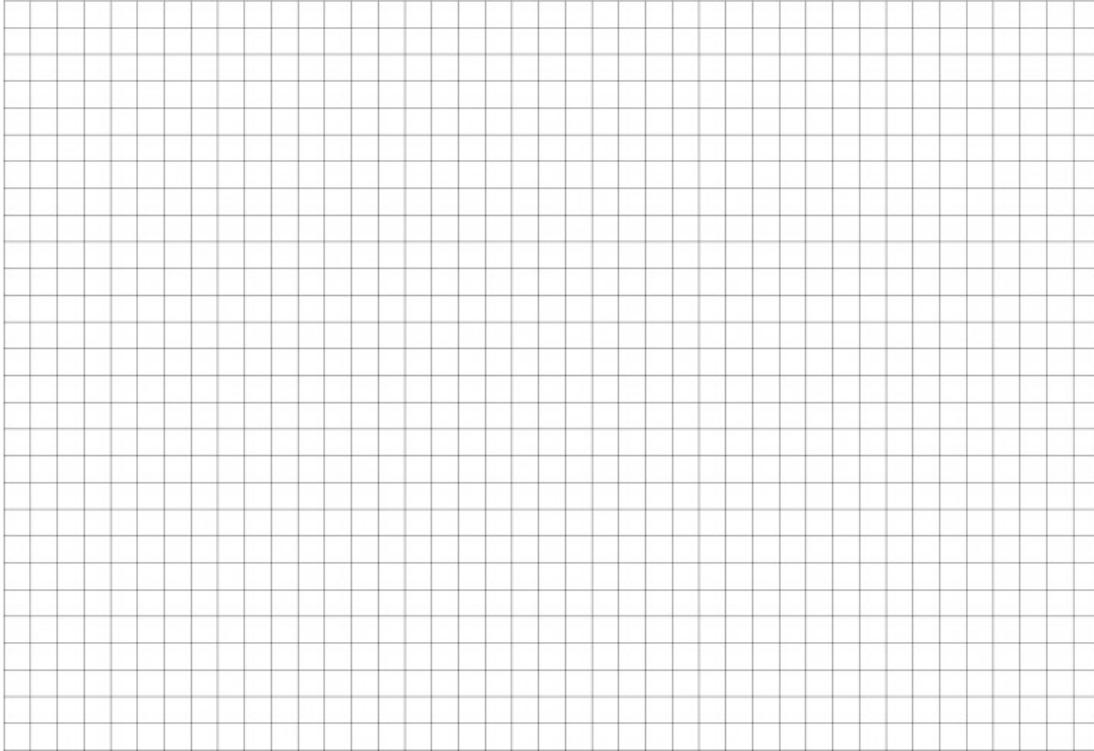
\_\_\_\_\_ has the absolute advantage in Ice Mice.

\_\_\_\_\_ has the comparative advantage in Ice Mice.

## Q2 | Investment Pressure

Zonkos investors at Gringots bank, a famously reliable institution, asked the candymaker to produce a total of  $5F$  and  $1M$ . With Zonkos' current technology and labor, is this level of production attainable?

Use a graph to justify your answer with  $F$  on the vertical and  $M$  on the horizontal.



## Q3 | New Technology

After realizing this level of production is inefficient for Zonkos, investors at Gringots laid off many Zonko's employees. Plot this shift on Zonko's PPF in Q2 above.

## Q4 | Post-Technology Trade

After Zonkos lays off some of its workforce, who has the comparative advantage in Ice Mice? If the two companies decide to specialize in one good, trade, and sell each other's goods at their shops, what's an exchange rate that would facilitate a trade of Ice Mice for Chocolate Frogs?