

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.

Hand-drawn tables and equations on grid paper:

Honeydukes (H):

	F	M
H	10	8
Z	20	5

Zonkos (Z):

	F	M
H	$\frac{4}{5} M$	$\frac{5}{4} F$
Z	$\frac{1}{4} M$	4 F

Equations:

H: $10F = 8M$
 $1F = \frac{8}{10}M = \frac{4}{5}M$

Z: $20F = 5M$
 $1F = \frac{1}{4}M$

Honeydukes has the absolute advantage in Ice Mice.
Honeydukes has the comparative advantage in Ice Mice.

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?

A hand-drawn graph on grid paper illustrating the concept of efficiency in production. The vertical axis is labeled F (Food) and the horizontal axis is labeled M (Meat). The Production Possibility Frontier (PPF) is a yellow line connecting the points $(0, 20)$ and $(5, 0)$. An indifference curve is a green line passing through the points $(1, 5)$ and $(2.5, 10)$. A red dot at $(1, 5)$ is labeled "Inefficient" with a red arrow. A red dot at $(2.5, 10)$ is labeled "Efficient" with a red arrow. A red note to the right of the graph states: $(1M, 5F)$ is attainable but inefficient.

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.

Shown 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?

$$\frac{20}{7} F = \frac{5}{2} M \quad \swarrow$$
$$F = \frac{1}{4} M$$

Honeydoves still has the CA in M.

TRADE:

$4F > xF > \frac{5}{4}F$ Any trade on this interval will work.



For example:

1 M for 2 F