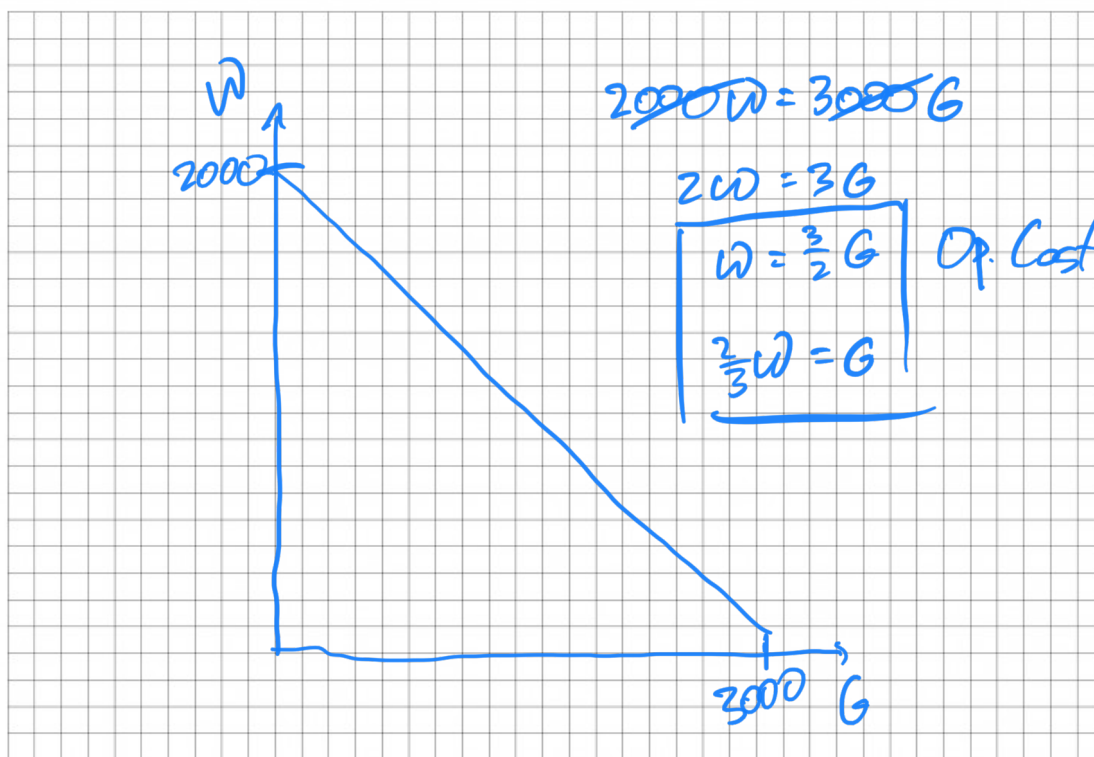


Intro Microeconomics | Homework A Demo

Question 1

Calvin can transmogrify 2000 widgets or 3000 wigamas in one day. Set up Calvin's PPF on an x,y graph with widgets on the vertical and wigamas on the horizontal. What is Calvin's opportunity cost of each good?

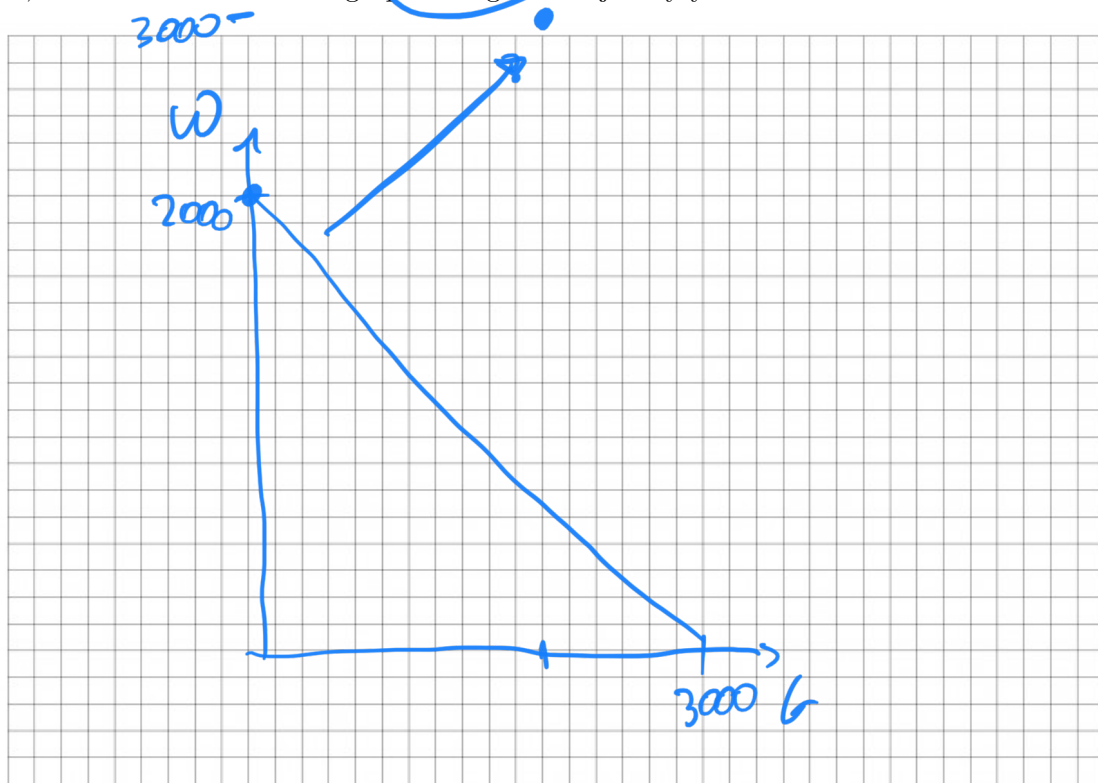


Opportunity cost of widgets: $\frac{3}{2} G$

Opportunity cost of wigamas: $\frac{2}{3} W$

Question 2

Suppose Calvin wants to transmogrify 3000 widgets and 2000 wigamas in one day. Is this efficient, feasible, or unattainable? Use a graph or algebra to justify your answer.



Efficient, Feasible, Unattainable: Unattainable

Question 3

Hobs also transmogrifies widgets and wigamas, up to 100 widgets or 50 wigamas in one day. Set up a production table with both Calvin and Hob's output per day. Who has the absolute advantage (AA) in widgets? Then set up an opportunity cost table with Calvin and Hob's opportunity costs for each good. Who has the comparative advantage (CA) in widgets?

	PRODUCTION		OP. COST	
	W	G	W	G
Calvin	<u>2000</u>	<u>3000</u>	$\frac{3}{2}G$	<u>$\frac{2}{3}W$</u>
Hobs	100	50	<u>$\frac{1}{2}G$</u>	2W

Calvin has the AA in W. Hobs has the CA in W.

AA in Widgets: Calvin

CA in Widgets: Hobs

Question 4

Suppose Calvin and Hobs realize they can specialize and trade goods. After they specialize, what is a trade that would make them both better off?

Something between their opportunity costs.

$$\frac{1}{2}G < P < \frac{3}{2}G$$

One W for anything between $\frac{1}{2}G$ and $\frac{3}{2}G$
would make them both better off.

1 Widgets for 1 Wigamas

Question 5

It turns out Hobs wants to slow down his transmogrification work, and cuts his time in half. Right after, the transmogrify industry goes through a minor revolution and improves the efficiency of generating wigamas by a factor of 2. Show both changes to his PPF.

