Intro Microeconomics | Homework A

Due Friday September 2

Homework is designed to both test your knowledge and challenge you to apply familiar concepts in new applications. Send me your questions at tweidman@richmond.edu. Answer clearly and completely; show your work so I can understand your thought process for partial credit; you are welcomed and encouraged to work in groups as long as your work is your own.
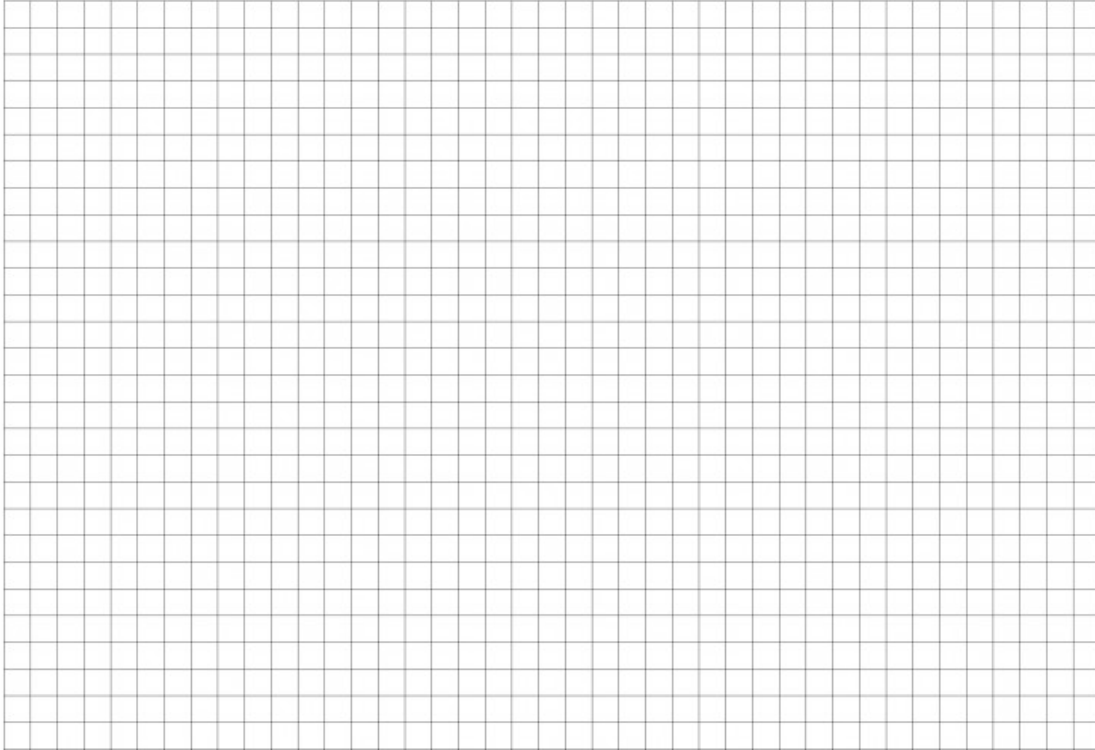
Question 1

Colin Creevey can bake 20 cornish pasties or 5 cauldron cakes in one day. Set up Colin's PPF on an x,y graph with pasties on the vertical and cakes on the horizontal. What is Colin's opportunity cost of producing 1 cake?

Opportunity cost of cakes: _____

Question 2

Suppose Colin bakes 10 pasties and 2 cakes in one day. Is this efficient or feasible. Use a graph or algebra to justify your answer.

Efficient or Feasible: _____

Question 3

Katie Bell also bakes cornish pasties and cauldron cakes at a neighboring bakery. She can bake 15 pasties or 8 cakes in one day. Set up a production table with both Colin and Katie's output per day. Who has the absolute advantage (AA) in pasties? Then set up an opportunity cost table with Colin and Katies's opportunity costs for each good. Who has the comparative advantage (CA) in pasties?
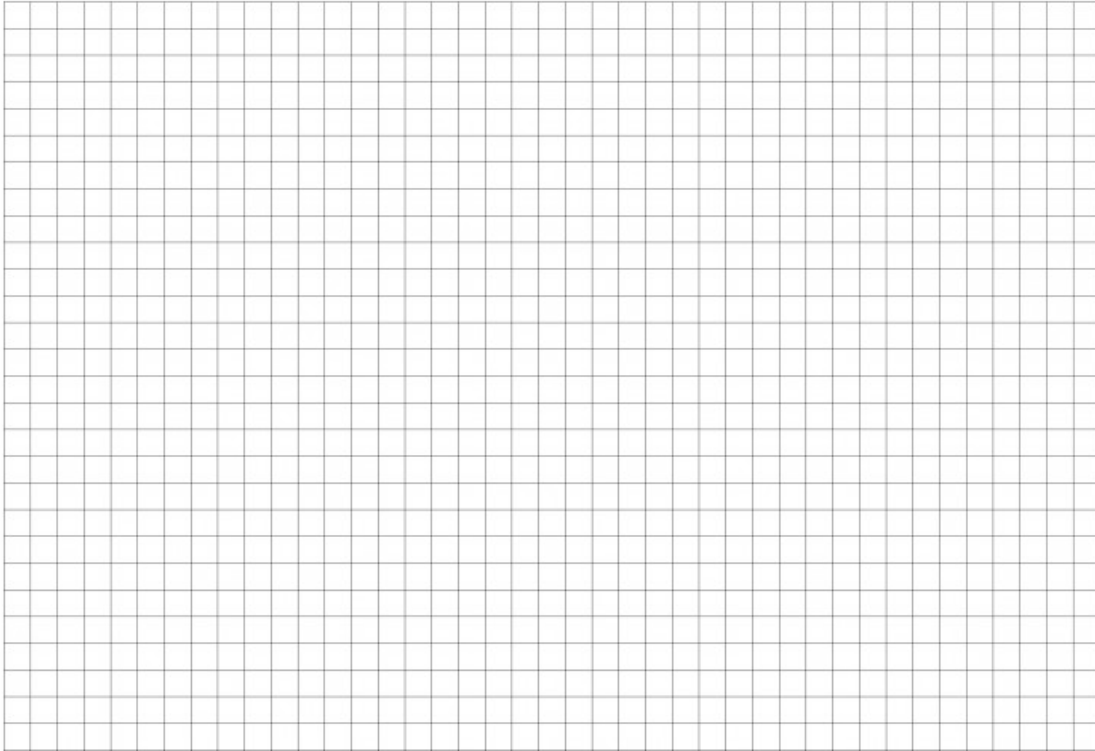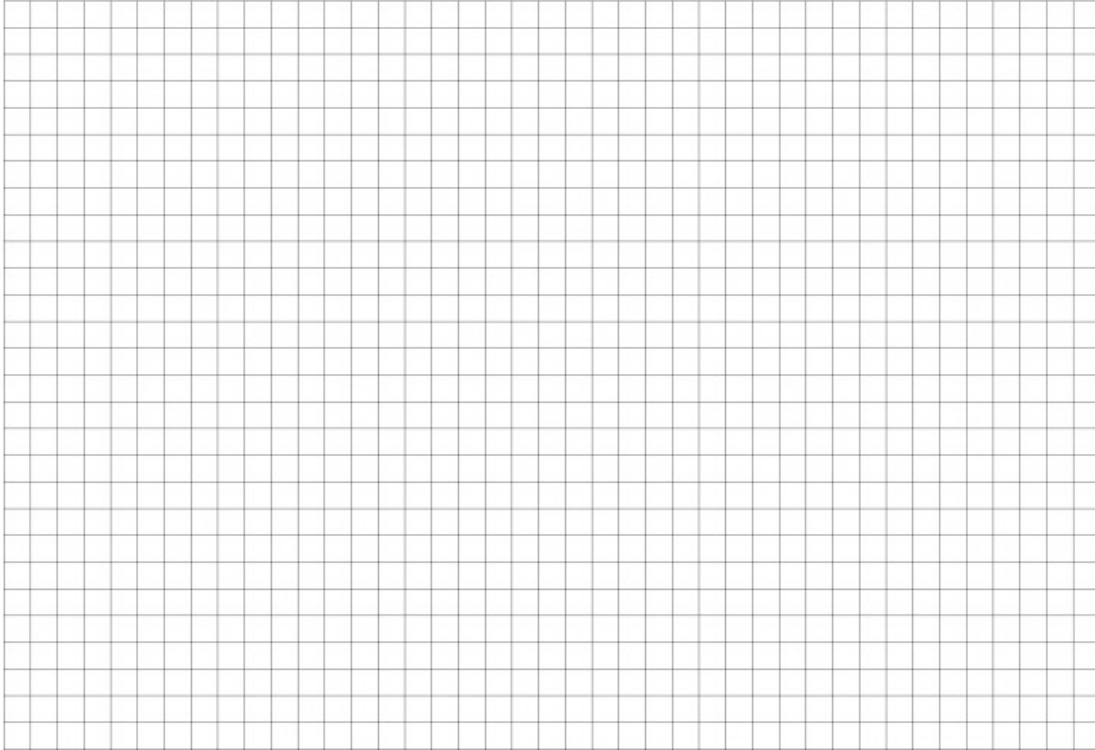
AA in Pasties: _____

CA in Pasties: _____

Question 4

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

_____ Pasties for _____ Cakes

Question 5

It turns out Colin wants to add hours to his job. So he increases from 5 to 8 hours per day. Set up Colin's old and new PPF on the same graph. What is Colin's new opportunity cost?

New Opportunity Cost of Cake: _____