Name _____ Date _____

Comparative Advantage: Specialization and Gains from Trade

Directions: Each question changes one condition at a time. Compare opportunity costs to determine which producer should specialize in which good and who benefits from trade.

Two Countries, Two Goods

In each country, a worker can produce either amount shown in a day, and these production rates stay constant no matter how many workers switch between goods. Use the table for every question in this set.

Output per worker per day in two countries

Country	Cloth (bolts per worker per day)	Wheat (bushels per worker per day)
Avalon	6	12
Brenmoor	2	8

1. Based on the table, which country holds the absolute advantage in wheat production?

A. Avalon, because its workers produce more cloth than wheat each day

B. Brenmoor, because wheat is the product its workers produce in greater quantity

C. Avalon, because each Avalon worker produces more wheat per day

D. Neither country, because both countries are capable of producing wheat

2. In Avalon, what is the opportunity cost of producing one bolt of cloth, measured in bushels of wheat?

_____ bushels of wheat

3. How many bushels of wheat does Brenmoor sacrifice for each bolt of cloth it produces?

_____ bushels of wheat

4. Measured in bolts of cloth, what is Brenmoor's opportunity cost of producing one bushel of wheat?

_____ bolts of cloth

5. Which statement correctly describes the pattern of comparative advantage between Avalon and Brenmoor?

A. Avalon has it in both goods, because its workers produce more of each.

B. Neither has it, because Avalon is better at producing both goods.

C. Brenmoor has it in cloth, and Avalon has it in wheat.

D. Avalon has it in cloth, and Brenmoor has it in wheat.

6. Avalon's workers produce more of both goods than Brenmoor's workers do. Can both countries nevertheless gain by specializing and trading?

A. No, because trade helps only the country that has the absolute advantage in both goods.

B. Yes, if each specializes according to comparative advantage and the trade price falls between their opportunity costs for cloth.

C. No, because Avalon can make both goods for itself more cheaply than Brenmoor can.

D. Yes, but only Brenmoor gains, because Avalon always gives up more in any trade.

7. Avalon proposes exchanging its cloth for Brenmoor's wheat. At which price, measured in bushels of wheat per bolt of cloth, would both countries benefit from the exchange?

A. 6 bushels per bolt

B. 4.5 bushels per bolt

C. 3 bushels per bolt

D. 1.5 bushels per bolt

8. Suppose a new loom increases cloth production in Brenmoor to 5 bolts per worker per day, while its wheat production remains 8 bushels. What is Brenmoor's new opportunity cost of one bolt of cloth, measured in bushels of wheat?

_____ bushels of wheat

9. After Brenmoor's new loom increases its cloth production to 5 bolts per worker per day, with wheat production still at 8 bushels and Avalon unchanged, which country now holds the comparative advantage in cloth?

A. Brenmoor, because its opportunity cost of cloth is now lower than Avalon's

B. Neither, because the two countries' costs of cloth are now equal

C. Avalon, because nothing changed in Avalon's own production

D. Avalon, because each Avalon worker still produces more cloth, 6 bolts to 5

10. In an invented law office, a lawyer types 30 pages an hour and her assistant types 20. Each hour the lawyer spends typing sacrifices $240 of legal work, and each hour the assistant spends typing sacrifices $30 of filing work. Who holds the comparative advantage in typing?

A. The lawyer, because she types more pages each hour

B. Neither, because the two of them type at different speeds

C. The assistant, because each page she types gives up less other work

D. The lawyer, because an hour of her time is worth more