

Assignment | Unit 2

Economic Models and Comparative Advantage

1. Your Assignment should have a cover sheet with the following information:

- Your Name
- Course Number
- Section Number
- Date

2. You may submit your Assignment using the [Unit 2 Assignment template](#).

3. Your answers should follow APA formatting by being in double spaced paragraph format, with citations to your sources and, at the bottom of your last page, a list of references. Your answers should also be in Standard English with correct spelling, punctuation, grammar, and style.

4. Respond to the questions in a thorough manner, providing specific examples of concepts, topics, definitions, and other elements asked for in the questions. Your paper should be highly organized, logical, and focused.

5. Required Format:

- Correct APA format for answers (Title Page with name, course number, section number, unit number, date, answers double spaced, in Times New Roman 12-point font). Review the APA formatting found in the Writing Center.
- Correct citations within answers
- Standard English with no spelling or punctuation errors
- Correct references at the beginning of a new page at the end of your paper

Questions:

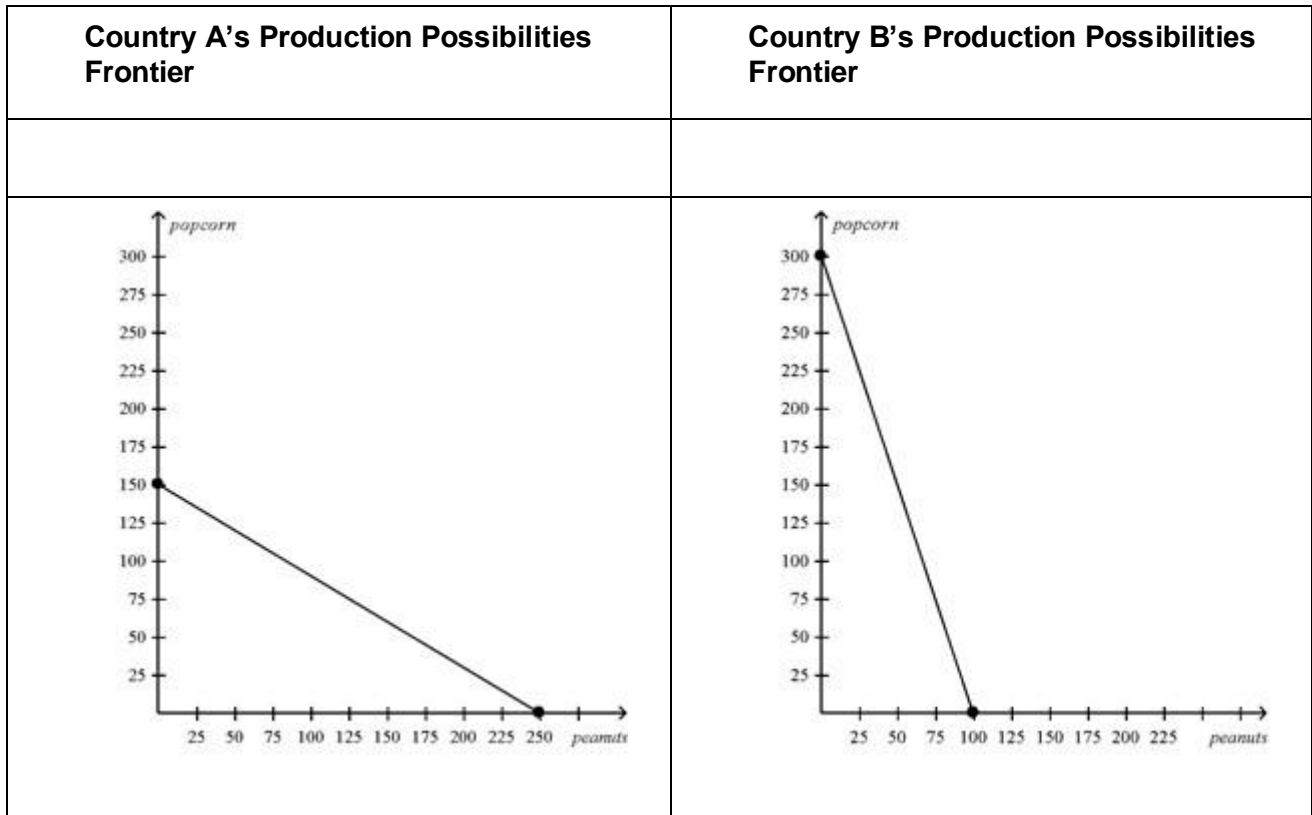
According to the author, economists approach economic problems with economic models, and these models will help familiarize you with how economists approach economic problems. The models also help explain how individuals and countries gain from trade. Accordingly, trade allows people to specialize in the production of goods and services for which they have comparative advantages and, then trade for goods and services that other people produce based on their comparative advantages.

The Assignment questions deal with the application of the economic models and the roles of comparative advantage in the gains from trade. Watch the [Chapter 2: "What Kinds of Roles do Economists Take on and Which is More Important?"](#) video and the [Chapter 3: "Outsourcing"](#) video.

1. Explain the difference between absolute advantage and comparative advantage. Which is more important in determining trade between individuals or countries? Is it absolute advantage or comparative advantage? Why?
2. Let us assume two students must prepare a presentation for their marketing class. As part of their class presentation, they must do a series of calculations and prepare 50 PowerPoint slides. It would take Larry 10 hours to do the required calculation and 10 hours to prepare the slides. It would take Kate 12 hours to do the series of the calculations and 20 hours to prepare the PPT slides.

a.	How much time would it take the two students to complete the project if they divide the two tasks equally?
b.	How much time would it take the two students to complete the project if they use comparative advantage and specialize in calculating or preparing slides?
c.	If Larry and Kate have the same opportunity cost of \$5 per hour, is there a better solution than for each to specialize in calculating or preparing slides?

3. Let us assume there are only two countries in the world, and the two countries face the following production possibilities frontiers. Further assume that the two countries produce popcorn and peanuts.



<p>a. Assume that country A and country B decide to use half of the resources in the production of each good. Indicate the points of the maximum output of each good on the graphs for each country as point A under such resource use.</p>	
<p>b. Assume the two countries choose autarky and do not trade. What would be the total world production of popcorn and peanuts under the autarky?</p>	
<p>c. Assume that each country decides to specialize in either popcorn or peanut based on its respective comparative advantage. Under the specialization, what is the total production of popcorn and peanuts?</p>	
<p>d. Assume country A and B decide to trade 100 units of popcorn for 100 units of peanuts, show on the graphs the gain each country receives from trade. Label these points on the two graphs "B."</p>	

Directions for Submitting Your Assignment

Before you submit your Assignment, you should save your work on your computer in a location and with a name that you will remember. Make sure your Assignment is in the appropriate format (Microsoft Word), then, when you are ready, you may submit to the Dropbox.

Unit 2 Assignment: Economic Models and Comparative Advantage		
Content and Analysis	Points Possible	Points Earned
Problem #1 Effectively explained the difference between absolute advantage and comparative advantage.	4	
Problem #2 Correctly calculated the time it would take to complete the project. ("a")	4	
Correctly computed the comparative advantages of Gary and Diane. ("b")	4	
Identified the gains from trade on the graphs. ("c")	3	
Problem #3 Identified points on the graphs for the use of half of the resources. ("a")	3	
Calculated Computed the total production without trade. ("b")	3	
Calculated the total production with trade. ("c")	4	
Explained the gains from trade when the goods have equal value. ("d")	3	
Writing Style, Grammar, and APA formatting.	7	
Total	35	