1. How many countries could feed their people initially?

2. How many batches of cookies were made after round 1? How many were possible?

3. In the space below, draw a production possibilities curve for what your country can produce when specializing?

1. Identify your opportunity costs for producing each of your ingredients (output method).
2. Where on your curve will you produce this round?

4. How many batches of cookies were made after round 2?

1. Why *should* specialization lead to more productivity?

5. Using the SAME graph from question 3, now draw the production possibilities curve for your nearest trading partner ON THE SAME GRAPH.

6. In your own words, briefly describe the following terms:

 **Absolute Advantage –**

 **Comparative Advantage –**

7. Looking back at your graph in question 3, is there a product in which you have absolute advantage compare to your trading partner? Which one?

8. In which product do you have comparative advantage compared to your trading partner? How do you know?

9. How many batches of cookies were made after round 3? How many were possible? If the maximum number was not achieved, what might be some issues that prevented that?

10. Assume the following terms of trade were mandated by some authority (at least between the two countries listed): **Countries 1 and 2: 3 butter for 1 flour**

**Countries 3 and 4: 3 sugars for 2 chips**

**Countries 5 and 6: 3 eggs for 1 vanilla**

1. Explain whether your country benefits from these terms or is harmed and why.
2. Explain whether your nearest trading partner benefits from these terms and explain why.

Answer the following MC questions

|  |  |  |
| --- | --- | --- |
|  | Arbec | Nerbo |
| Paper | 20 reams | 20 reams |
| Oranges | 10 lbs | 60 lbs |

**11. Assuming total specialization, if the WTO enforces the terms of trade at 2 reams of paper = ¼ lb of oranges then**

1. both countries will benefit.
2. only Arbec would benefit.
3. only Nerbo would benefit.
4. neither country would benefit.
5. to answer you need pre-trade production points.

**12. Which is true if a nation does NOT have absolute advantage in the production of any good or service?**

1. It cannot have comparative advantage either.
2. It will have a comparative advantage in the production of the good where they have a lower opportunity cost.
3. It will export raw materials and import finished products.
4. No country will want to trade with this country because it will not be cost effective to do so.
5. The international value of its currency will be fixed.

13. **A country that can produce 100 gallons of milk OR 100 pounds of cheese – and specializes in cheese – will engage in free trade as long as the terms of trade are set so that**

1. The foreign exchange rate never changes
2. 1 pound of cheese is worth less than 1 gallon milk
3. 1 pound of cheese is worth more than 1 gallon of milk
4. The country can produce at least 100 pounds of cheese
5. The country gets at least 100 gallons of milk per trade

14. **14. The Hatfields and McCoys have been feuding for years. In the Hatfield family, one unit of cloth is worth .8 units of corn. In the McCoy family 1 unit of cloth is worth 1.25 units of corn. To enjoy the highest economic standard of living possible, should these two families engage in trade?**

1. No, the McCoy’s do not bring any value to the transaction.
2. No, the Hatfields have absolute advantage in both goods.
3. Yes, the Hatfields have absolute and comparative advantage in corn.
4. Yes, the Hatfields have comparative advantage in cloth.
5. No, the feud would prevent any positive effect from trade.