

Short Answer Questions

Chapter 3.

1. Explain the difference in the implications for economic analysis of a linear and a curvilinear production possibilities frontier.
2. How does a production possibilities frontier help to illustrate the two principles of a trade-off and opportunity cost?
3. Outline the difference between the ideas of '*absolute advantage*' and '*comparative advantage*'.
4. Explain how the comparative advantage might be changed which might lead to a change in trade patterns.
5. To calculate the opportunity cost of producing more of a good, think of it in relation to the PPF – a decision by a country to shift resources from the production of one good to another involves a gain and a sacrifice. For example, if a worker in France can produce 5 bottles of wine per day or 3 clay pots per day, moving that individual from producing pots to bottles of wine means that the gain to France is 5 bottles of wine but the sacrifice is 3 clay pots. What is the opportunity cost of one bottle of wine?

We can think of it in the following formula:

$$\text{Opportunity Cost} = \frac{\text{Sacrifice}}{\text{Gain}}$$

In this case the opportunity cost of an extra bottle of wine to France is: the Sacrifice (3) divided by Gain (5) = 0.6

If France moved workers from wine production to clay pot production, the opportunity cost of each clay pot in terms of wine sacrificed would be: 5 bottles (the sacrifice) divided by 3 clay pots (the gain) = 1.6 bottles of wine.

Given the information above, calculate the opportunity cost of the following scenarios:

- a. The average German worker in a vehicle manufacturing plant can produce 25 cars a month or 15 vans. What is the opportunity cost of:
 - I. 1 extra van
 - II. 1 extra car?
- b. If Russia can produce 20 tons of grain or 5000 litres of gas per day. What is the opportunity cost of 1 extra litre of gas?
- c. You work at a fast food store on a part-time basis earning €10 an hour. You have a thesis which needs typing up but you are torn between doing this yourself and working extra time at the restaurant to earn more money. The cost of hiring a professional typist to do the thesis for you is €15 per hour. The thesis would take you 12 hours to type up yourself but the professional would be able to do it in 8 hours. Should you do it yourself or get it done professionally? Illustrate your answer using appropriate calculations.

- d. Francois cleans windows for a living. She can clean the windows of 40 houses per day and earns €20 per house. Francoise is also an excellent dancer and can earn €50 per hour performing in a local night club for a five hour shift. Advise Francois whether she should stick with window cleaning or focus her time on dancing?
- e. In d. above, what other information might you need to help you give Francoise even better advice?

6. Two countries have the following production schedules for two products, mobile phones and spectacles, that they could produce each month, assuming they devote all their resources to the production of each.

	Mobile Phones	Spectacles
Country A	5 000	20 000
Country B	8 500	34 000

Should the countries engage in trade? Explain your answer.

7. The climate in Spain is conducive to growing citrus fruits like oranges and lemons. As a result, Spain it is wise for Spain to move resources in to the production of these fruits and specialise more in their production. Apart from being in a position to trade, what other benefits might this specialisation bring to Spain?
8. Karl Albrecht, the founder of the German Aldi chain of grocery supermarkets, was reported to have a fortune of €15.4 billion. If he is walking down a street and sees a €500 note on the floor, would you advise him to pick it up?
9. Given the theory of comparative advantage and the benefits of trade, should a county **always** focus its production on goods where its opportunity costs are the lowest?
10. The UK both imports and exports oil. Explain how this apparent contradiction could still be consistent with the principle of comparative advantage.