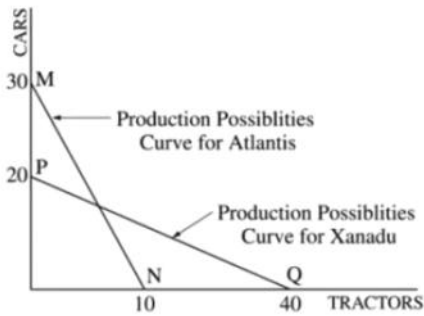# Comparative Advantage Practice Problems

Watch a video explaining the answers to these questions after you have attempted them yourself: http://www.econclassroom.com/?p=3010

Worked AP FRQ - 2003 #3

3. Assume that two countries, Atlantis and Xanadu, have equal amounts of resources. Atlantis can produce 30 cars or 10 tractors or any combination, as shown by the line MN in the figure above. Xanadu can produce 20 cars or 40 tractors or any combination, as shown by the line PQ in the figure above.

   (a) Which country has an absolute advantage in the production of tractors? Explain how you determined your answer.

   (b) Which country has a comparative advantage in the production of cars? Using the concept of opportunity cost, explain how you determined your answer.

   (c) If the two countries specialize and trade with each other, which country will import cars? Explain why.

   (d) If the terms of trade are such that one car can be exchanged for one tractor, explain how Atlantis will benefit from such trade.

AP FRQ Worked Solution - 2003 form B #2
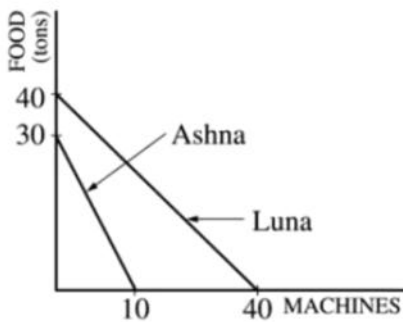
2. Using equal amounts of resources, the countries of Ashna and Luna can each produce any combination of food and machines described by their production possibilities curves above.

   (a) Which country has an absolute advantage in the production of machines? Explain.

   (b) Which country has an absolute advantage in the production of food? Explain.

   (c) Which country has a comparative advantage in the production of machines? Explain.

   (d) With trade between these two countries, which country will import food? Explain.

   (e) Give an example of terms of trade acceptable to both countries.

Determining Comparative Advantage: Input method

In order to produce 1 ton of output, Mexico and the USA require the following amount of land (in acres)

	Soybeans	Avocados
Mexico	16	8
USA	8	6

a) Which country has a comparative advantage in:
   i. Soybeans?
   ii. Avocados?

b) Calculate the opportunity cost of avocados in d
   i. Mexico
   ii. The US

c) Assume the countries agree to trade at the rate of 1 soybean for 1.5 avocados. Explain why the country that imports soy beans will benefit from trade.

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