

**COMPUTING AND GRAPHING**



**The Gains of Trade**

The table at the right presents production information for the imaginary countries of Rich Nation and Poor Nation. Rich Nation is wealthier than Poor Nation because it is able to produce rice and cheese with less labor time.

Production Figures (Before trade)		
	Rich Nation	Poor Nation
1 bushel of rice	4 hours	6 hours
1 pound of cheese	2 hours	12 hours
Total time	6 hours	18 hours

1. Which nation has an absolute advantage in the production of rice? Which nation has an absolute advantage in the production of cheese? Briefly explain your answer.

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2. What is Rich Nation's opportunity cost of producing a bushel of rice? What is that nation's opportunity cost of producing a pound of cheese?

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3. What is Poor Nation's opportunity cost of producing a bushel of rice? What is that nation's opportunity cost of producing a pound of cheese?

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4. Which country has a comparative advantage in the production of rice? Which has a comparative advantage in the production of cheese?

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5. Suppose each nation specializes according to comparative advantage and then trades with the other. What will be the gain to each nation in terms of time saved when obtaining a bushel of rice and a pound of cheese?

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