**Worksheet**

**Absolute and Comparative Advantage**

**Absolute Advantage**

Refers to an individual, firm, or country using the fewest inputs to produce the same amount of output or the individual, firm, or country producing the largest number of units of output given the same productive resources.

**Comparative Advantage**

In the production of a good or service, comparative advantage exists when one individual, firm, or country has the lowest opportunity cost for producing the good or service.

**Output Method**

For output problems, we have to express opportunity cost as the ratio of “what we are giving up” divided by “what we are producing”.

**US & JAPAN**

|  |  |  |
| --- | --- | --- |
|   | **US** | **JAPAN** |
| **Cars** | 12 | 10 |
| **Computers** | 4 | 6 |

1. Who has the *absolute* advantage in cars? Who has the *absolute* advantage in computers?
2. What is the US’s opportunity cost of making cars?
3. What is Japan’s opportunity cost of making cars?
4. What is US’s opportunity cost of making computers? Explain
5. What is Japan’s opportunity cost of making computers?
6. Who has the *comparative* advantage in cars?
7. Who has the *comparative* advantage in computers?
8. Which country should produce which good and why?
9. Draw a Graph showing the Production Possibilities Curve of USA and Japan in regard to production of Cars and Computers.

**Input Method**

For input problems, we have to express opportunity cost as the ratio of “what we are producing” divided by “what we are giving up”.

**MIKE & DEBBY: Cleaning Service Employees**

|  |  |  |
| --- | --- | --- |
|   | **Mike** | **Debby** |
| **Vacuum 1 Room** | 60 minutes | 45 minutes |
| **Wash 1 Load of Dishes** | 30 minutes | 45 minutes |

1. What is Mike’s per unit opportunity cost of vacuuming?

1. What is Mike’s per unit opportunity cost of washing dishes?
2. What is Debbie’s per unit opportunity cost of vacuuming?
3. What is Debbie’s per unit opportunity cost of washing dishes?
4. Who has the *absolute* advantage in vacuuming?
5. Who has the *absolute* advantage in washing dishes?
6. Who has the *comparative* advantage in vacuuming?
7. Who has the *comparative* advantage in washing dishes?
8. Who should do which task and why?

**Input Method**

For input problems, we have to express opportunity cost as the ratio of “what we are producing” divided by “what we are giving up”.

**ANDY & HANNAH: Cleaning Service Employees**

|  |  |  |
| --- | --- | --- |
|   | **Andy** | **Hannah** |
| **cleaning offices** | 60 minutes | 20 minutes |
| **cleaning jail cells** | 30 minutes | 15 minutes |

1. What is Andy’s opportunity cost of cleaning offices?
2. What is Hannah’s opportunity cost of cleaning offices?
3. What is Andy’s opportunity cost of cleaning jail cells?
4. What is Hannah’s opportunity cost of cleaning jail cells?
5. Who has the *absolute* advantage in cleaning offices?
6. Who has the *absolute* advantage in cleaning jail cells?
7. Who has the *comparative* advantage in cleaning offices?
8. Who has the *comparative* advantage in cleaning jail cells?
9. Who should do which chore and why?