

## II. Who Has the Advantage?

### ➔ Find Out

Compare the first two factories in the chart below. U.S. Factory #1 has an absolute advantage, being able to produce more of both types of cards than U.S. Factory #2. However, U.S. Factory #2 has a comparative advantage over U.S. Factory #1.

|                 | Collectible Cards<br>(boxes per hour) | Greeting Cards<br>(boxes per hour) | Opportunity Cost of 1 Box of Collectible Cards | Opportunity Cost of 1 Box of Greeting Cards |
|-----------------|---------------------------------------|------------------------------------|--|---|
| U.S. Factory #1 | 10                                    | 4                                  | 0.4 boxes of greeting cards                    | 2.5 boxes of collectible cards              |
| U.S. Factory #2 | 6                                     | 3                                  | 0.5 boxes of greeting cards                    | 2.0 boxes of collectible cards              |
| World Factory   |                                       |                                    | ___ boxes of greeting cards                    | ___ boxes of collectible cards              |

A. Explain why U.S. Factory #2 has a comparative advantage over U.S. Factory #1.

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B. Now suppose an overseas entrepreneur starts World Factory to compete with the two U.S. factories. Complete the chart above, using these numbers for World Factory:

5 = Collectible Cards (boxes per hour)      1 = Greeting Cards (boxes per hour)

### What Do You Think?

C. Which type of card do you think World Factory should produce? Why?

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D. Suppose that you are the owner of U.S. Factory #1. What would you do to compete more effectively with the other two factories? For example, would you try to reduce costs? Improve quality? Produce something other than cards? Explain your decision.

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## Questions

1. What is the difference between comparative advantage and absolute advantage?
2. You're given the following information about a newlywed couple and the time it takes each of them to do two different chores: vacuuming a room or washing a load of dishes.

|                       | Mike       | Debbie     |
|-----------------------|------------|------------|
| Vacuum a room         | 60 minutes | 45 minutes |
| Wash a load of dishes | 30 minutes | 45 minutes |

- (A) What is Mike's opportunity cost of vacuuming in terms of washing dishes?
- (B) What is Mike's opportunity cost of washing dishes in terms of vacuuming?
- (C) What is Debbie's opportunity cost of vacuuming in terms of washing dishes?
- (D) What is Debbie's opportunity cost of washing dishes in terms of vacuuming?
- (E) Who has the absolute advantage in vacuuming?
- (F) Who has the absolute advantage in washing dishes?
- (G) Who has the comparative advantage in vacuuming?
- (H) Who has the comparative advantage in washing dishes?
- (I) Who should do which chore and why? Base your answer only on the information above and on comparative-advantage considerations.

3. Now, you're given the following information about Andy and Hannah and the time it takes each of them to clean an office and clean a jail cell:

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

- (A) What is Andy's opportunity cost of cleaning offices in terms of cleaning jail cells?
- (B) What is Hannah's opportunity cost of cleaning offices in terms of cleaning jail cells?
- (C) What is Andy's opportunity cost of cleaning jail cells in terms of cleaning offices?
- (D) What is Hannah's opportunity cost of cleaning jail cells in terms of cleaning offices?
- (E) Who has the absolute advantage in cleaning offices?
- (F) Who has the absolute advantage in cleaning jail cells?
- (G) Who has the comparative advantage in cleaning offices?
- (H) Who has the comparative advantage in cleaning jail cells?
- (I) Who should do which chore and why? Base your answer only on the information above and on comparative-advantage considerations.