The Market Deal

Opportunity cost, specialization, and trade at a weekend market

9-12.EC.12 "Describe the elements of entrepreneurship and successful businesses including comparative advantage, specialization, and trade."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline the sentences that show what each owner gives up when producing a good, then circle the owners' specialization and trade choices. Use your marks to explain why the deal could benefit both stalls.

Pastries for Coffee

1. At a weekend market, Nia runs a bakery stall and Tomas runs a coffee stall. Shoppers often want a pastry and a hot drink together, but each stall has only one worker during the morning rush. Nia considers making coffee herself, while Tomas considers baking pastries before opening. Both would need ingredients, equipment, and time, and neither can guarantee that shoppers will buy everything. Spotting this demand is an entrepreneurial opportunity. To pursue it, each owner must decide what to produce, how to use limited resources, and whether a partnership could bring in enough revenue to cover costs.

2. Suppose Nia can make 24 pastries or 12 cups of coffee in one hour. In the same hour, Tomas can make 12 pastries or 12 cups of coffee. These are simplified production estimates, not promises about daily sales. If Nia makes one pastry, she gives up the chance to make half a cup of coffee. If Tomas makes one pastry, he gives up the chance to make one cup of coffee. Comparative advantage means producing a good at a lower opportunity cost. Nia has that advantage in pastries; Tomas has it in coffee, even though they make coffee at the same rate.

3. They agree to specialize during one production hour: Nia makes pastries, and Tomas makes coffee. Nia trades eight pastries to Tomas for six cups of coffee. Making eight pastries costs Nia the chance to make four cups, so receiving six benefits her. Making six cups costs Tomas the chance to make six pastries, so receiving eight benefits him. Each can now offer shoppers both products without producing both alone. The deal works only if customers value the products and the owners can keep them fresh and sell them at prices that cover ingredients, labor, and other costs.

2 ANSWER WITH EVIDENCE

Use the passage

1. Who has the comparative advantage in pastries? Compare what each owner gives up to make one pastry.

2. Who has the comparative advantage in coffee? Use the one-hour production estimates to explain.

3. How does the trade benefit each owner compared with making the goods alone?

4. Why might specialization and trade fail to make these stalls successful businesses?

3 YOUR TURN

Your own words

Invent two small businesses that could make either of two goods. State how many of each good each owner could make in an hour, identify each owner's comparative advantage, propose a trade that benefits both, and name one business risk.

ANSWER KEY

The Market Deal

HIGH SCHOOL · 9-12.EC.12

PART 1 · READ AND MARK

Underline the sentences that show what each owner gives up when producing a good, then circle the owners' specialization and trade choices. Use your marks to explain why the deal could benefit both stalls. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Who has the comparative advantage in pastries? Compare what each owner gives up to make one pastry.	**Nia. She gives up half a cup of coffee per pastry, while Tomas gives up one cup.**
2	Who has the comparative advantage in coffee? Use the one-hour production estimates to explain.	**Tomas. A cup of coffee costs him one pastry, while it costs Nia two pastries.**
3	How does the trade benefit each owner compared with making the goods alone?	**Nia gets six cups of coffee for pastries that cost her the chance to make four cups. Tomas gets eight pastries for coffee that cost him the chance to make six pastries.**
4	Why might specialization and trade fail to make these stalls successful businesses?	**Customers might not value or buy the products, the goods might not stay fresh, or sales prices might not cover costs.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Ava's candle stall can make 12 candles or six bars of soap in an hour. Ben's soap stall can make six candles or six bars of soap in an hour. Ava has a comparative advantage in candles: each costs her half a bar of soap, compared with one bar for Ben. Ben has a comparative advantage in soap. Ava could trade four candles for three bars of soap. Those candles cost Ava only two bars to make, while Ben gives up only three candles to make the soap. A risk is that customers may not buy enough candles.

For the open task, check opportunity costs before accepting the stated advantages. A beneficial trade must give each owner more than they give up by producing their own goods.