Trade After the Storm

Use production choices to explain specialization and trade.

E.C.2.2 "Describe how comparative and absolute advantage influence specialization and trade in answering the three basic economic questions."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline each town's one-day production choices, circle the opportunity costs, and number the decisions about what, how, and for whom to produce as 1, 2, and 3.

Two Workshops, One Day

1. After a storm, two towns need portable lamps and water filters. Each town has one workshop and one day of labor. If Bayport makes only lamps, it can make 12; if it makes only filters, it can make 12. Inland can make 4 lamps or 8 filters in the same time. Each workshop can also split its day between the two goods. Bayport can produce more of either good in a full day, so it has an absolute advantage in both. Yet producing more of everything does not mean Bayport should make everything.

2. To find comparative advantage, compare what each town gives up. One lamp costs Bayport the chance to make one filter. One lamp costs Inland the chance to make two filters. Conversely, a filter costs Bayport one lamp but costs Inland half a lamp. Inland gives up fewer lamps to make filters, while Bayport gives up fewer filters to make lamps. So the towns choose what to produce: Bayport specializes in lamps, and Inland specializes in filters. Specialization follows lower opportunity cost, not simply the ability to make the most units.

3. How will they produce and who will receive the goods? Bayport uses its workshop for lamps; Inland uses its workshop for filters. After one day, Bayport has 12 lamps and Inland has 8 filters. They trade three lamps for four filters. Bayport ends with nine lamps and four filters; Inland ends with three lamps and four filters. Making those same bundles alone would take more than one day of labor in either town. The councils reserve some goods for emergency clinics and distribute the rest to households. Trade expands their options, but the councils still decide who gets what.

2 ANSWER WITH EVIDENCE

Use the passage

1. Why does Bayport specialize in lamps even though it has an absolute advantage in both goods?

2. Compare the opportunity cost of one filter in each town. Which town has the comparative advantage in filters?

3. After the trade, why could Bayport not make its bundle of goods alone in one day?

4. How does the towns' plan answer what, how, and for whom to produce?

3 YOUR TURN

Your own words

Invent two communities that can each make either of two goods in one day. Give their outputs, identify their absolute and comparative advantages, then explain what and how they produce, what they trade, and who receives the goods.

ANSWER KEY

Trade After the Storm

HIGH SCHOOL · E.C.2.2

PART 1 · READ AND MARK

Underline each town's one-day production choices, circle the opportunity costs, and number the decisions about what, how, and for whom to produce as 1, 2, and 3. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Why does Bayport specialize in lamps even though it has an absolute advantage in both goods?	**A lamp costs Bayport one filter but costs Inland two filters. Bayport has the comparative advantage in lamps.**
2	Compare the opportunity cost of one filter in each town. Which town has the comparative advantage in filters?	**A filter costs Bayport one lamp and Inland half a lamp. Inland has the comparative advantage in filters.**
3	After the trade, why could Bayport not make its bundle of goods alone in one day?	**Nine lamps would take three-fourths of Bayport's day, and four filters would take one-third. Together, they would take more than one day.**
4	How does the towns' plan answer what, how, and for whom to produce?	**They produce lamps and filters. Each town uses its workshop for the good it can make at lower opportunity cost, then they trade. The councils give some goods to emergency clinics and the rest to households.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Hill can make 12 loaves or 6 blankets in a day. Valley can make 8 loaves or 8 blankets. Hill has an absolute advantage in loaves; Valley has one in blankets. A blanket costs Hill two loaves but costs Valley one loaf, so Valley has a comparative advantage in blankets. A loaf costs Hill half a blanket but costs Valley one blanket, so Hill has a comparative advantage in loaves. Hill uses its workshop for loaves, and Valley uses its workshop for blankets. They trade four loaves for three blankets, then send some goods to a shelter and the rest to households.

Accept invented output numbers and trades when the stated absolute and comparative advantages match the numbers and each community can make what it trades. The response should address production methods and recipients as well as the choice of goods.