

Quiz 1 - Answer

Use the table below to explain comparative and absolute advantage. That is, define the terms and illustrate the definition by reference to the figures from the table. The figures in the table represent the amount of resources used to produce one unit of the good.

	Cars	Beef
United States	200	20
Germany	240	60

Absolute advantage is when one country or producer uses fewer units of resources than other countries or producers in the production of a unit of a good.

In the table, the U.S. needs 200 units of resources to produce a car, Germany needs 240 units. Hence, the U. S. has absolute advantage in the production of cars. The U.S. requires 20 units of resources to produce a unit of beef, Germany needs 60. Hence, the U. S. has absolute advantage in the production of beef.

A country is said to have comparative advantage in the production of a good when it has the lower opportunity cost of that good.

The opportunity cost of a car in the U.S. is 10 units of beef; in Germany the opportunity cost of a car is 4 units of beef. Therefore, Germany has comparative advantage in the production of cars. The U. S. has comparative advantage in the production of beef.