Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Per: \_\_\_\_\_

**Specialization, Trade and Advantages**

****

Nino owns a pizza shop. He is very good at what he does. In one hour Nino can make 9 pizzas or prepare 36 salads. Due to rapid growth of his business, Nino decides to hire someone to help prepare pizza and salads. Nino hires Tony – Tony can make 6 pizzas or 12 salads in one hour. Since Nino can make more pizzas and more salads in one hour than Tony, he has a dilemma. **Should Tony make pizzas or prepare salads?**

|  |  |  |
| --- | --- | --- |
|  | **Pizza** | **Salads** |
| Nino | 9 | 36 |
| Tony | 6 | 12 |

To answer this question, Nino should determine who can produce each good at a ***lower opportunity cost***. Help Nino figure that out by filling in the blanks to the questions below.

1. Who can make the most pizzas in one hour? \_\_\_\_\_\_\_\_\_\_\_\_\_ Salads? \_\_\_\_\_\_\_\_\_\_\_\_\_ ***This is the idea of absolute advantage – being able to the produce the most.***
2. The opportunity cost of producing 9 pizzas for Nino is \_\_\_\_\_\_\_\_ salads. The opportunity cost of producing 1 pizza is \_\_\_\_\_\_ salads.
3. The opportunity cost of producing 6 pizzas for Tony is \_\_\_\_\_\_\_\_ salads. The opportunity cost of producing 1 pizza is \_\_\_\_\_\_ salads.
4. The opportunity cost of producing 36 salads for Nino is \_\_\_\_\_\_\_\_ pizzas. The opportunity cost of producing 1 salad is \_\_\_\_\_\_ pizzas.
5. The opportunity cost of producing 12 salads for Tony is \_\_\_\_\_\_\_\_ pizzas. The opportunity cost of producing 1 salad is \_\_\_\_\_\_ pizzas.
6. Who has the lower opportunity cost for making pizzas? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
7. Who has the lower opportunity cost for making salads? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
8. Who should make pizzas? \_\_\_\_\_\_\_\_\_\_\_\_\_\_ Salads? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
9. If they both specialized in what they can do best, how would this affect operation of the pizza shop?

**Comparative advantage** means that people specialize in the production of a good or service for which they have the lower opportunity cost. Let’s try to determine if Country A and Country B should specialize by determining the opportunity costs in each country of producing cell phones and microwaves.

**Country A**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **A** | **B** | **C** | **D** | **E** | **F** | **G** |
| # of cell phones |  |  |  |  |  |  |  |
| # of microwaves |  |  |  |  |  |  |  |

**Country B**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **A** | **B** | **C** | **D** | **E** | **F** | **G** |
| # of cell phones |  |  |  |  |  |  |  |
| # of microwaves |  |  |  |  |  |  |  |

For Country A:

1. What is the opportunity cost of producing 8 cell phones? \_\_\_\_\_\_\_ 1 cell phone? \_\_\_\_\_\_\_\_
2. What is the opportunity cost of producing 4 microwaves? \_\_\_\_\_\_\_\_ 1 microwave? \_\_\_\_\_\_\_\_

For Country B:

1. What is the opportunity cost of producing 1 cell phones?
2. What is the opportunity cost of producing 2 microwaves? \_\_\_\_\_\_\_\_ 1 microwave? \_\_\_\_\_\_\_\_

Which country has the lower opportunity cost for cell phones? \_\_\_\_\_\_\_\_ Microwaves? \_\_\_\_\_\_

If they specialized and traded, how would each country benefit?