

Solution

ECO135 (04) Quiz 1 (Nov. 2, 2018)

ID:

Name:

1. Complete the table.

	Robinson		Friday	
	Fish	Banana	Fish	Banana
Output per day (10 hours/day)	4	8	8	10
Time spent for one unit of production	$= 10/4 = 2.5$ hr. (a)	$= 10/8 = 1.25$ hr. (b)	$= 10/8 = 1.25$ hr. (c)	$= 10/10 = 1$ hr. (d)
Opportunity cost per unit	$= 8/4$ or 2 Banana (e)	$= 4/8$ or 0.5 Fish (f)	$= 10/8$ or 1.25 Banana (g)	$= 8/10$ or 0.8 Fish (h)

2. Who has the absolute advantage for fish/banana? Explain.

* Who ever can produce one unit by using less resource (time here) have Absolute Advantage.

(a) > (c) Friday has A.A. on Fish production. (b) < (d) Friday has A.A. on Banana production.

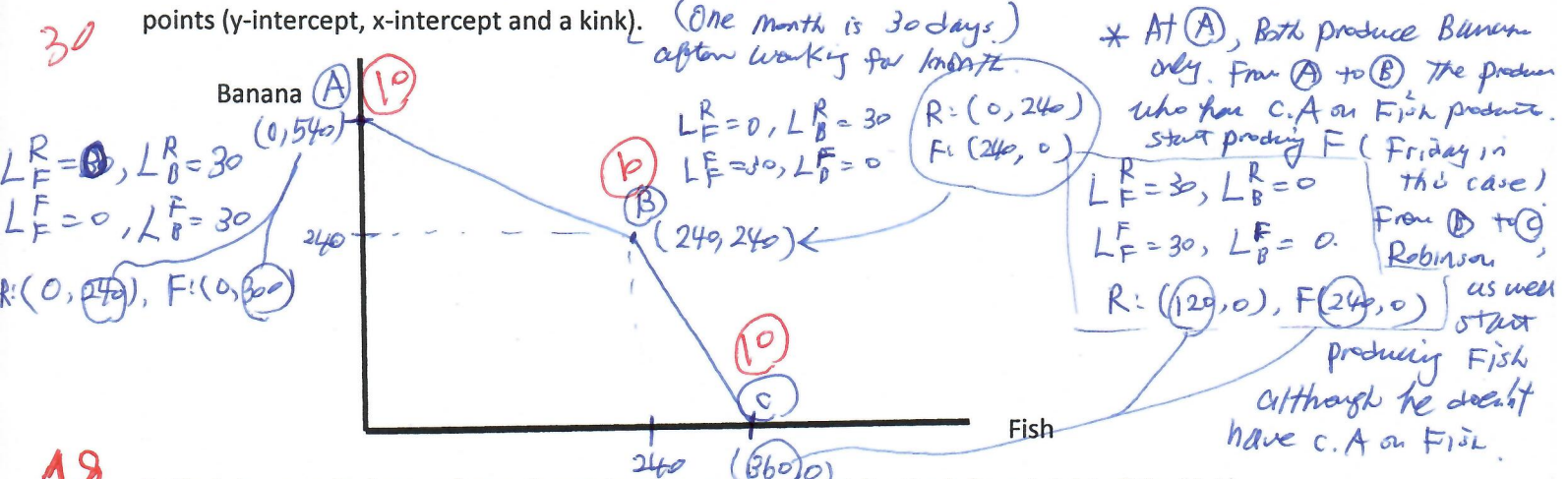
3. Who has the comparative advantage for fish/banana? Explain.

(e) > (g) Friday has C.A. on Fish production.

(f) < (h) Robinson has C.A. on Banana production.

* Who ever has the lower opportunity cost of producing one unit has C.A. for the product.

4. Draw a Production Possibility Frontier by identifying the total production levels of the economy at 3 points (y-intercept, x-intercept and a kink).



5. Find the marginal rate of transformation for each segment (to the left and right of the kink).

A → B + 240 F, - 300 B

$$MRT = \left| \frac{\Delta \text{Banana}}{\Delta \text{Fish}} \right| = \left| \frac{-300}{240} \right| = \frac{5}{4} = 1.25$$

B → C + 120 F, - 240 B

OR when Friday produce Fish for one day & don't produce Banana on the day,
+ 8 F, - 10 B ⇒ $\left| \frac{-10}{8} \right| = \frac{5}{4}$

OR, when Robinson start producing Fish he produces 4 F, but