Assume that there are two nations in the world, USA and India and that they can produce only two products. Each country uses half of its resources on each product. They can produce the following:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | T-Shirts | | | Lollipops |
| USA | 4,000 | | | 12,000 |
| India | | 10,000 | 60,000 | |
| Total | | 14,000 | 72,000 | |

1. India has an absolute advantage in both products, what does this mean?

India can produce more of both products

1. Calculate the opportunity cost of producing T-Shirts for both countries?

USA – 1 T-shirt = 3 Lollipops = Comparative Advantage

India- 1 T-Shirt = 6 T Shirts

1. Calculate the opportunity cost of producing Lollipops for both countries?

USA- 1 Lollipop = 1/3 of a T-Shirt

India- 1 Lollipop = 1/6 of a T-Shirt = Comparative Advantage

1. Fill in a new table that shows what will happen if both countries specialize in trade:

|  |  |  |
| --- | --- | --- |
|  | T-Shirts | Lollipops |
| USA | 8,000 | 0 |
| India | 0 | 120,000 |
| Total | 8,000 | 120,000 |

1. What does the world gain (materially) if the two countries specialize? Explain

Less T- Shirts More Lollipops. Specifically 6,000 Less T Shirts

1. Fill in a new table to show that shows a net loss of neither T-Shirts or Lollipops (see notes on Next Page)

|  |  |  |
| --- | --- | --- |
|  | T-Shirts | Lollipops |
| USA | 8,000 | 0 |
| India | 6,000 | 84,000 |
| Total | 14,000 | 84,000 |

* To not lose T-Shirts India shifts to producing 6,000 T-Shirts
* To produce 6,000 T-Shirts they have to give up 6,000 X 6 (opportunity cost) Lollipops
* This Equals 36,000 Lollipops
* 120,000- 36,000 = 84,000 Lollipops