

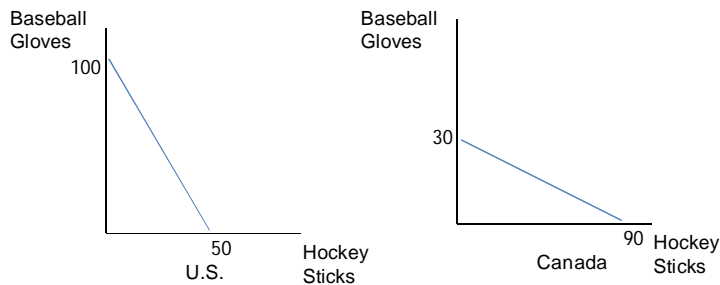
Understanding the Global Economy:  
Bringing the World Market into Your Classroom  
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**Simple Two-Good Economy Gains from Trade Example**

The U.S. and Canada can produce baseball gloves and hockey. The **total maximum production** for each is given below (in millions). This means the U.S. can produce 100 million gloves OR 50 million hockey sticks or some combination in between. Likewise, Canada can produce 30 million gloves or 90 million hockey sticks or some combination in between.

	U.S.	Canada
Gloves	100	30
Sticks	50	90

1. Draw each country's (linear) production possibilities curve using the graphs below.



2. Why wouldn't the countries produce combinations outside this line? Inside this line?

*The countries cannot produce combinations outside the lines due to resource constraints. Both countries could produce inside the line but they probably would not because they could produce more.*

3. What might shift the production possibilities curve for a country enabling it to produce more of both goods?

*Increased productivity, technological advancements such as automation would allow the countries to produce on one good without giving up production of the other good.*

4. Fill in the table with each country's opportunity cost of producing gloves (in terms of sticks given up) and sticks (in terms of gloves given up).

	Opportunity Cost	
Production of Good	U.S.	Canada
Gloves	1/2	3
Sticks	2	1/3

5. **Which country has the absolute advantage in Gloves? In Sticks?**

*The U.S. has the absolute advantage in gloves and Canada has the absolute advantage in sticks.*

6. **Which country has the comparative advantage in Gloves? In Sticks?**

*The U.S. has the comparative advantage in gloves and Canada has the comparative advantage in sticks.*

*Note that it is not always the case for a country to have both absolute advantage and comparative advantage.*

7. **Before trade, each country will consume whatever it produces. In this case, they will likely produce some of each good depending on preferences. Now assume the countries will specialize in production and trade before consumption.**

**For simplicity, assume complete specialization—countries will produce all of one good and none of the other, based on their comparative advantage. Fill in all of the cells of the table below to demonstrate how specialization and trade leads to more of each good for both countries.**

	Before Trade		Complete Specialization based on Comparative Adv.		After Trade		Gains from Trade	
	U.S.	Canada	U.S.	Canada	U.S.	Canada	U.S.	Canada
Gloves	80	18	100	0	81	19	+1	+1
Sticks	10	36	0	90	30	60	+20	+54

*Your answers for the after trade and gains from trade can be different as long as neither country is worse off in either good and that the total consumption of each good does not exceed total production.*