ECON 107 Practice questions 1

1. A student is deciding whether to spend their Saturday studying for an upcoming economics exam or working a part-time job that pays $10 per hour for 8 hours or watching Netflix which is leisure time. If the student values their leisure time at $20 for the day and the exam is worth 30% of their final grade, what is the opportunity cost of choosing to study?

2. Shortly define the following concepts. You do not need to provide a formal definition, but make sure to use the appropriate terminology.

- Opportunity Cost
- Production Possibilities Frontier (PPF):
- Absolute Advantage:
- Comparative Advantage:

3. Consider the setting with two countries Norway and France, where each produce only two goods: fish and wine. Table below gives the production possibilities frontiers for each country.

	Norway		France	
	Fish	Wine	Fish	Wine
Use all resources to produce fish	100units	0	150units	0
Use all resources to produce wine	0	100units	0	300units

a. Draw two separate PPF graphs: 1. PPF of France 2. PPF of Norway. Assume that each PPF has constant slope and let fish to be on the vertical axis and wine to be on the horizontal axis in each graph.
b. Which country has absolute advantage in producing fish? Which country has absolute advantage in producing wine?
c. Which country has comparative advantage in producing fish? Which country has comparative advantage in producing wine?

d. Suppose currently the two countries are not trading with each other and their pre-trade production and consumption levels are given below (consumption levels under autarky):

	Pre-trade consumption	
	Fish	Wine
Norway	40units	60units
France	50units	200units

e. Show that pre-trade consumption levels are on PPF of each country.

f. Now suppose that each country specialized in the production of one good according the principle of comparative advantage and then traded with each other. Suggest a trade that will enable each country to achieve a fish-wine combination that is better than the pre trade consumption levels given in the table in part d. In other words, after specialization and trade Norway should have more than 40 units of fish and more than 60 units of wine and France should have more than 50 units of fish and more than 200 units of wine.