DISCUSSION QUESTION

Name:
Instructor:
Course:

What is meant by absolute advantage and comparative advantage? Would countries be better off trading products in which they have an absolute advantage or those in which they have a comparative advantage?

PEER GROUP PROBLEM SOLVING

Name:
Instructor:
Course:

In the following table, which country has the comparative advantage in the production of bananas and which has the comparative advantage in sugarcane? Which country has an absolute advantage in the production of bananas and which has the absolute advantage in the production of sugarcane?

	Bananas (tons)	Sugarcane (tons)
India	29.7	2.9
Brazil	7.3	6.7

IN-CLASS EXPERIMENT / ACTIVE EXERCISE

The North American Free Trade Agreement (NAFTA) eased restrictions on numerous goods traded between Canada, Mexico, and the United States. Conduct an Internet search to determine the winners and losers of this agreement.

SOLUTIONS AND INSTRUCTOR NOTES

Discussion Question

What is meant by absolute advantage and comparative advantage? Would countries be better off trading products in which they have an absolute advantage or those in which they have a comparative advantage?

A country has an absolute advantage when they can produce more than another country. A country has a comparative advantage when they can produce a good at a lower opportunity cost than another country. Countries would be better off trading products in which they have a comparative advantage.

Peer Group Problem Solving

In the following table, which country has the comparative advantage in the production of bananas and which has the comparative advantage in sugarcane? Which country has an absolute advantage in the production of bananas and which has the absolute advantage in the production of sugarcane?

	Bananas (tons)	Sugarcane (tons)
India	29.7	2.9
Brazil	7.3	6.7

Absolute advantage in bananas: India
Absolute advantage in sugarcane: Brazil
Comparative advantage in bananas: Brazil (India: 2.9/29.7 = 0.10; Brazil: 6.7/7.3 = 0.92)
Comparative advantage in sugarcane: India (India: 29.7/2.9 = 10.2; Brazil: 7.3/6.7 = 11.3)

In-Class Experiment / Active Exercise

The North American Free Trade Agreement (NAFTA) eased restrictions on numerous goods traded between Canada, Mexico, and the United States. Conduct an Internet search to determine the winners and losers of this agreement.

Mexico: Losers – While direct foreign investment increased, domestic investment decreased and GDP per capita only increased 1.6% overall. Over supply of labor kept wages low.

Canada: Winners – Increased U.S. investment in the auto industry, increased oil exports, and increased in mineral/mining products.

United States: Both – Depending on the industry and business with small businesses losing to large businesses. Manufacturing job losses.

For more in-class experiment and active learning ideas, visit www.econedactive.com