

Absolute and Comparative Advantage - Check for Understanding

Hypothetical Weekly Production Possibilities - Japan (in units of 1000)

	A	B	C	D	E	F
Clocks	30	24	18	12	6	0
Radios	0	6	12	18	24	30

Hypothetical Weekly Production Possibilities - Switzerland (in units of 1000)

	A	B	C	D	E	F
Clocks	20	16	12	8	4	0
Radios	0	2	4	6	8	10

1. Which nation has an absolute advantage in the production of each good?

Clocks

Radios

2. Apply the principle of comparative advantage to determine areas of specialization. Show work below:

Nations	Clocks	Radios
Japan		
Switzerland		

Japan's area of specialization:

Switzerland's area of specialization:

3. Assume that prior to specialization and trade, Japan produced at Point D and Switzerland produced at Point E. Calculate possible gains from specialization and trade below:

Nations	Clocks	Radios	
Japan			
Switzerland			
			Before
			After
			Gain

4. Should Japan and Switzerland specialize and trade? Justify your conclusion with evidence from the data.