Econ 102 Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Summer 2013

Quiz #1

Please write all answers neatly and legibly.

1. Suppose that there are two countries, Nordia and Islandia, that both produce hotdogs and sweaters. Assume that both of these countries have linear production possibility frontiers for these two goods. If Nordia produces only hotdogs with its available resources it can produce 500 hotdogs and if Nordia produces only sweaters with its available resources it can produce 100 sweaters. If Islandia produces only hotdogs with its available resources it can produce 400 hotdogs and if Islandia produces only sweaters with its available resources it can produce 80 sweaters.
   1. (1 points) What is the opportunity cost of producing two additional sweaters for Nordia?
   2. (1 points) What is the opportunity cost of producing five additional hotdogs for Islandia?
   3. (2 points) Which country has the comparative advantage in producing hotdogs? Explain your answer.
   4. (4 points) Suppose these two countries decide to specialize according to comparative advantage and then trade with one another. In the space below draw the joint production possibility frontier for these two countries measuring hotdogs (D) on the vertical axis and sweaters (S) on the horizontal axis. Make sure you provide numeric labels for all intercepts as well as for any “kink” point on your production possibility frontier.
   5. (2 points) What is the range of acceptable prices in terms of sweaters for 20 hotdogs?