

AP® Microeconomics – Economic Concepts

Exam practice questions: 1.5 Comparative Advantage



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AP MICROECONOMICS EXAMINATION QUESTIONS

Answer the questions below

QUESTION ONE

[25 MARKS]

Assume the world economy has only two countries, Utopia and Nirvana, each of which produces two goods, milk and honey. Utopia has an absolute advantage in the production of both milk and honey, while Nirvana has a comparative advantage in the production of honey.

- Draw a diagram that illustrates absolute advantage and comparative advantage for each country. **[3 marks]**
- Using the theory of comparative advantage, state which good each country should export and import. **[2 marks]**
- Using the theory of comparative advantage, show points of possible production and consumption for Utopia and Nirvana, after specialisation and international trade. **[2 marks]**
- Outline **two** sources of comparative advantage. **[2 marks]**

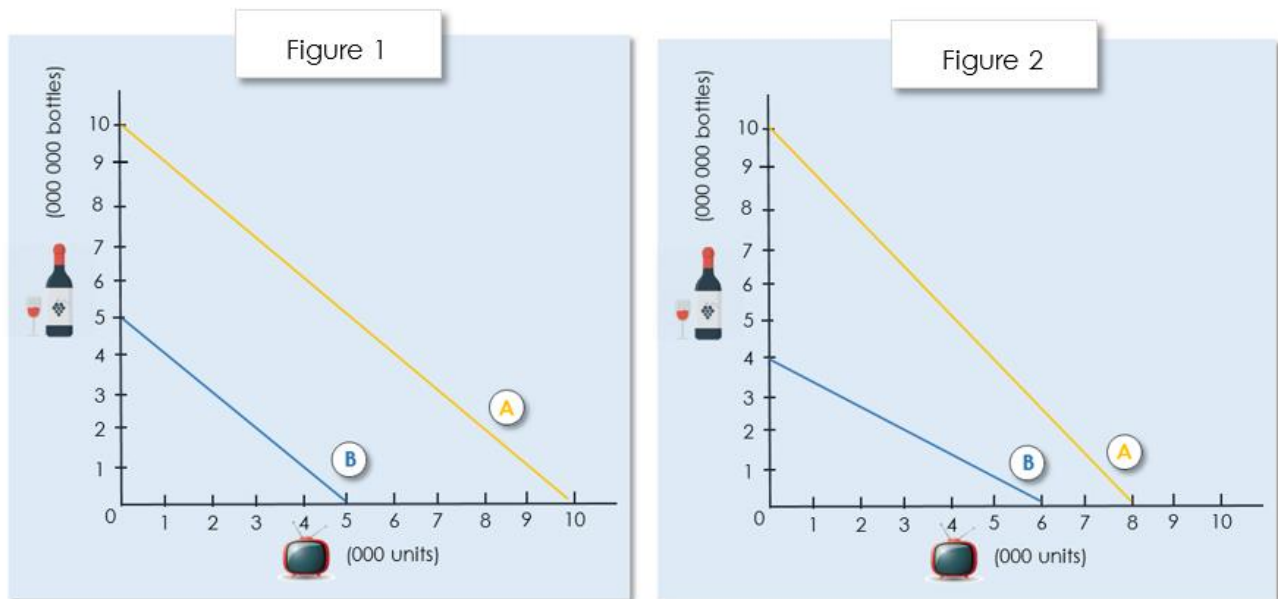
Country	X	Y
Country A	40	20
Country B	50	150

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The data in the table below above shows the quantity of good X and good Y that can be produced by country A and country B if they use all of their resources efficiently.

- e. Calculate the opportunity cost of good X and good Y in country A, and the opportunity cost of good X and good Y in country B. **[4 marks]**
- f. State which country has a comparative advantage in good X, which in good Y, and which has an absolute advantage in both goods. **[3 marks]**
- g. Using data in the table above, draw a diagram to show the comparative advantage of both countries. **[4 marks]**



The following questions are based on the production possibilities curves above.

- h. In Figure 1, can either country benefit from specialisation and trade? Outline why or why not. **[2 marks]**
- i. In Figure 2, state which country (A or B) has the comparative advantage in which good (wine or TVs), and which country has the absolute advantage in both wine and TVs. **[3 marks]**