



AP Microeconomics Webinar

Topic 1.5 - Comparative & Absolute Advantage

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Agenda

- *Warm Up*
- *Content Delivery - Absolute Advantage & Comparative Advantage*
- *Topic 1.5 Student Activity & Extension*
- *Kahoot*
- *Wrap Up & Evaluation*



Tell Me!



Should you grow oranges in Alaska?

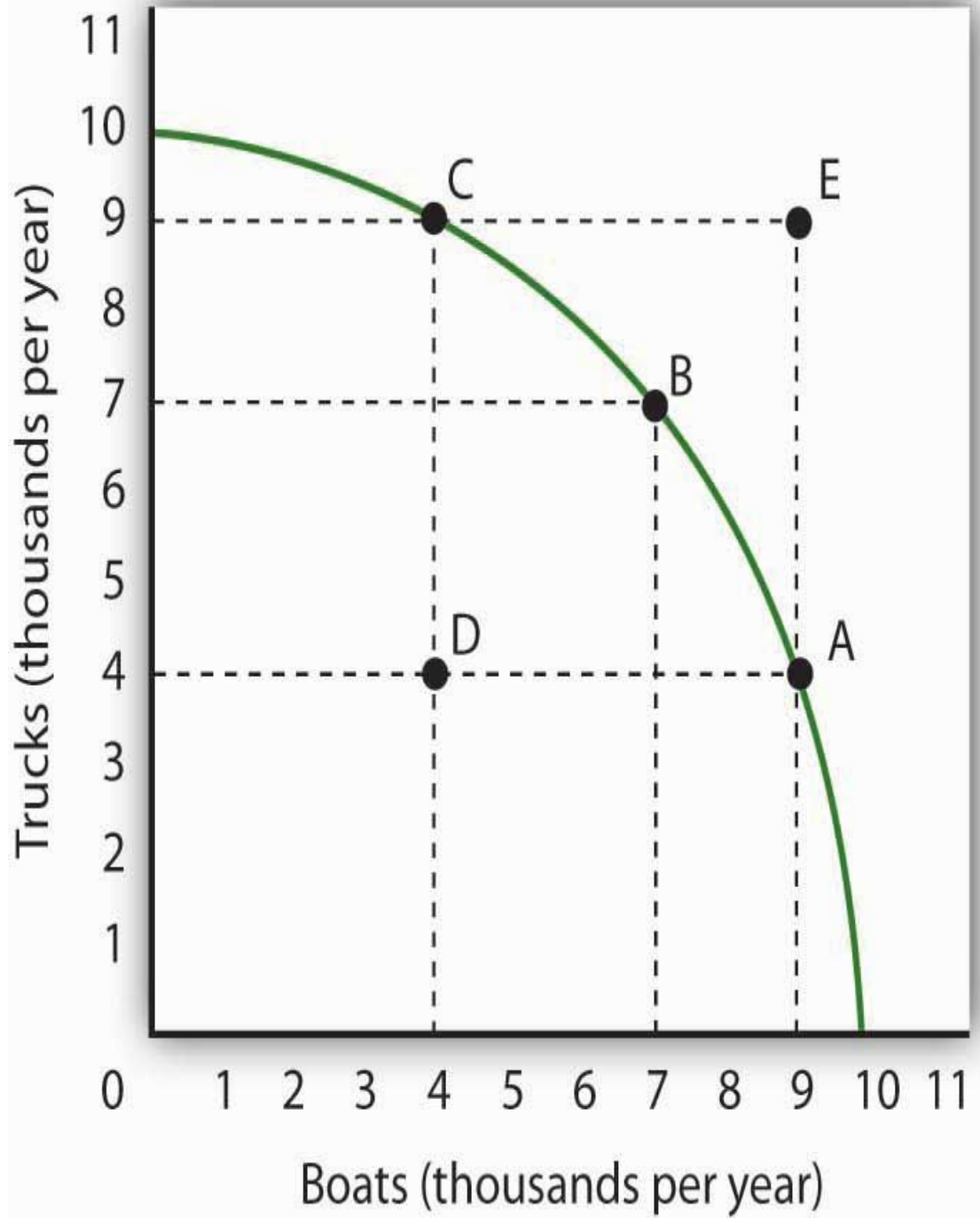
Should LeBron James mow his own lawn?

Why or why not?



Students, write your response!

How can societies get goods and services outside their production possibilities?



What are the benefits of trade?



Students, write your response!



Pear Deck

Pear Deck Interactive Slide
Do not remove this bar

Learning Targets

- I can explain the difference between absolute advantage and comparative advantage.
- I can explain why nations trade.
- I can calculate opportunity cost and determine comparative advantage.



Important Definitions

- **Absolute Advantage**: ability to produce more of a product using less of a resource....best at doing something
- **Comparative Advantage**: an economy can produce a good for a lower OPPORTUNITY cost than another.



Learning Target: I can explain the difference between absolute advantage and comparative advantage.

So What?



- AA doesn't necessarily mean an economy should produce the good.
 - Country may have an absolute advantage in MANY goods, but shouldn't produce everything.
 - **COMPARATIVE ADVANTAGE** gives us a better indication of what economies should produce.

Learning Target: I can explain the difference between absolute advantage and comparative advantage.

Output vs. Input Problem

- **Output**: you get a certain amount of product out of a given input. (desire to GET the most)
 - Ex. miles per gallon, pieces of gum per dollar...
- **Input**: it takes a certain amount of input to get a given product. (want to use the LEAST amount of resources)
 - Ex. hours to do a job, apples to make a pie

Learning Targets: I can explain the difference between absolute advantage and comparative advantage.

I can calculate opportunity cost and determine comparative advantage.



Table 1-5.1

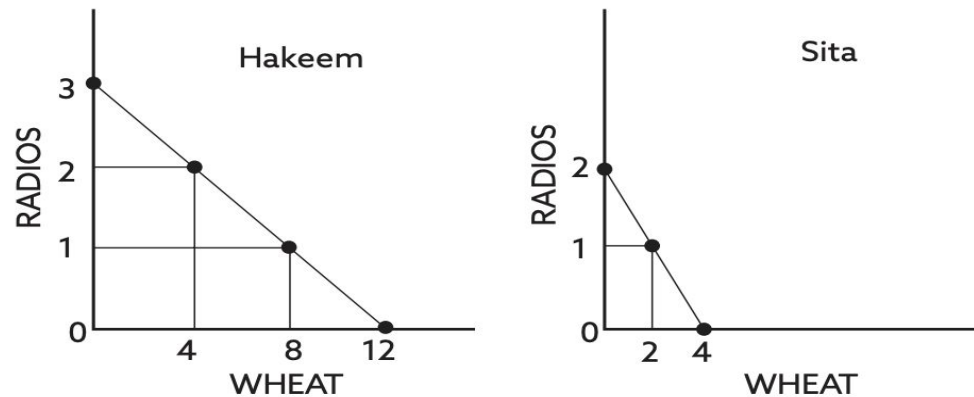
PRODUCTIVITY DATA USING THE INPUT METHOD

	Time required to produce one radio	Time required to produce one bushel of wheat
Hakeem	20 minutes	5 minutes
Sita	30 minutes	15 minutes



Figure 1-5.1

PRODUCTION POSSIBILITIES CURVES FOR HAKEEM AND SITA



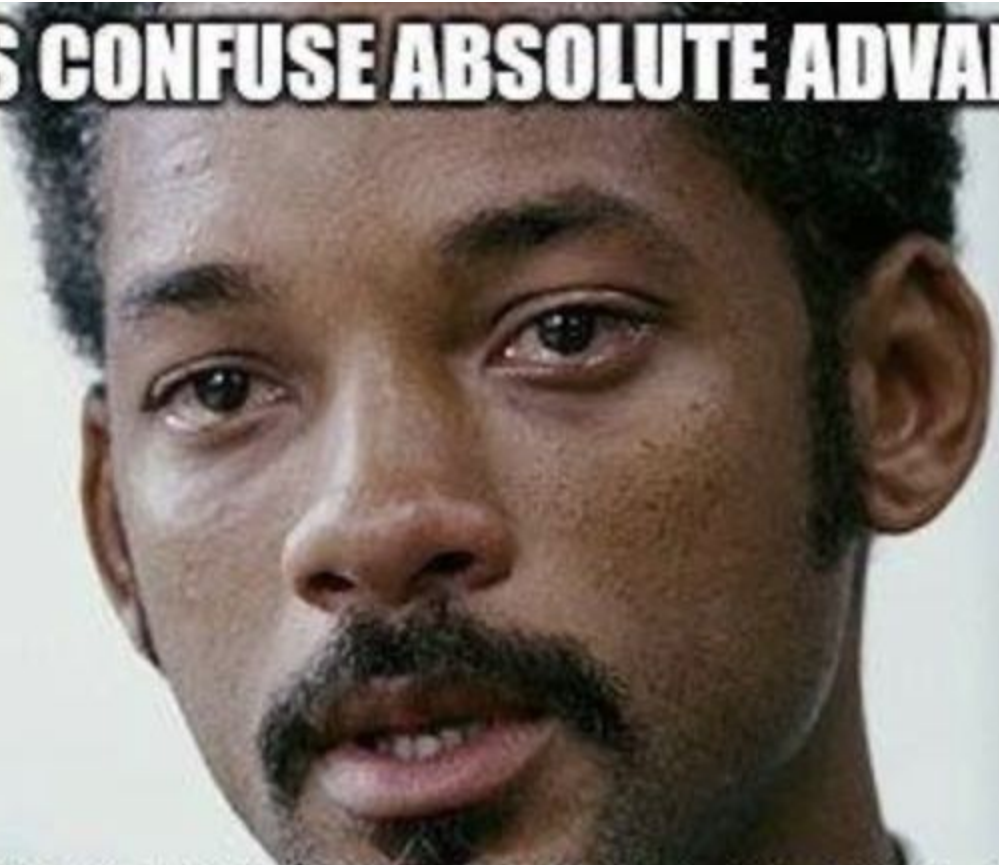
This chart shows how many days it takes the ABC Corporation and the XYZ Corporation to produce one unit of cars and one unit of planes.

	Cars	Planes
ABC Corp.	8 days	10 days
XYZ Corp.	15 days	12 days

This chart shows how many cans of olives and bottles of olive oil can be produced in Zaire and Colombia from one ton of olives.

	Zaire	Colombia
Olives	60 cans	24 cans
Olive oil	10 bottles	8 bottles

WHEN STUDENTS CONFUSE ABSOLUTE ADVANTAGE



AND COMPARATIVE ADVANTAGE

Comparative Advantage

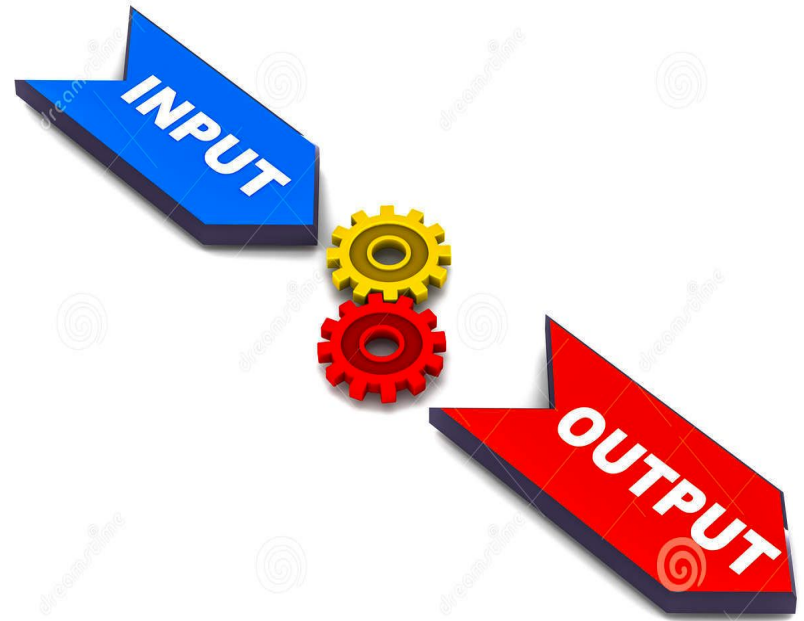
- One nation (individual/company) can produce a good at a lower **opportunity cost** than the other.
- *This comes into play when one individual (country, company....) has the absolute advantage in both.*
- YOU CANNOT HAVE THE COMPARATIVE ADVANTAGE IN BOTH!

Learning Targets: I can explain the difference between absolute advantage and comparative advantage.

I can calculate opportunity cost and determine comparative advantage.

How do we determine comparative advantage?

- Output Method vs. Input Method (AGAIN!)
 - This helps you determine opportunity cost. Lowest opportunity cost should produce!



Learning Targets: I can calculate opportunity cost and determine comparative advantage.

Output Method

	German HW	English HW
Will	$8=6/8$	$6=8/6$
Lila	$2=4/2$	$4=2/4$

- Put the output of each product over the output of the other product for each person. (output and over start with “o”)
- Compare the opportunity cost for each person for each product.
 - The person with the smaller opportunity cost should produce the good that costs less and trade for the other good.

Learning Targets: I can calculate opportunity cost and determine comparative advantage.

Calculate the opportunity cost for Zaire and Colombia producing olives and olive oil.

This chart shows how many cans of olives and bottles of olive oil can be produced in Zaire and Colombia from one ton of olives.

	Zaire	Colombia
Olives	60 cans	24 cans
Olive oil	10 bottles	8 bottles



Students, write your response!

Input Problems

- Input is the **opposite** of output so we do it the opposite way.
- “this” over “that”
- Compare the opportunity cost for each product.
 - The person with the lowest opportunity cost should produce that which costs least and trade for the other good.

	Hours to read German Book	Hours to write English paper
Will	8 = $8/6$	6 = $6/8$
Lila	2 = $2/4$	4 = $4/2$

Learning Targets: I can calculate opportunity cost and determine comparative advantage.

Determining Comparative Advantage (output method)

	Output per hour	
	Soybeans	Pounds of beef
Argentina	20	5
Brazil	30	15

- 1 Which country has an absolute advantage in producing soybeans?
- 2 Which country has an absolute advantage in producing beef?
- 3 Which country has a comparative advantage in producing soybeans?
- 4 Which country has a comparative advantage in producing beef?
- 5 Which country should specialize in soybean production?
- 6 Which country should specialize in beef production?



Students, write your response!

Determining Comparative Advantage (input method)

	Time required for one unit	
	One bushel of soybeans	One pound of beef
Argentina	3 minutes	12 minutes
Brazil	2 minutes	4 minutes

- 1 Which country has an absolute advantage in producing soybeans?
 - 2 Which country has an absolute advantage in producing beef?
 - 3 Which country has a comparative advantage in producing soybeans?
 - 4 Which country has a comparative advantage in producing beef?
 - 5 Which country should specialize in soybean production?
- Which country should specialize in beef production?



Students, write your response!

Comparative Advantage and Terms of Trade

- **David Ricardo**--used theory of comparative advantage to explain how countries could benefit by specialization and trade, thus moving outside of their PPFs.
- How gains from trade are distributed depends on terms of trade.
- **Terms of Trade**: Measures the rate of exchange of one product for another when two countries trade.
 - We know that countries benefit from specialization and trade, but HOW should they trade?

Terms of Trade

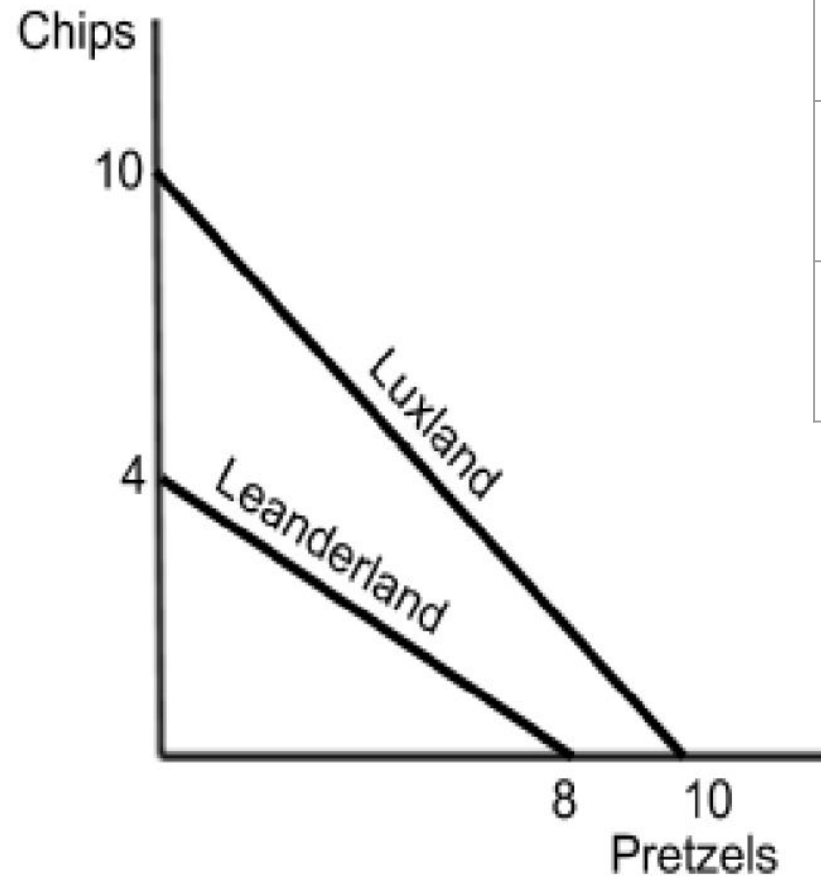
- Look at each person's OC of production
- Any price per unit BETWEEN the opportunity cost of the producer and buyer will make both sides better off than without trade.

	Corn produced	Wheat Produced
Ivy	8 OC: 6/8 Wheat	6 OC: 8/6 Corn
Joanna	2 OC: 2 Wheat	4 OC: 1/2 Corn

Fair terms of trade:

- Corn lies somewhere between 6/8 and 2, so 1 corn for 1 wheat would work!
- Wheat: 1 wheat for 1 corn

Comparative Advantage and TOT



	Chips	Pretzels
Luxland	10 OC: 1 Pretzel	10 OC: 1 chips
Leanderland	4 OC: 2 Pretzels	8 OC: ½ chips

TOT:

1 Chip: 1.5 Pretzels

1 pretzel: $\frac{3}{4}$ Chips

Comparative Advantage and TOT

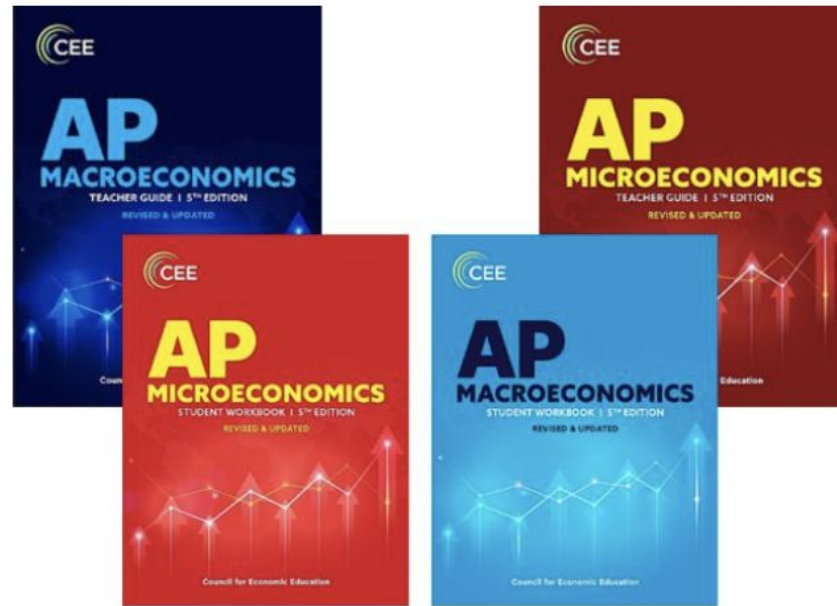
	Cookies	Milk
Atlantis	2 hours OC: 2 milks	1 hour OC: $\frac{1}{2}$ cookie
Neverland	4 hours OC: 4 milks	1 hour OC: $\frac{1}{4}$ cookie

TOT:

1 milk: $\frac{1}{3}$ cookies

1 cookie: 3 milks

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