

OPPORTUNITY COST & COMPARATIVE ADVANTAGE

INTERNATIONAL BUSINESS

LASHINIA PAYNE

MARCH 26, 2023

s SCENARIO INTRODUCTION Your friend John works producing dress shirts and dress pants. Currently John can work a maximum of 8 hours per day. With the equipment he has, and the current level of expertise, he can finish either 2 shirts or 8 pairs of pants in an hour. This is true when he is performing at full capacity. Meaning doing the best possible work.

1. What is the maximum number of shirts he can make in a day? (10 points) **16**
2. What is the maximum number of pants he can make in a day? (10 points) **64**
3. What is the opportunity cost of making one pair pants (in terms of the amount of shirts he won't be able to make)? As an example, when you give up \$20 dollars in exchange for 40 pencils, you can say that the "cost" per pencil was \$0.50, because $\$20/40 = \0.50 . (15 points) **The opportunity cost is in the time he spends making 2 shirts per hour he can use that time making 8 pants.**
4. What is the opportunity cost of making one shirt (in terms of the amount of pants he won't be able to make)? (15 points) **Making 1 shirt might be worth 2 pairs of pants that might be made. But he wants to be efficient in making profit he should work more on the pants due to it's the same price for 1 shirt and 1 pants.**
5. John's friend Anne, can make 2 shirts or 10 pairs of pants in an hour. Who has a lower opportunity cost of making shirts? In other words, who has a comparative advantage in the production of shirts? Explain your rationale (15 points) **They both have the same amount pertaining to the shirts. So, no one has the advantage. This depends on if they both are working 8 hours.**
6. Imagine now, that John and Anne are the only shirt and pants producers in their small town, how would you suggest that they spend their time at work to achieve the highest production of shirts and pants for the town? Explain your rationale. (15 points) **My reason would be that we know how many shirts and pants that John makes in an hour but not Anne. So now we would have to determine the number of shirts and pants she makes in an hour.**
7. Imagine now, that John completes a training that doubles his capacity to make both shirts and pants per hour. a) What is the maximum number of shirts he can make in a day? b) What is the maximum number of pants he can make in a day? (15 points) **32-Shirts & 128- Pants**

8. In 250 words, explain the relationship between comparative advantage and specialization. Support your answer with an example. (5 points) Specialization means working at a relatively well-defined, limited activity. Specialization only makes sense because of the concept of Comparative Advantage is the ability is the ability to produce a good service at a lower opportunity cost. The relationship between Specialization and Comparative Advantage is the basis for exchange. So, if a person or country specializes in producing things that we can produce most efficiently then it is possible to increase the number of resources.