Write in the box the number of the question you are answering on this page as it is designated in the examination.

Question 2

a) With equal amounts of resources, Luna can produce more machines, than Ashna (40 compared to 10), so it has an absolute advantage in producing machines.

b) With equal amounts of resources, Luna can produce more food, than Ashna (40 compared to 30), so it has an absolute advantage in producing machines.

c) In order to produce one extra machine, Luna has to sacrifice one ton of food, while Ashna would have to sacrifice 3 tons of food for the same goal. Therefore, Luna has lower opportunity costs in production of machines than Ashna, so it has a comparative advantage in the production of machines.

d) In order to produce one extra ton of food, Ashna has to sacrifice 1/3 of a machine, while Luna would have to sacrifice 1 machine for the same goal. Therefore, Luna has higher opportunity cost in the production of food than Ashna, so Ashna has a comparative advantage in the production of food. So Luna will import food when the two countries trade.

e) The terms of trade lie between the two opportunity costs of the countries. In this case, these terms are: one machine should cost something between 1 ton and 3 tons of food (including the price of 1 ton per machine and 3 tons per machine). One example of terms of trade is: 4 machines costs 2 tons of food.
Write in the box the number of the question you are answering on this page as it is designated in the examination.

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2. a) Luna. Since the opportunity cost of 1 machine is 1 ton of food, when the opportunity cost of 1 machine in Ashna is 3 tons of food.

b) Ashna. Since the opportunity cost of 1 ton of food is one-third of a machine when the opportunity cost of a ton of food in Luna is 1 machine.

c) Luna. Since the opportunity cost of food to Luna is lower than Ashna's.

d) Ashna. Since Ashna has lower opportunity cost of 1 machine than Luna's export.

e) Ashna can export food to Luna and import machines. Both countries will be better off if Luna would trade 1 machine for about 1.5 tons of Ashna's food. That way, she can mainly produce machines and mainly on food and trade. Then, Ashna will be able to get 2 machines for 3 tons of food and Luna with 1.5 tons of food for a machine.