

15.18: Assignment- Absolute and Comparative Advantage

Suppose that the United States and Saudi Arabia can each produce two products, oil and personal computers. The labor requirements per unit of output are provided in the table below:

Labor Requirements Per Unit of Output		
	United States	Saudi Arabia
Oil	10	8
Personal Computers	30	4

Calculate the labor and opportunity costs for each good, and then compute each country's absolute and comparative advantage. Use the results to determine what good each country should export and explain your reasoning.

1. What does absolute advantage mean? How do you calculate absolute advantage?
2. Which country has an absolute advantage in producing oil? Explain using the data from the table.
3. Which country has an absolute advantage in producing personal computers? Explain using the data from the table.
4. What does comparative advantage mean? How do you calculate comparative advantage?
5. In what output(s) does the U.S. have a comparative advantage? Explain using the data from the table.
6. In what output(s) does Saudi Arabia have a comparative advantage? Explain using the data from the table.
7. What product should each country export? Why?

Criteria	Not Evident	Developing	Proficient	Distinguished	Weight
Define absolute advantage					2
Compute the absolute advantage each good, show your work with correct notation					2
Explain which country has the absolute advantage in each good and justify					4
Compute comparative advantage for each good, show you work with correct notation					2
Explain which country has the comparative advantage for each good and justify					4
Describe what good each country should export and justify					4
Articulation of response (citations, grammar, spelling, syntax, or organization that negatively impact readability and articulation of main ideas.)					2
				Total:	/20

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