

Answer on Question #70081 – Economics | Microeconomics

Initially, suppose Bellissima uses 1 million hours of labor per month to produce corn and 3 million hours per month to produce jeans, while Dolorium uses 3 million hours of labor per month to produce corn and 1 million hours per month to produce jeans. Consequently, Dolorium produces 15 million bushels of corn and 20 million pairs of jeans, and Bellissima produces 8 million bushels of corn and 48 million pairs of jeans. Assume there are no other countries willing to trade goods, so, in the absence of trade between these two countries, each country consumes the amount of corn and jeans it produces.

Use the theory of absolute preferences and find the amount of labor for production 1 pair of jeans and 1 bushel of corn in the each country.

	Bellissima	Dolorium
Corn, bushel/hour	$8/1 = 8$	$15/3 = 5$
Jeans, pair/ hour	$48/3 = 16$	$20/1 = 20$

So, for 1 hour, Bellissima can produce 8 bushels of corn, and in Dolorium - only 5 bushel, but in Dolorium for 1 hour can be produced 20 pair of jeans, and in Bellissima - only 16 pair of jeans.

Thus, the Bellissima is more effective, or has absolute preferences over Dolorium in the production of corn, while Dolorium is more effective (has absolute advantages) compared with the Bellissima in jeans production.

In order to calculate the comparative advantage, we will calculate the alternative costs of each product in each country.

	Bellissima	Dolorium
Corn, bushel/hour	$48/8 = 6$	$20/15 = 1,33$
Jeans, pair/ hour	$8/48 = 0,17$	$15/20 = 0,75$

It can be seen that the alternative corn costs are lower for Dolorium (1,33 less than 6), and for jeans is lower for Bellissima (0.17 lower than 0,75). It means that Dolorium has a comparative advantage in corn, and Bellissima - in jeans.