

Answer on Question #73343 -Economics - Macroeconomics

(Absolute and Comparative Advantage) information concerning the production of wheat and corn in the United States and Russia?

Edit Millions of tons of grain produced in one year

Russia wheat 15 Corn 150

U.S Wheat 60 Corn 300

- What is the opportunity cost of producing a unit of wheat in Russia? In the United States?
- Which country has an absolute advantage in producing wheat? In producing corn?
- Which country has a comparative advantage in producing wheat? In producing corn?
- Which country should specialize in producing wheat? In producing corn?

Answer.

- The opportunity cost of producing a unit of wheat in Russia is $150/15=10$ units of corn
The opportunity cost of producing a unit of wheat in USA is $300/60=5$ units of corn
- Absolute advantage is the ability of a party (an individual, or firm, or country) to produce a greater quantity of a good, product, or service than competitors, using the same amount of resources. (*Harrington, 2009*).
So, USA has an absolute advantage both in producing wheat and corn ($60>15$; $300>150$)
- An agent has a comparative advantage over another in producing a particular good if they can produce that good at a lower relative opportunity cost or autarky price, i.e. at a lower relative marginal cost prior to trade (*Harrington, 2009*).
So, USA has comparative advantages in producing wheat ($5<10$), and Russia has comparative advantages in producing corn ($1/10<1/5$).
- According to the comparative advantages (USA – wheat, Russia – corn)
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