

## Comparative Advantage Game

**Purpose:** To discover a means to expand a country's consumption bundle beyond what its domestic production constraints allow.

### YEAR 1: No Trade

Consider yourself a benevolent dictator of a country--either Germany or Belgium. You have information on your country's production possibilities as described by the accompanying chart. The chart identifies the various combinations of computers and wine your country can produce by itself for domestic consumption. Your first decision is to choose a combination of computers and Wine that you wish your people to consume. This is known as the "No-Trade Point."

1. What are the initial "No-Trade Points" for Germany and Belgium?

No-Trade Points	Computers	Wine
Germany		
Belgium		
World Totals		

2. With respect to your No-Trade Point, which direction would include consumption bundles that would definitely make your country better off? [ N, S, E, W, SW, SE, NE, NW ]

### YEAR 2: Trade

As a benevolent dictator, you are always looking for ways to make your people better off than they currently are (i.e, at their initial "No-Trade Point"). An advisor, David Ricardo, suggests that you separate your country's consumption decision from its production decision. That is, you don't have to consume the same combination of computers and wine as you have produced. Furthermore, you may now decide to choose a **different** production combination than the one chosen above as your "No-Trade Point." In so doing, you can now **trade** some of your production for the production of the other country. By trading, you should be able to expand your country's consumption of both goods beyond what you consumed at your "No-Trade Point."

- Q1. What is the opportunity cost of producing one more unit of wine, in terms of computers, for Germany?
- Q2. What is the opportunity cost of producing one more unit of wine, in terms of computers, for Belgium?
- Q3. Which country holds the comparative advantage in producing wine? Which country holds the comparative advantage in producing computers? Explain how you know this. Show all calculations.

Now, each country should choose a new production combination that will allow the world production totals of both goods to exceed the totals in Year 1 above. In choosing your new production combination, let your answer to Q3 guide your choices.

3. What combination of computers and wine does each country PRODUCE after trade is allowed?

New Production	Computers	Wine
Germany		
Belgium		
World Totals		

4. Figure out a way to divide the Year 2 World Totals so that each country is able to CONSUME more than their totals from Year 1?

New Consumption	Computers	Wine	
Germany			← The numbers here must be larger than those entered as Germany's No-Trade Point in Year 1.
Belgium			← The numbers here must be larger than those entered as Belgium's No-Trade Point in Year 1.
World Totals			← The numbers here must be equal to those entered as the new World Production totals above in part 3.

5. Describe the Year 2 trade implied by the above decisions (i.e., going from #3 to #4).

Germany trades \_\_\_\_\_ units of \_\_\_\_\_ to Belgium for \_\_\_\_\_ units of \_\_\_\_\_.

**More Questions:**

**Q4.** Describe how did each country's production decision change from Year 1 to Year 2.

**Q5.** According to your trade above, what ratio did one unit of wine trade for computers? How does this ratio compare with the ratios calculated in Q1 and Q2 above?

**Q6.** In general, what might cause a country's PPF to *shift* out, away from the origin. Identify two reasons.

**Bonus Points:**

If both countries are made better in each good	2 points each
If both countries are better off in one good and no worse off in the other good	1 point each
If neither country is better off or worse off	0 points each
If both countries are worse off	-1 point each