**Assignment Type:**Individual Project   **Deliverable Length:**2–3 pages
**Points Possible:**150   **Due Date:**1/9/2011 11:59:59 PM  CT 

Suppose that two people, Michelle and James each live alone in an isolated region. They each have the same resources available, and they grow potatoes and raise chickens.  If Michelle devotes all her resources to growing potatoes, she can raise 200 pounds of potatoes per year. If she devotes all her resources to raising chickens, she can raise 50 chickens per year. (If she apportions some resources to each, then she can produce any linear combination of chickens and potatoes that lies between those extreme points.  If James devotes all his resources to growing potatoes, he can raise 80 pounds of potatoes per year. If he devotes all his resources to raising chickens, he can raise 40 chickens per year. (If he apportions some resources to each, then he can produce any linear combination of chickens and potatoes that lies between those extreme points.)

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| --- | --- | --- |
|   | Potatoes | Chickens |
| Michelle | 200 | 50 |
| James | 80 | 40 |

* What is Michelle’s opportunity cost of producing potatoes?
* What is Michelle’s opportunity cost of producing chickens?
* What is James’ opportunity cost of producing potatoes?
* What is James’ opportunity cost of producing chickens?
* Which person has an absolute advantage in which activities?
* Which person has a comparative?
* Suppose that they are thinking of each specializing completely in the area in which they have a comparative advantage, and then trading at a rate of 2.5 pounds of potatoes for 1 chicken, would they each be better off? Explain.
* How would you extend the above narrative to businesses, society as a whole or nations? Explain.