

Homework Assignment #5

Name:

1. Suppose that John can produce 10 bushels of wheat per hour or 5 bushels of corn per hour. What is John's opportunity cost of spending an hour producing wheat? What is the opportunity cost of spending an hour producing corn? If John has ten hours to spend producing wheat or corn, what is the maximum he can produce of either? Draw his production possibilities frontier (PPF).
2. Answer the same questions in problem 1 for Matt who can produce 8 bushels of wheat an hour or 2 bushels of corn an hour.
3. Do you think John has anything to gain from trading with Matt since he is better at producing both wheat and corn? Why? (I want your honest answer and reasoning; it won't be judged based on its correctness)
4. If John and Matt do trade, between what two prices of corn (in terms of wheat) will they trade? Demonstrate that both John and Matt can move outside of their individual PPFs by trading with one another.