

This time we grade 2 and 3

Answer key to homework #2

1. Chapter 2: Review question 7

The three primary ways in which resources are owned are communal ownership (where resources are owned by everyone), socialism (where resources are owned mostly by the state), and capitalism (where resources are owned privately).

2. Chapter 2: Problem 5 (14 points)

a. Table 1: Labor Requirements for Berries and Fish (0.5 point each blank of the table)

	1 Quart of Berries	1 Fish
Maryanne	1 hour	1 hour
Gilligan	$\frac{1}{2}$ hour	$\frac{1}{4}$ hour

Table 2: Opportunity Cost

	1 Quart of Berries	1 Fish
Maryanne	1 fish	1 quart of berries
Gilligan	2 fish	$\frac{1}{2}$ quart of berries

b. Maryanne has a comparative advantage in picking berries. She must give up 1 fish to pick a quart of berries, while Gilligan must give up 2 fish to pick a quart of berries. Gilligan has a comparative advantage in catching fish. He must give up $\frac{1}{2}$ a quart of berries to catch 1 fish, while Maryanne must give up 1 quart of berries to catch 1 fish. When they discover each other, Maryanne should specialize in picking berries and Gilligan should specialize in catching fish. (4 points)

c.

	Quarts of Berries	Number of Fish
Maryanne	12	0
Gilligan	0	48
Total	12	48

When Maryanne and Gilligan produce according to comparative advantage, total production of both berries and fish are higher than under self-sufficiency. Specifically, there are 1 quart of berries and 5 more fish available to be divided between them. Both castaways can benefit from Gilligan's new abilities. (0.5 point each blank of the table and 3 points in the explanation part)

3. 1) a ; b (1 point each)
- 2) 2 ; 1/3 (1 point each)
- 3) b ; a (1 point each)