1.- Consider the following three production possibility frontiers (PPP's) involving civilian and military goods (armament).

Answer the following:

a) (15 points) Which of the PPP's above show that the opportunity cost of military goods is greater than zero? Explain briefly;

b) (15 points) Which of the PPP's above show that the opportunity cost of military goods is increasing and which one shows that such cost is decreasing? Explain briefly.

c) (20 points) What is the meaning of “increasing opportunity cost” in this context? Explain briefly.

2. – The following PPP’s show the autarky (pre-trade) situation of two castaways, Tom and Hank, who are consuming fish and coconuts (both measured in pounds).

a) (10) What is Tom’s opportunity cost of a fish? What is Hank’s opportunity cost of a fish?

b) (10 points) Who has a comparative advantage in the production of coconuts?

c) (30 points) Suppose that in the pre-trade situation Tom consumed 5 pounds of fish and 24 pounds of coconuts, while Hank consumed 5 pounds of fish and 5 pounds of coconuts. To illustrate the gains from trade, assume that after trade is introduced, Hank keeps his consumption the same as in the pre-trade situation. How much of fish and of coconuts can Tom consume after trade?
1. Consider the following three production possibility frontiers (PPP’s) involving civilian and military goods (armament).

(A) ![Production Possibility Frontier A](image)

(B) ![Production Possibility Frontier B](image)

(C) ![Production Possibility Frontier C](image)

Answer the following:

d) (15 points) Which of the PPP’s above show that the opportunity cost of military goods is greater than zero? Explain briefly;
e) (15 points) Which of the PPP’s above show that the opportunity cost of military goods is increasing and which one shows that such cost is decreasing? Explain briefly.
f) (20 points) What is the meaning of “increasing opportunity cost” in this context? Explain briefly.

2. The following PPP’s show the autarky (pre-trade) situation of two castaways, Tom and Hank, who are consuming fish and coconuts (both measured in pounds).

Tom’s PPP ![Production Possibility Frontier D](image)

Hank’s PPF ![Production Possibility Frontier E](image)

d) (10) What is Tom’s opportunity cost of a fish? What is Hank’s opportunity cost of a fish?
e) (10 points) Who has a comparative advantage in the production of coconuts?
f) (30 points) Suppose that in the pre-trade situation Tom consumed 8 pounds of fish and 16 pounds of coconuts, while Hank consumed 6 pounds of fish and 6 pounds of coconuts. To illustrate the gains from trade, assume that after trade is introduced, Hank keeps his consumption the same as in the pre-trade situation. How much of fish and of coconuts can Tom consume after trade?