

3

Interdependence and the Gains from Trade

Table 1 The Production Opportunities of the Farmer and Rancher

	Minutes Needed to Make 1 Ounce of:		Amount of Meat or Potatoes Produced in 8 Hours	
	Meat	Potatoes	Meat	Potatoes
Farmer	60 min/oz	15 min/oz	8 oz	32 oz
Rancher	20 min/oz	10 min/oz	24 oz	48 oz

Figure 1a The Production Possibilities Frontier

(a) The Farmer's Production Possibilities Frontier

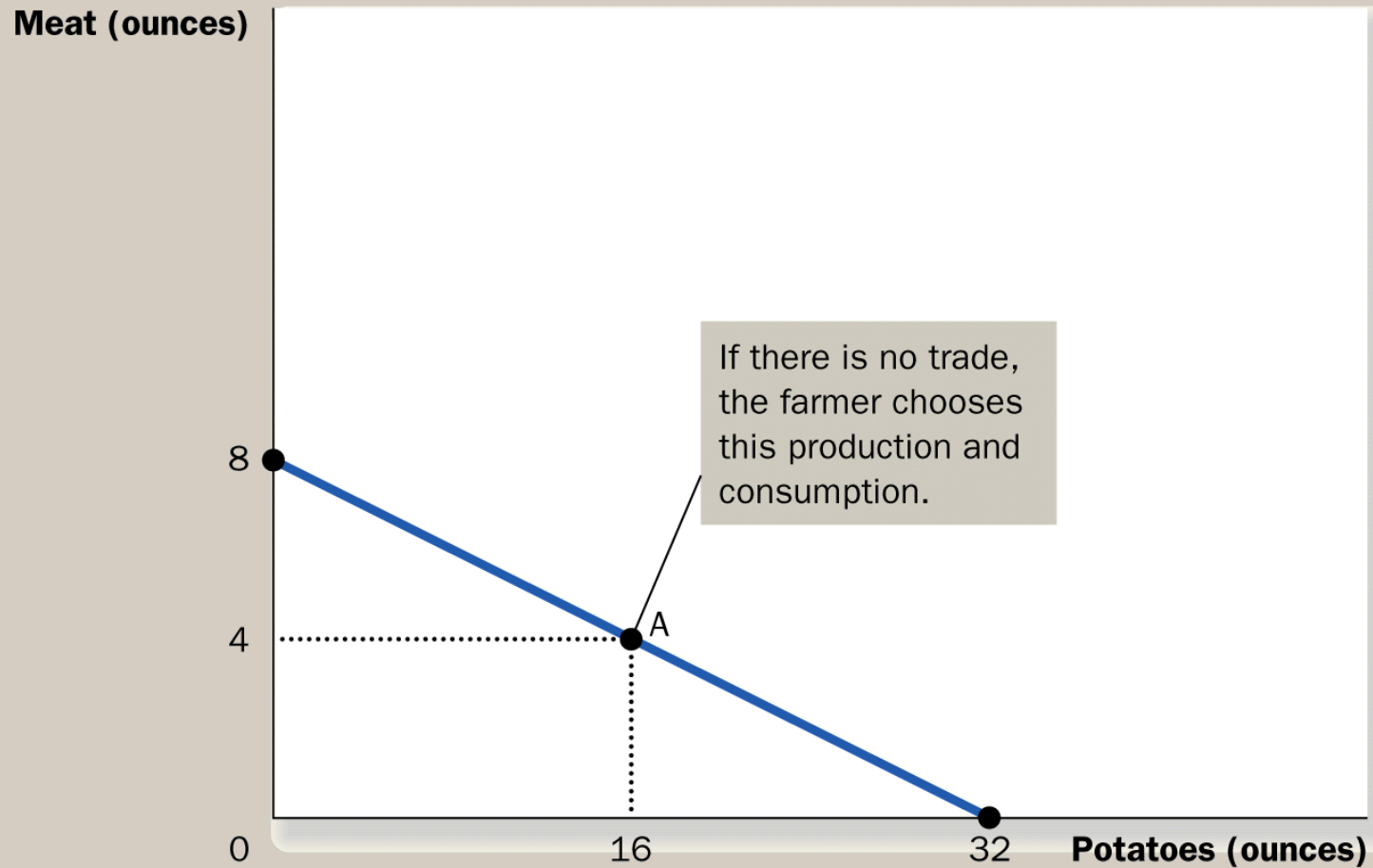


Figure 1b The Production Possibilities Frontier

(b) The Rancher's Production Possibilities Frontier

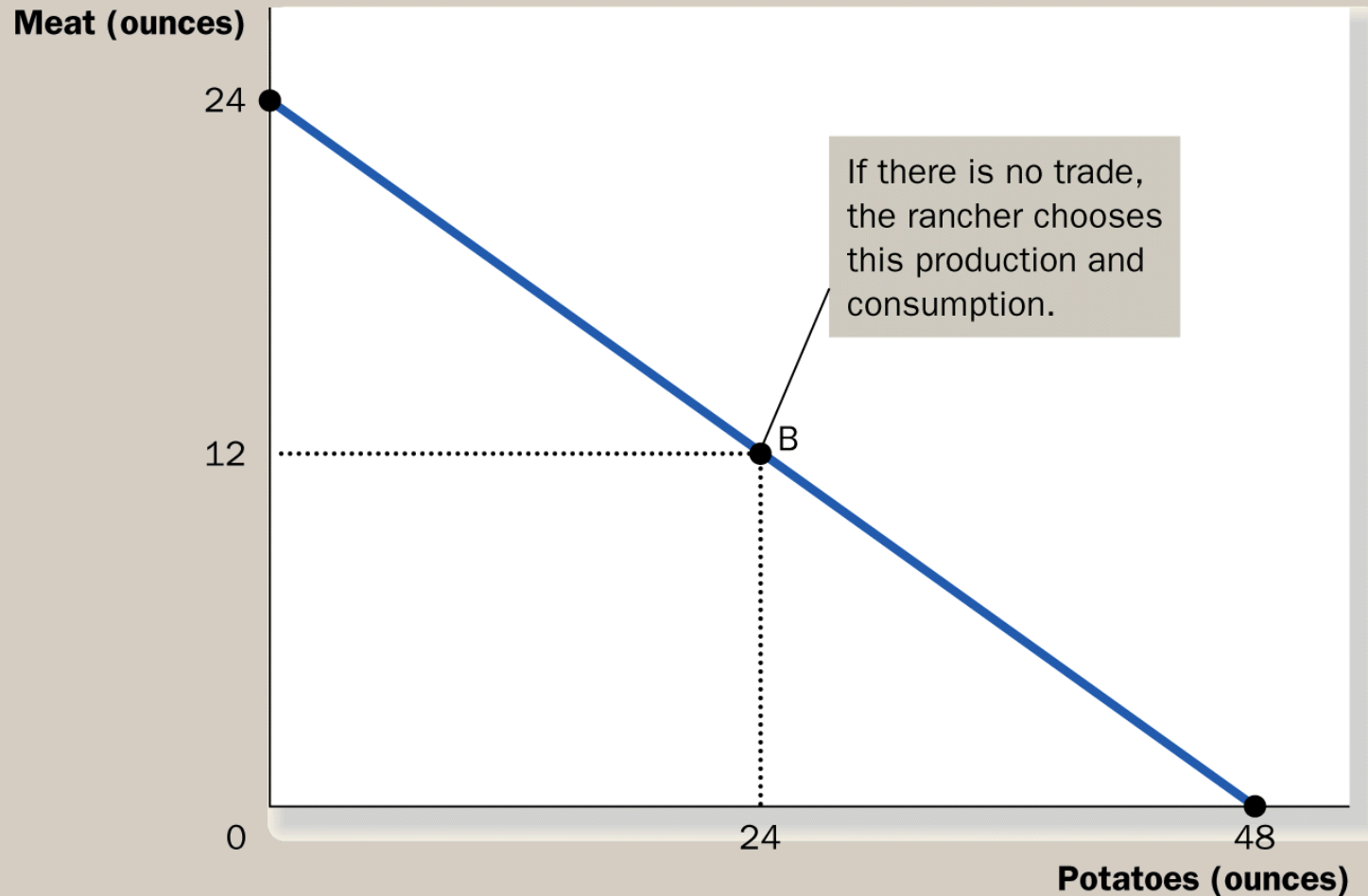


Figure 2a How Trade Expands the Set of Consumption Opportunities

(a) The Farmer's Production and Consumption

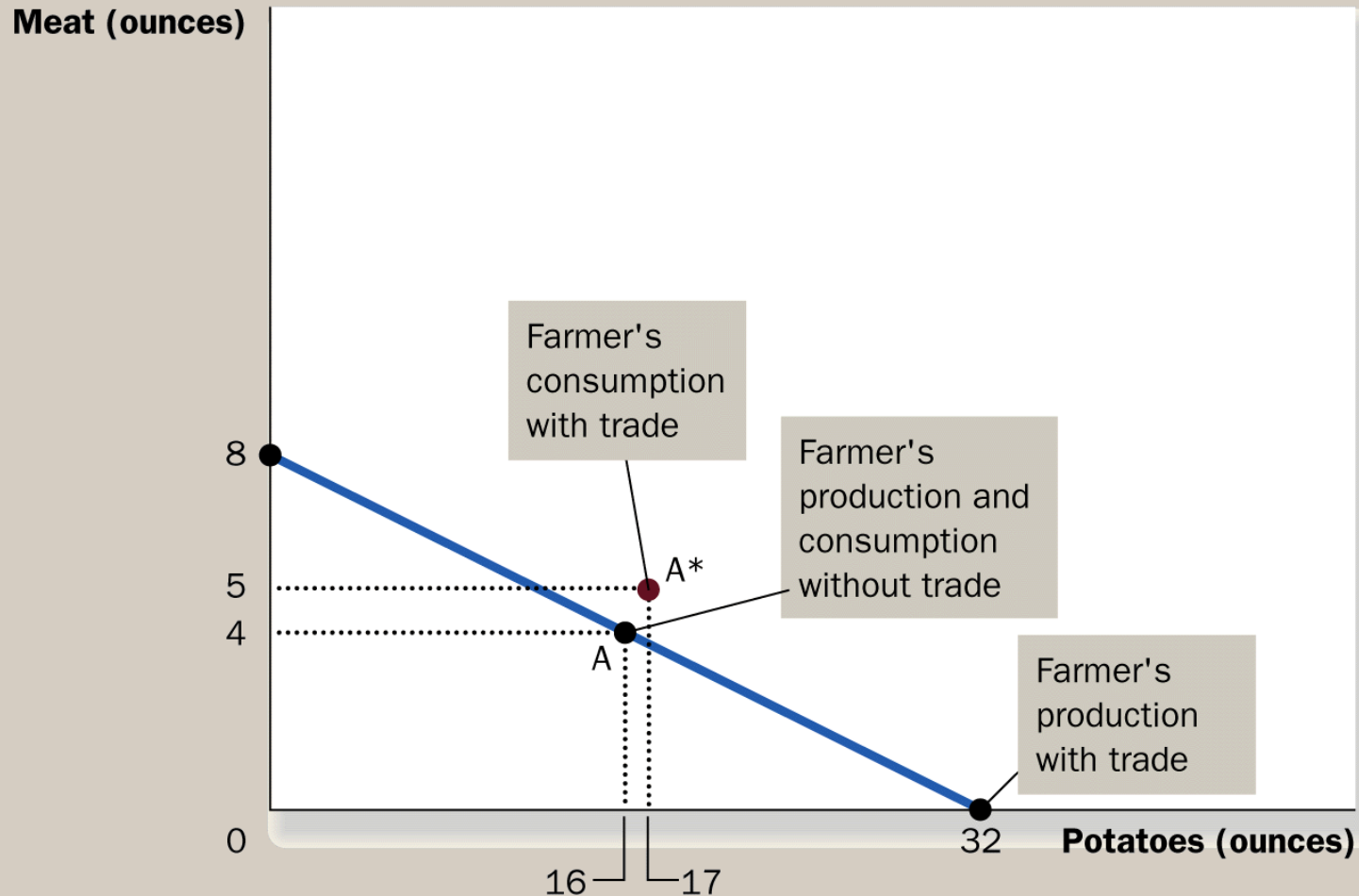


Figure 2b How Trade Expands the Set of Consumption Opportunities

(b) The Rancher's Production and Consumption

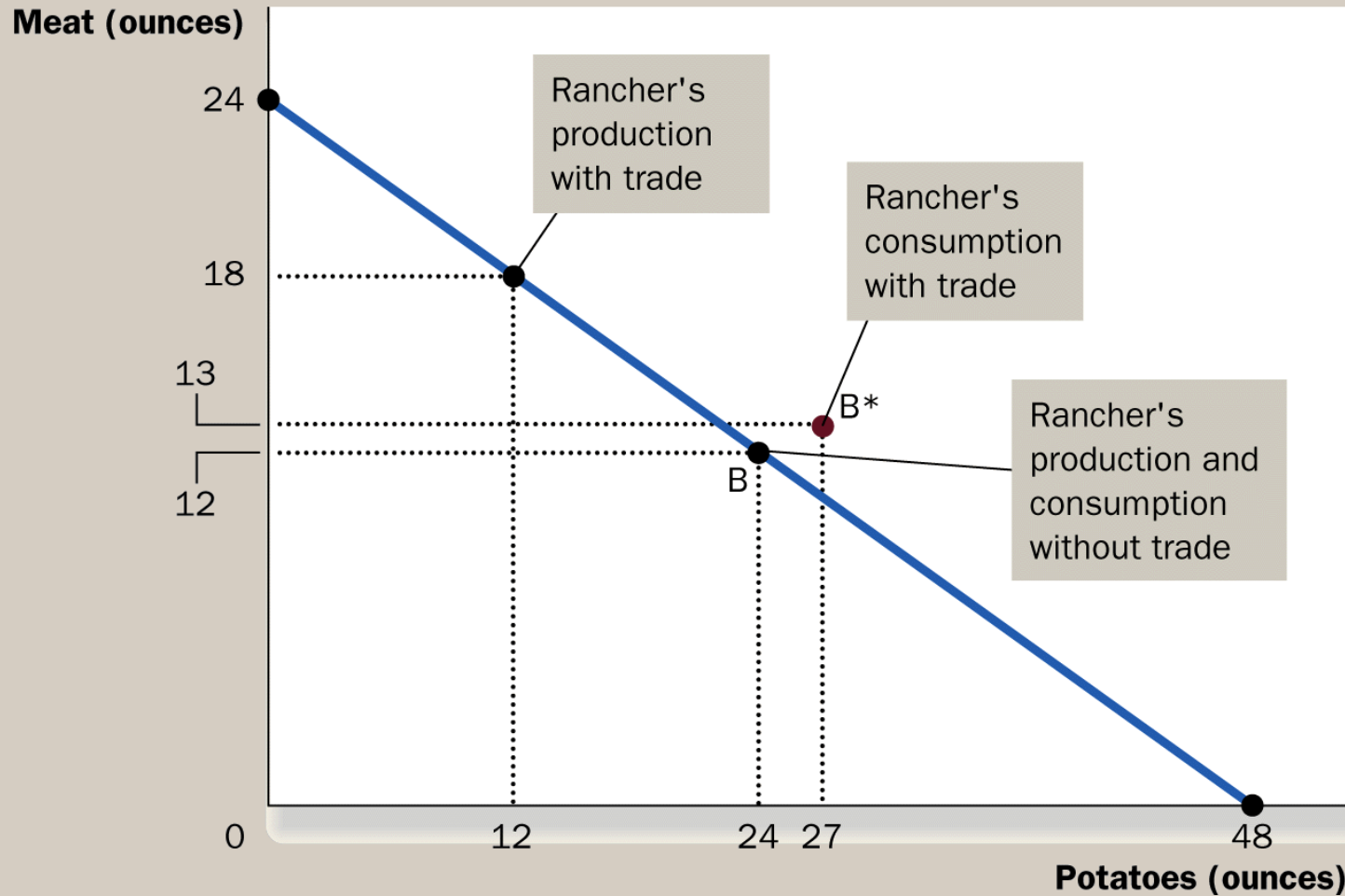


Table 2 The Gains from Trade: A Summary

	Farmer		Rancher	
	Meat	Potatoes	Meat	Potatoes
Without Trade:				
Production and Consumption	4 oz	16 oz	12 oz	24 oz
With Trade:				
Production	0 oz	32 oz	18 oz	12 oz
Trade	Gets 5 oz	Gives 15 oz	Gives 5 oz	Gets 15 oz
Consumption	5 oz	17 oz	13 oz	27 oz
Gains from Trade:				
Increase in Consumption	+1 oz	+1 oz	+1 oz	+3 oz

Table 3 The Opportunity Cost of Meat and Potatoes

	Opportunity Cost of:	
	1 Ounce of Meat	1 Ounce of Potatoes
Farmer	4 oz potatoes	$\frac{1}{4}$ oz meat
Rancher	2 oz potatoes	$\frac{1}{2}$ oz meat