KEY GRAPH

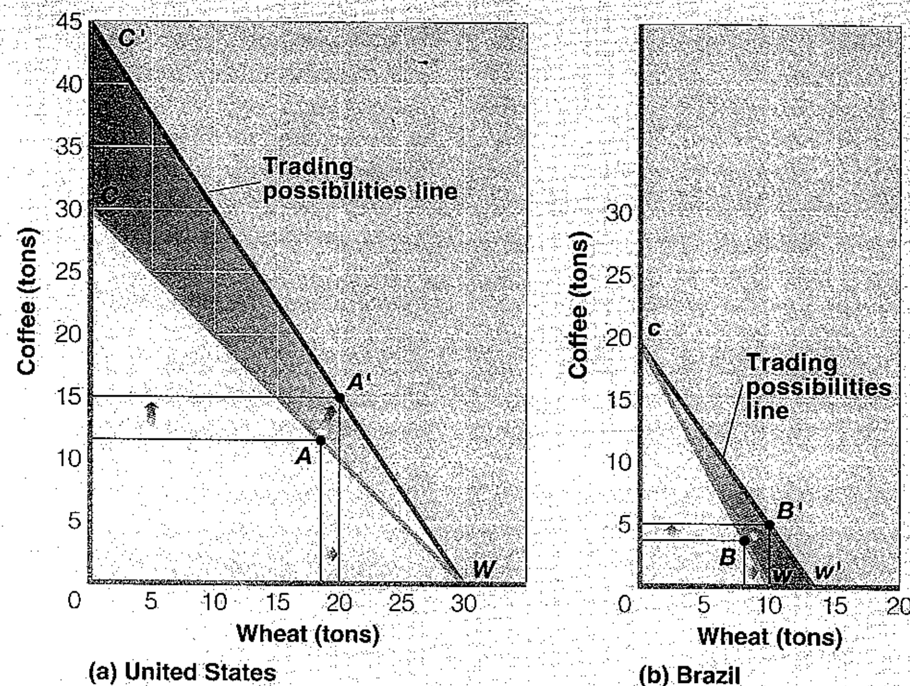

FIGURE 37-2 Trading possibility lines and the gains from trade As a result of specialization and trade, the United States and Brazil both can have higher levels of output than those attainable on their domestic production possibilities curves. (a) The United States can move from point *A* on its domestic production possibilities curve to, say, *A′* on its trading possibilities line. (b) Brazil can move from *B* to *B′*.

QUICK QUIZ 37-2

1. The production possiblities curves in graphs (a) and (b) imply:
- **a.** increasing domestic opportunity costs.
- **b.** decreasing domestic opportunity costs.
- **c.** constant domestic opportunity costs.
- **d.** first decreasing, then increasing, domestic opportunity costs.

2. Before specialization, the domestic opportunity cost of producing 1 unit of wheat is:
- **a.** 1 unit of coffee in both the United States and Brazil.
- **b.** 1 unit of coffee in the United States and 2 units of coffee in Brazil.
- **c.** 2 units of coffee in the United States and 1 unit of coffee in Brazil.
- **d.** 1 unit of coffee in the United States and 1/2 unit of coffee in Brazil.

3. After specialization and trade, the world output of wheat and coffee is:
- **a.** 20 tons of wheat and 20 tons of coffee.
- **b.** 45 tons of wheat and 15 tons of coffee.
- **c.** 30 tons of wheat and 20 tons of coffee.
- **d.** 10 tons of wheat and 30 tons of coffee.

4. After specialization and international trade:
- **a.** the United States can obtain units of coffee at less cost than before trade.
- **b.** Brazil can obtain more than 20 tons of coffee, if it so chooses.
- **c.** the United States no longer has a comparative advantage in producing wheat.
- **d.** Brazil can benefit by prohibiting coffee imports from the United States.

Answers: 1. c; 2. b; 3. c; 4. a