

Production Possibilities Curve

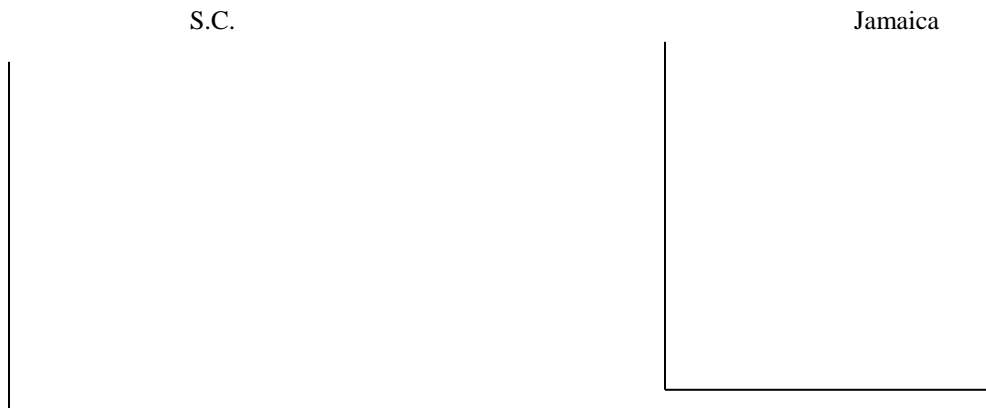
In the early 1700s, rice and sugar could be produced in the British colonies of Jamaica and South Carolina. The climate and land were relatively better for producing sugar in the Caribbean and for producing rice in South Carolina.

- a. **Draw (2 points)** one production possibilities model for South Carolina and one for Jamaica, assuming rice and sugar are the only possible types of production in both colonies. **Explain (1 point) the shapes of your PPCs.**

- b. Due to piracy, trade from North America to the Caribbean (including Jamaica) in 1700 was difficult. Pirates of the Caribbean would board the ships and steal the cargo. Sometimes they would sing songs: “Yo ho! Yo ho! The pirate’s life for me!” But between 1720 and 1740, the British Royal Navy successfully eliminated piracy in the Caribbean and along the Atlantic Coast (and the pirates learned songs like “Chain Gang”).
 - i. Explain below (2points): What impact did defeating the Pirates of the Caribbean have **on trade** and on the **use of land and labor resources in South Carolina**? Why?

 - ii. Draw (1point): Use the Production Possibilities model that and the concept of opportunity cost to help explain the changes.

Show/Draw (you can show answers for both a. and b.ii. below).

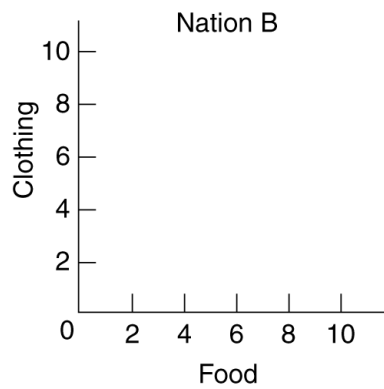
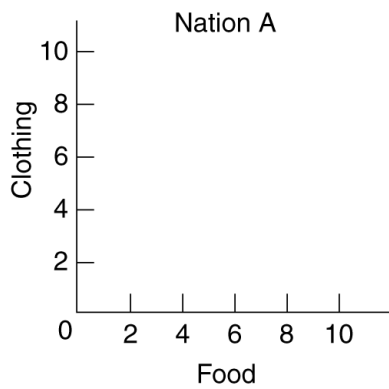


- a. Explain the difference in the two Production Possibilities Models that you drew above

- b. Explain – in the space below explain the impact of the British **defeating the pirates** i) on trade & ii) on the use of land, labor and capital resources **in SC**.

Use the extreme points from a production possibilities schedule below to draw two straight line production possibilities curves (constant opportunity cost) for two nations, A and B, using the below graphs. Remember: Assume constant costs.

| <u>Nation</u> | <u>Food</u> | <u>Clothing</u> |
|---------------|-------------|-----------------|
| A | 4 | 0 |
| | 0 | 4 |
| B | 2 | 0 |
| | 0 | 8 |



- What are the opportunity costs for Food in each country?
- Which nation can produce Food for a lower opportunity cost?
- Could these two nations specialize in different products and benefit by trading with each other (one word answer)?
- If the two nations specialized in different products and traded, and the trade terms are set at 1 food = 2 clothing, explain how both countries would benefit.