

## VISUAL 6.1

### GREAT BRITAIN'S AMERICAN COLONIES

<b>GREAT BRITAIN'S COLONIES</b>			
<b>All colonies are rich in natural resources but short on labor.</b>			
		<b>PRODUCTIVE RESOURCES AND CLIMATE</b>	<b>OUTPUT SPECIALIZATIONS</b>
<b>NEW ENGLAND COLONIES</b>	Massachusetts	Cold and long winters, mild and short summers, little land suitable for agriculture; mountains thick with trees, water and waterways; capital; human resources	Lumber, shipbuilding, shipping, ship masts, barrel production, fish, some livestock, furs, maple syrup, trade
	New Hampshire		
	Connecticut		
	Rhode Island		
<b>MIDDLE COLONIES</b>	New York	Fertile land, relatively mild winters, moderate summers, fertile soil; capital; human resources	Wheat, copper, livestock, animal products, foodstuffs, beer, rum, trade
	New Jersey		
	Delaware		
	Pennsylvania		
<b>SOUTHERN COLONIES</b>	Virginia	Fertile soils, hot and humid summers, long growing seasons, plantations; long and deep rivers; more rural and less urban than the other colonial regions; capital; human resources	Tobacco, indigo, rice, wheat, silk, iron
	Maryland		
	North Carolina		
	South Carolina		
	Georgia		

VISUAL 6.2

**FIVE-STEP DECISION MODEL OF PRODUCTION**

1. State the Colonial Producers' Problem
2. List Production Alternatives
3. List the Criteria
4. Evaluate
5. Decide

## VISUAL 6.3

**OPPORTUNITY COST OF PRODUCTION**

- Opportunity costs of production arise because the decision to produce one thing is also a choice NOT to produce something else. For example, a builder who buys 100 board feet of lumber might use that lumber to produce barrels. In making that choice, he also chooses NOT to use the lumber to produce row boats, window frames, and so on.
- The opportunity cost of production is the value of the good NOT produced.

VISUAL 6.4

**FIVE-STEP DECISION MODEL OF PRODUCTION FOR NEW ENGLAND**

1. State the New England producers’ problem:
  - Produce maximum amount of lumber or fish at minimal cost.
2. List production alternatives:

LIST THE ALTERNATIVES AND DETERMINE BENEFITS AND COSTS FOR THE NEW ENGLAND COLONIES			
Production Alternatives	Maximize benefits	Minimize resource costs	Minimize opportunity costs
Alternative 1: Fish	Pounds of fish* (Maximum)	Costs of natural resources, capital and human resources needed to fish	Tons of wheat sacrificed* (Minimal)
Alternative 2: Wheat	Pounds of wheat	Costs of natural resources, capital and human resources needed to farm	Pounds of fish sacrificed

3. List the criteria:
  - New England producers want to produce the most output at the lowest opportunity cost.
4. Evaluate:
  - Assuming all resources are used to produce either fish or wheat, New England should produce fish. Waterways are everywhere, and fish are in plentiful supply. By contrast, growing seasons are short and the land is not suitable for growing large amounts of wheat. Consequently, the opportunity cost of producing fish is minimal.
5. Decide:
  - The producers in the New England colonies should specialize in the production of fish because they hold a comparative advantage in fish production.

## VISUAL 6.5, ANSWER KEY FOR ACTIVITY 6.1

**FIVE-STEP DECISION MODEL OF PRODUCTION FOR THE MIDDLE COLONIES**

1. State the colonial producers' problem:

*(Produce maximum amount of goods and services at minimal cost.)*

2. List production alternatives.

LIST THE ALTERNATIVES AND DETERMINE BENEFITS AND COSTS FOR THE MIDDLE COLONIES			
Production Alternatives	Maximize benefits	Minimize resource costs	Minimize opportunity costs
<i>Alternative 1: Fish</i>	<i>Pounds of fish</i>	<i>Costs of natural resources, capital and human resources needed to fish</i>	<i>Tons of wheat</i>
<i>Alternative 2: Wheat</i>	<i>Pounds of wheat* (Maximum)</i>	<i>Costs of natural resources, capital and human resources needed to farm</i>	<i>Pounds of fish* (Minimal)</i>

3. List the criteria:

*(Middle colonial producers want to produce the most output with the least resources and at the lowest opportunity cost.)*

4. Evaluate:

*(Assuming there was a limited amount of resources, all of which were used to produce fish or wheat in the Middle Colonies, the Middle Colonies can produce more wheat at a lower resource and opportunity cost [as compared to costs for fish].)*

5. Decide:

*(The producers in the Middle Colonies should produce wheat and trade it for fish. Now, a trading partner needs to be found.)*

6. How did trade between the New England and Middle Colonies benefit both regions when they operated on the basis of comparative advantage?

*(Output and employment in each region increased; consumers gained access to more fish and wheat; both regions benefited from economic growth.)*

## VISUAL 6.6

# DEFINITIONS OF KEY ECONOMIC TERMS

### COMPARATIVE ADVANTAGE

The ability of one producer to produce a good or service at a lower opportunity cost than another producer. Differences in opportunity cost determine differences in comparative advantage. Operation on the basis of comparative advantage is the economic basis for specialization and trade.

### SPECIALIZATION

A situation in which people produce a narrower range of goods and services than they consume. Specialization increases output and worker productivity and improves the quality of products; it also requires trade and increases interdependence.

### TRADE

Voluntary exchange of goods and services for money or other goods and services. Wealth accumulates through voluntary trade.

## VISUAL 6.7

## ANSWER KEY FOR ACTIVITY 6.2

1. **Consider the problem in each region.** Each region has limited productive resources. People in each region want to produce the maximum amount of output, given scarce resources. The production possibilities table below displays what each region can produce if it only produces fish or wheat.

Natural resources, capital and human resources	Produce only fish (pounds)	Produce only wheat (bushels)
New England	500 Fish, 0 Wheat	0 Fish, 100 Wheat
Middle Colonies	600 Fish, 0 Wheat	0 Fish, 1200 Wheat

2. **Consider the alternatives.**

a. New England:

- i. How much fish can New England produce if it only produces fish? (*500 pounds of fish.*)
- ii. At what cost does New England produce 500 pounds of fish when all resources are allocated toward fish production? (*The cost is the 100 bushels of wheat not produced.*)
- iii. What is the cost of producing 1 pound of fish? (*1/5 of a bushel of wheat*)
- iv. What is the cost of producing 1 bushel of wheat? (*5 pounds of fish*)
- v. Which product involves the lowest opportunity cost when all else is held constant? (*In New England, it costs less to produce fish than wheat*)

b. Middle Colonies:

- i. How much fish can the Middle Colonial Region produce if it only produces fish? (*600 pounds of fish*)
- ii. At what cost does the Middle Colonial Region produce 600 fish? (*The cost is the 1,200 bushels of wheat not produced.*)
- iii. What is the cost of producing 1 pound of fish? (*2 bushels of wheat*)
- iv. What is the cost of producing 1 bushel of wheat? (*1/2 pound of fish*)
- v. Which product requires the lowest opportunity cost when all else is held constant? (*In the Middle Colonies, it costs less to produce wheat than fish.*)

c. Which region has a comparative advantage in producing fish and wheat? Explain. (*New England has a comparative advantage in producing fish because it does so at the lowest opportunity cost; the Middle Colonial Region has a comparative advantage in producing wheat, for the same reason.*)

d. Should these regions trade? Explain why. (*Yes, they should trade. Total production, employment and consumption will increase if each region specializes in the production of the good in which it possesses a comparative advantage, exports it to the other region and imports the good in which it does not have a comparative advantage.*)

VISUAL 6.7, CONTINUED

**ANSWER KEY FOR ACTIVITY 6.2**

- e. Are there any disadvantages to operating on the basis of comparative advantage?  
*(Sometimes there are disadvantages. With specialization and trade based on comparative advantage, people, regions and nations become more dependent on other economies; they may be affected adversely if those other economies falter.)*