

CFA® SAMPLE QUESTION – LEVEL I

Economics

Q: A worker in Country A can produce 50 boxes or 200 bags per day, while a worker in country B can produce 60 boxes or 210 bags per day. Country A has a(n):

CORRECT ANSWER:

(b) Comparative advantage in bags.

Country A can produce four bags per one box (i.e. $200/50 = 4$), while country B can produce three and half bags per box. (i.e. $210/60 = 3.5$)

Country A has comparative advantage because the opportunity cost is lower; i.e., it loses 0.25 boxes by producing a bag, while country B gives up 0.28 ($1 / 3.5$) boxes.

Choice "a" is incorrect. Country A does not have an absolute advantage in bags because country B is capable of producing more bags per worker per day.

Choice "c" is incorrect. Country A's comparative is in bags because it can produce 4 bags (200 bags divided by 50 boxes) for each box, while country B can only produce 3.5 bags per box (210 bags divided by 60 boxes).



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