# 6 International trade – Part 1

Name: _____ Class: _____ Date: _____

## Vocabulary

*Write each word three times.*

| **English** | **Write it 3 times** (English) | | |
|---|---|---|---|
| International trade | | | |
| specialise | | | |
| absolute advantage | | | |
| comparative advantage | | | |
| lower opportunity cost | | | |
| Protectionism | | | |
| tariff | | | |
| quota | | | |
| subsidy | | | |
| infant industry | | | |
| dumping | | | |
| retaliation | | | |

## Recall

Countries buy and sell with each other every day. Bring this with you:

- The goods around you are made in many different countries.

- A country cannot make everything itself.

At AS we study **why** countries trade, and how some try to **block** trade.

## New ideas

### 1 Why countries trade

**International trade** lets each country **specialise** in what it makes best, then trade for the rest – so the world makes **more** in total.

- a country has an **absolute advantage** in a good if it can make **more** of it with the same resources;
- a country has a **comparative advantage** in a good if it can make it at a **lower opportunity cost** than another country.

A country should make the goods it gives up **least** to produce, and trade for the rest.

**absolute advantage**
make **more** of a good
with the same resources

**comparative advantage**
make a good at a **lower**
opportunity cost

**Micro-check.** What does it mean for a country to **specialise**? [1]

### 2 Protectionism

**Protectionism** means a government protecting home producers from foreign competition. The main tools:

- a **tariff** – a tax on imports, which raises their price;
- a **quota** – a legal limit on the quantity of a good that may be imported;
- a **subsidy** to home producers, so they can sell more cheaply.

**tariff**
a tax on imports
(raises their price)

**quota**
a limit on the
quantity imported

**subsidy**
help home firms
sell more cheaply

**Micro-check.** What is a **tariff**? [1]

### 3 For and against protection

- **for** protection: protect an **infant industry** (a young industry that needs time to grow), save jobs, and stop **dumping** (foreign firms selling below cost);
- **against**: it raises prices for consumers, lets weak firms stay inefficient, and can lead to **retaliation** (other countries hitting back).

**Micro-check.** Give **one** argument **against** protection. [1]

**Watch out:** absolute advantage = make *more* with the same resources; comparative advantage = make at a *lower opportunity cost* – comparative advantage is what drives the gains from trade. A tariff is a *tax* on imports; a quota is a *limit* on imports.

## Practice

**6.1** Explain **one** reason countries trade with each other. [2]

**6.2** State the difference between **absolute** and **comparative** advantage. [2]

**6.3** Name **two** tools of protectionism. [2]

**6.4** Give **one** argument **for** and **one** argument **against** protection. [2]

**6.5** A government puts a tax on imported cars. Name this tool of protection. [1]

**6.6 Challenge.** A government puts a tariff on imported steel to protect home steelmakers. Explain one benefit and one cost of this for the country. [2]