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]