

6.1 The reasons for international trade

Name: _____ Class: _____ Date: _____

Total: 23 marks

KEY WORDS comparative advantage 比较优势 • terms of trade 贸易条件

- international trade 国际贸易 • absolute and comparative advantage 绝对优势与比较优势
- opportunity cost 机会成本

Objective

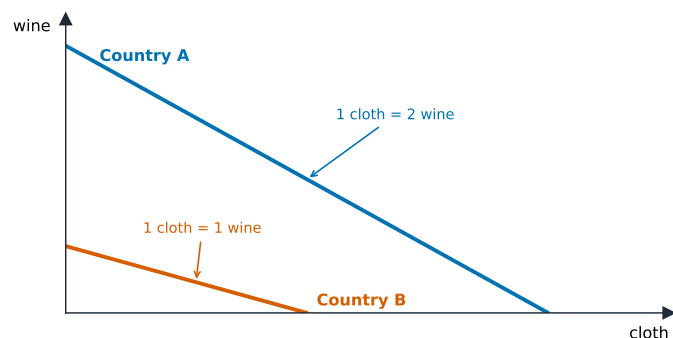
Build the skills to answer exam questions on **the reasons for international trade** 国际贸易的原因 — **absolute and comparative advantage** 绝对优势与比较优势, the **terms of trade** 贸易条件, and the limits of the theory.

You must be able to:

- define absolute and comparative advantage
- work out comparative advantage from opportunity-cost data
- analyse the gains from trade and the theory's limits

1 Worked examples

■ Comparative advantage

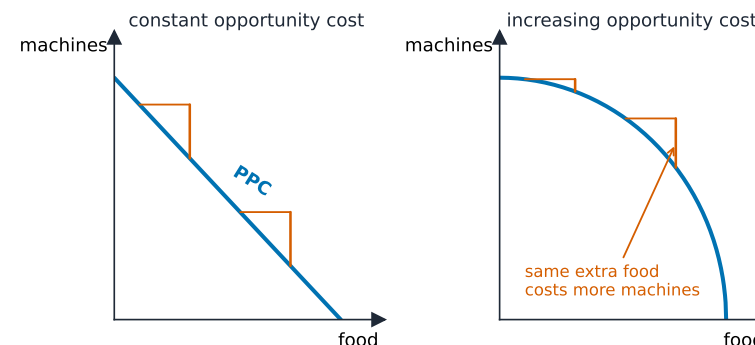


comparative advantage = lower opportunity cost

*A country should make the good it gives up **least** to produce*

With the same resources: A makes 20 wine **or** 10 cloth; B makes 5 wine **or** 5 cloth.

- In A, 1 cloth costs 2 wine; in B, 1 cloth costs 1 wine → **B has the comparative advantage in cloth.**
- A specialises in wine, B in cloth, they trade → **both** can consume more.



opportunity cost = goods forgone • bowed-out PPC ⇒ increasing opportunity cost

Gains from trade: specialisation lets each country consume beyond its own PPC

- **Terms of trade** 贸易条件: the price of exports relative to imports.

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

2 Practice

2.1 Define the term *comparative advantage*. [2]

2.2 A country can make 30 units of food **or** 10 units of cloth. State the opportunity cost of 1 unit of cloth. [1]

2.3 State one limitation of the theory of comparative advantage. [1]

3 Exam-style questions

3.1 A country has a **comparative** advantage in a good if it can produce it at a: [1]

- A higher money price than other countries
- B lower opportunity cost than other countries
- C larger total quantity than other countries
- D higher quality than other countries

3.2 Explain how specialisation according to comparative advantage can raise total world output. [6]

3.3 Discuss whether a country should always specialise in the goods in which it has a comparative advantage. [12]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 the ability to produce a good at a lower opportunity cost than another country (2 for a clear definition; 1 for a partial idea).

2.2 1 unit of cloth costs 3 units of food ($30 \div 10 = 3$) (1).

2.3 any one of: ignores transport costs; ignores trade barriers; assumes constant costs; specialising is risky if the price falls (1).

3.1 B. Comparative advantage means a lower opportunity cost.

3.2 [6] AO1 1 + AO3 up to 5 — if each country makes the good it gives up least to produce and trades for the rest, resources are used where they are most productive → total output of both goods rises → trade lets both countries consume beyond their own PPC.

3.3 [12] AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** specialisation raises efficiency, output and living standards. **Against:** over-reliance on one good is risky if its world price falls; it can cause structural unemployment and the loss of strategic industries; the theory ignores transport costs and barriers. Judgement: specialising on comparative advantage usually raises welfare, but some diversification reduces risk — it depends on the good's price stability and the country's flexibility.