

Exercise walk-through

7.7

Changes as a Result of the World Economy

AP Human Geography

Comparative advantage: the sacrificed alternative

Comparative advantage means a lower opportunity cost: giving up less of another good when producing a unit.

Absolute advantage means more output from the same resources. A producer can have absolute advantage in both goods while a partner has comparative advantage in one.

Complementarity links supply in one place to demand in another; infrastructure, policies and costs also affect trade.

Opportunity cost: original production task

One day's maximum output	Economy A	Economy B
Grain units, or	10	6
Cloth units	5	4

Assume constant trade-offs. Which economy has absolute advantage? Calculate cloth forgone per grain and grain forgone per cloth. Identify comparative advantage in each good.

Opportunity cost of grain: worked check

$$OC_{\text{grain}} = \frac{\text{maximum cloth}}{\text{maximum grain}}$$

$$OC_{A,\text{grain}} = \frac{5 \text{ cloth units}}{10 \text{ grain units}} = 0.5 \text{ cloth/grain}$$

$$OC_{B,\text{grain}} = \frac{4 \text{ cloth units}}{6 \text{ grain units}} \approx 0.67 \text{ cloth/grain}$$

A sacrifices less cloth per grain: comparative advantage in grain. A also has absolute advantage in both outputs, but this does not decide comparative advantage in cloth.

Opportunity cost of cloth: worked check

$$OC_{\text{cloth}} = \frac{\text{maximum grain}}{\text{maximum cloth}}$$

$$OC_{A,\text{cloth}} = \frac{10 \text{ grain units}}{5 \text{ cloth units}} = 2 \text{ grain/cloth}$$

$$OC_{B,\text{cloth}} = \frac{6 \text{ grain units}}{4 \text{ cloth units}} = 1.5 \text{ grain/cloth}$$

B sacrifices less grain per cloth: comparative advantage in cloth. A trade rate between 1.5 and 2 grain per cloth can offer gains before transport and adjustment costs; gains need not reach everyone equally.

Comparative advantage: actual exam connection

2025 Set 2 Q2(C) asks for a definition of comparative advantage. A lower opportunity cost is a precise explanation of the relative advantage.

Use the original production task to distinguish this from simply having greater output.

The official scheme accepts multiple formulations; do not invent a compulsory example, calculation or universal two-part response for every definition.

Exercises 2.1-2.2

2.1 State the difference between outsourcing and offshoring.

[2]

2.2 Explain what a special economic zone is designed to do.

[2]

Exercises 2.1-2.2

2.1 State the difference between outsourcing and offshoring. [2]

2.1

- outsourcing = hiring another firm to do work; offshoring = moving that work to another country
-

2.2 Explain what a special economic zone is designed to do. [2]

2.2

- offer tax breaks/looser rules in a defined area to attract foreign investment and industry

Exercise 2.3 (a)

2.3 Factories in an old industrial city close as production moves abroad.

(a) Name this process.

[1]

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(a)

- deindustrialization

Exercise 2.3 (b)

2.3 Factories in an old industrial city close as production moves abroad.

(b) State one consequence for the city.

[1]

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[1]

(b)

- job losses, decline, unemployment, or need to restructure

Exercises 3.1-3.2

3.1 Moving a company's call centre to another country to cut costs is

[1]

☐

A deindustrialization

B offshoring

C a tariff

D a greenbelt

3.2 A software company that can locate almost anywhere is a

[1]

☐

A footloose industry

B primary industry

C break-of-bulk point

D primate city

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3.1 Moving a company's call centre to another country to cut costs is

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- ☐ A deindustrialization
☐ B offshoring
☐ C a tariff
☐ D a greenbelt

3.1 B

- relocating work abroad = offshoring

3.2 A software company that can locate almost anywhere is a

[1]

- ☐ A footloose industry
☐ B primary industry
☐ C break-of-bulk point
☐ D primate city

3.2 A

- not tied to inputs/markets = footloose industry

Exercise 3.3 (a)

3.3 A developing country opens a special economic zone near a port.

(a) State one incentive it offers foreign firms.

[1]

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(a)

- tax breaks, cheap land, or relaxed regulations

Exercise 3.3 (b)

3.3 A developing country opens a special economic zone near a port.

(b) Explain one benefit the country hopes to gain.

[1]

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[1]

(b)

- foreign investment, jobs, technology, and exports