

Exercise walk-through

Comparative Advantage and Gains from Trade ■ 1.4

eXercise

You must be able to

- calculate **opportunity costs** 机会成本 from output data
- distinguish **absolute advantage** 绝对优势 from **comparative advantage** 比较优势
- identify a mutually beneficial **terms of trade** 贸易条件
- explain how specialization and trade let both parties consume **beyond** their own PPC

Method — Opportunity cost and advantage

Absolute advantage = producing more; **comparative** advantage = producing at a **lower opportunity cost**. Specialize by comparative advantage.

Method — Terms of trade

A mutually beneficial exchange rate lies **between** the two parties' opportunity costs.

Method — Consuming beyond the PPC

By specializing and trading, each party can end up with more of both goods than it could produce alone.

Practice 2.1 ■ 2 marks

State the difference between absolute and comparative advantage.

Solution 2.1

Method: Opportunity cost and advantage

Worked steps

absolute advantage is producing more with the same resources; comparative advantage is producing at a lower opportunity cost **B1** **B1**.

Practice 2.2 ■ 1 mark

State how specialization and trade let a country consume beyond its own PPC.

Solution 2.2

Worked steps

each specializes where its opportunity cost is lowest, then trades, so both get more than they could produce alone **B1**.

Practice 2.3 ■ 2 marks

Country A can make 12 wheat **or** 6 cloth. Find A's opportunity cost of 1 cloth.

Solution 2.3

Method: Opportunity cost and advantage

Worked steps

1 cloth costs $\frac{12}{6} = 2$ wheat **M1** **A1**.

Exam-style 3.1 ■ 1 mark

A mutually beneficial terms of trade lies

- A** above both parties' opportunity costs
- B** between the two parties' opportunity costs
- C** below both parties' opportunity costs
- D** at exactly zero

Solution 3.1

Method: Terms of trade

- A above both parties' opportunity costs
- B between the two parties' opportunity costs** 
- C below both parties' opportunity costs
- D at exactly zero

Worked steps

B.

Exam-style 3.2 ■ 1 mark

Specialization should be based on

- A** absolute advantage
- B** comparative advantage
- C** population size
- D** tariffs

Solution 3.2

- A absolute advantage
- B comparative advantage**
- C population size
- D tariffs



Worked steps

B.

Exam-style 3.3 ■ 1 mark

In a day, Maya makes 6 tables **or** 12 chairs; Leo makes 2 tables **or** 8 chairs.

- (a) Find Maya's opportunity cost of 1 table.
- (b) Find Leo's opportunity cost of 1 table.
- (c) State who should specialize in tables.

Solution 3.3

Method: Opportunity cost and advantage

Worked steps

(a) 2 chairs **B1**. (b) 4 chairs **B1**. (c) Maya — her opportunity cost (2 chairs) is lower **B1**.