

1.4 Comparative Advantage and Gains from Trade

Name: _____ Class: _____ Date: _____ **Total: 10 marks**

KEY WORDS comparative advantage 比较优势 • opportunity costs 机会成本
• terms of trade 贸易条件 • absolute advantage 绝对优势 • specializing 专业化

Objective

Build the skills to answer exam questions on **comparative advantage and gains from trade**.

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

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Opportunity cost and advantage

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

■ Terms of trade

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

■ Consuming beyond the PPC

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

2 Practice

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

2.2 State how specialization and trade let a country consume beyond its own PPC. [1]

2.3 Country A can make 12 wheat **or** 6 cloth. Find A's opportunity cost of 1 cloth. [2]

3 Exam-style questions

3.1 A mutually beneficial terms of trade lies [1]

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

3.2 Specialization should be based on [1]

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

3.3 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. [1]
(b) Find Leo's opportunity cost of 1 table. [1]
(c) State who should specialize in tables. [1]

Solutions

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

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

2.3 1 cloth costs $\frac{12}{6} = 2$ wheat.

3.1 B.

3.2 B.

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