Exercise walk-through

The reasons for international trade ▪ 6.1

eXercise

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

Method — Comparative advantage

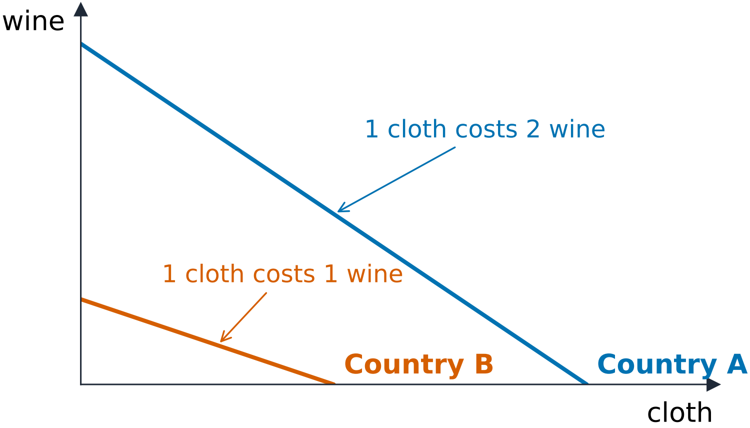
*A country should make the good it gives up **least** to produce*

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

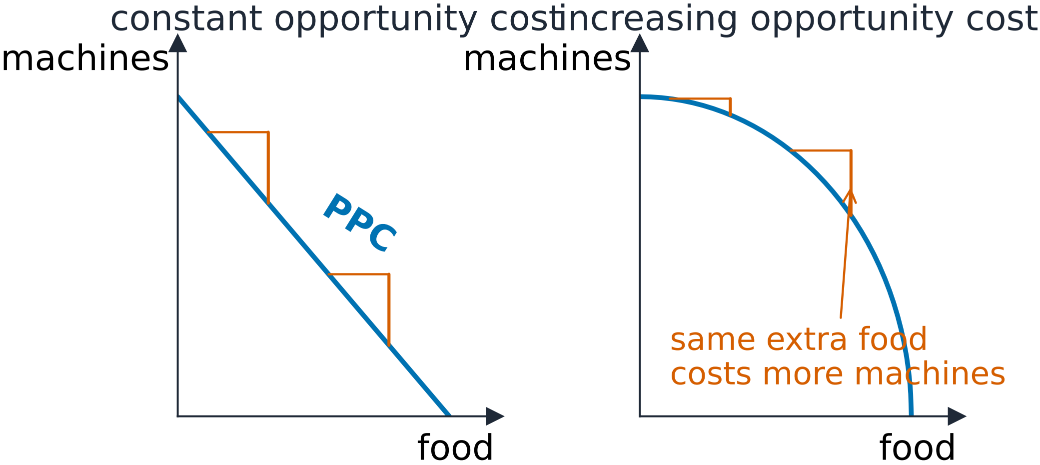
Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

Method — Comparative advantage



Country A makes more of both, but B gives up less to make cloth

Method — Comparative advantage



Practice 2.1 ▪ 2 marks

Define the term *comparative advantage*.

Solution 2.1

Method: Comparative advantage

Worked steps

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

Practice 2.2 ▪ 1 mark

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

Solution 2.2

Method: Comparative advantage

Worked steps

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

Practice 2.3 ▪ 1 mark

State one limitation of the theory of comparative advantage.

Solution 2.3

Method: Comparative advantage

Worked steps

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

Exam-style 3.1 ▪ 1 mark

A country has a **comparative** advantage in a good if it can produce it at a:

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

Solution 3.1

Method: Comparative advantage

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

Worked steps

B. Comparative advantage means a lower opportunity cost.

Exam-style 3.2 ▪ 6 marks

Explain how specialisation according to comparative advantage can raise total world output.

Solution 3.2

Method: Comparative advantage

Worked steps

[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.

Exam-style 3.3 ▪ 12 marks

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

Solution 3.3

Method: Comparative advantage

Worked steps

[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.