

1.3 Comparative Advantage and Gains from Trade

Name: _____ Class: _____ Date: _____

Total: 10 marks

KEY WORDS comparative advantage 比较优势 • absolute advantage 绝对优势 • specialization 专业化
• opportunity costs 机会成本 • resources 资源

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 of production from output data
- distinguish **absolute advantage** 绝对优势 from **comparative advantage** 比较优势
- determine which producer has the comparative advantage in each good
- explain how **specialization** 专业化 and trade create gains

1 Worked examples

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

■ Opportunity cost from output

If a country can make 10 wheat **or** 5 cloth with the same resources, then 1 wheat costs $\frac{5}{10} = 0.5$ cloth.

■ Absolute vs comparative advantage

Absolute advantage = producing **more** of a good. **Comparative** advantage = producing at a **lower opportunity cost**. Gains from trade come from **comparative** advantage.

■ Specialize and trade

Each producer specializes in the good for which its opportunity cost is **lowest**, then trades — and both can end up with more than in isolation.

2 Practice

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

2.2 Country X can make 20 wheat **or** 10 cloth. Find the opportunity cost of 1 wheat.[2]

2.3 State the basis on which a country should choose which good to specialize in. [1]

3 Exam-style questions

3.1 A producer has a comparative advantage when it has a lower [1]

- **A** total output
- **B** opportunity cost
- **C** selling price
- **D** population

3.2 Mutual gains from trade come from [1]

- **A** absolute advantage
- **B** specialization by comparative advantage
- **C** raising tariffs
- **D** self-sufficiency

3.3 In one hour, Ann makes 4 cakes **or** 8 breads; Ben makes 2 cakes **or** 2 breads.

(a) Find Ann's opportunity cost of 1 cake. [1]

(b) Find Ben's opportunity cost of 1 cake. [1]

(c) State who should specialize in cakes, and why.

[1]

Solutions

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

2.2 1 wheat costs $\frac{10}{20} = 0.5$ cloth.

2.3 the good in which it has the **lower opportunity cost** (comparative advantage).

3.1 B.

3.2 B.

3.3 (a) 1 cake costs 2 breads. (b) 1 cake costs 1 bread. (c) Ben — his opportunity cost of a cake (1 bread) is lower than Ann's (2 breads).