

# 7.1 Trade and exchange: introductory reasoning

Name: \_\_\_\_\_ Class: \_\_\_\_\_ Date: \_\_\_\_\_ **Total: 6 marks**

**KEY WORDS** comparative advantage • opportunity cost

## Objective

Complete the two mapped introductory outcomes; do not infer completion of the detailed IA2 targets.

## 1 Key knowledge and worked examples

Comparative advantage means lower opportunity cost, not being absolutely faster. Calculate each country’s forgone alternative in the same units. A feasible exchange between the two opportunity costs can make specialization and exchange attractive in a simplified model. Transport, adjustment, distribution and productive assumptions matter; the model does not guarantee benefits for every worker.

Protection can support a named industry, but tariffs also raise some consumer or input costs and can provoke retaliation. An infant-industry argument requires a plausible learning mechanism, a credible temporary plan and review; permanent protection is not established by the label. In a currency quotation of domestic units per foreign unit, an increase means domestic depreciation. Import costs can rise before quantities adjust; the current account also includes income and transfers, so it is not simply the goods balance. Integration can lower barriers within a group while affecting outside suppliers differently. Evaluate the actual rule and source conditions rather than treating every agreement as identical.

Original introductory case: Trade and exchange: introductory reasoning

| Country | Hours/cloth | Hours/grain | OC cloth  | OC grain |
|---------|-------------|-------------|-----------|----------|
| A       | 3           | 6           | 0.5 grain | 2 cloth  |
| B       | 4           | 4           | 1 grain   | 1 cloth  |

Country A uses three worker-hours per cloth unit and six per grain unit. Country

B uses four per cloth and four per grain. Calculate opportunity costs, then consider exchange of one grain unit for 1.5 cloth units, assuming constant costs and no trade costs.

In A, one cloth costs  $3/6 = 0.5$  grain and one grain costs  $6/3 = 2$  cloth. In B, one cloth costs  $4/4 = 1$  grain and one grain costs 1 cloth. A has comparative advantage in cloth; B in grain. A obtains one grain for 1.5 cloth instead of producing it at a cost of two cloth. B receives 1.5 cloth for grain costing it one cloth. The stated trade ratio lies between one and two cloth per grain. Feasible production and transport costs must still be checked; no distribution claim follows automatically.

## 2 Practice

**2.1** Use the worked case to explain the relevant method, its application and a material condition. [3]

## 3 Exam-style questions

**3.1** After depreciation, import expenditure rises. A commentator calls the comparative-advantage model false and recommends a permanent tariff. Assess both leaps. [3]