

PENANG SANGAM HIGH SCHOOL

P.O BOX 44, RAKIRAKI

LESSON NOTES – WEEK 16

**Subject:** Economics

**Year:** 11

**Strand:** 4- International Trade

**Sub Strand:** 4.1

**Content Learning Outcome:** - Describe the concept of Gains from Trade.

**Lesson Notes**

- ✓ Free international trade promotes international specialization and encourages increase in productivity and total output.
- ✓ Nations specialize in those goods and services in which they have some kind of advantages over other nations.

<u>Economies gain through</u>	
Absolute Advantage	Comparative Advantage
A nation is able to produce more commodities compared to another. (Concept introduced by Adam Smith)	When the country is producing at the lowest/ least opportunity cost in terms of another nation.  (Concept introduced by David Ricardo)

✓ **Example**

Country	Wheat	Clothes
A	100	110
B	60	150

Absolute Advantage – Just look at the number which is the highest.

Wheat- Country A

Clothes- Country B

Comparative Advantage - Will require us to do some calculations. The nation with the lowest opportunity cost will have the comparative advantage in producing that commodity.

Wheat

Country A 110/100 1.1	Country B 150/60 2.5
-----------------------------	----------------------------

So Country A has the comparative advantage in producing wheat

Clothes

Country A 100/110 0.91	Country B 60/150 0.4
------------------------------	----------------------------

So Country B has the comparative advantage in producing clothes

### Class activity

a) Use the information below to answer the questions.

Country	Pumpkin (kg)	Biscuits (kg)
NZ	600	200
Fiji	800	650

- i) Which country has an **absolute** advantage in the production of biscuits
- ii) Which country has a **comparative** advantage in the production of:
  - a) pumpkin
  - b) biscuits
- iii) Comparative advantage is calculated on the basis of \_\_\_\_\_

b) Use the information below to answer the questions.

Country	Food	Bags
Australia	600	200
Fiji	500	180

- i) Which country has an **absolute** advantage in the production of bags?
- ii) Which country has a **comparative** advantage in the production of food?