

**PENANG SANGAM HIGH SCHOOL
P.O.BOX 44, RAKIRAKI**

LESSON NOTES

Subject: Economics

Year/Level: 12

Week 23

Strand	4	International Economics
Sub Strand	4.1	Balance of Payment
Content Learning Outcome	Evaluate the Balance of Payment and describe its impact in the economy.	

Greetings to all...

In this lesson we will look at activities on Balance of Payments calculations....

Activity (Copy in your Note book)

	\$(000)
Visible exports	60
Visible imports	70
Services –Dr	30
Services- Cr	50
Net Unrequited transfers & Income	55
Capital Inflow	80
Capital Outflow	75

- a. Calculate Balance on invisibles
- b. Calculate Balance on Current account
- c. Prepare Balance of Payments Account

Lesson Notes (Copy in your note book)

Comparative Advantage – refers to production of a commodity at the lowest opportunity cost compared to its trading partners. (This theory was developed by David Ricardo)

Absolute Advantage – refers to the production of commodity with the highest output / producing more than the trading partners.

Example:

Country	Wheat	Steel
X	80 ($100/80 = 1.25$)	100 ($80/100 = 0.8$)
Y	120 ($90/120 = 0.75$)	90 ($120/90 = 1.33$)

Interpretation:

Absolute Advantage: (Look at the highest output)

- For wheat = Country Y
- For Steel = Country X

(**Reason:** They produce the highest compared to its trading partners).

Comparative Advantage: (Need to calculate opportunity cost)

- For Wheat = Country Y
- For Steel = Country X

(**Reason:** They have the lowest opportunity cost)

Activity (Copy in your note book)

Country	Iceland	Sunnyland
Potatoes	70	120
Plum	150	60

1. Which country has the **Absolute Advantage** in Plum production? (Give a reason for your answer.
2. Which country has the **Comparative advantage** in the production of Potatoes? (Give a reason for your answer)

Solve the above activity using the lesson notes we will discuss in the next lesson.....

Stay safe.....