

(H. 3)

TRADE

ABSOLUTE ADVANTAGE:

MAKING MORE W/ LESS INPUTS

COMPARATIVE ADVANTAGE:

- DETERMINES TRADE

- MAKING MORE OF A GOOD W/
LESS OPPORTUNITY COSTS

- 8 HOURS OF TIME

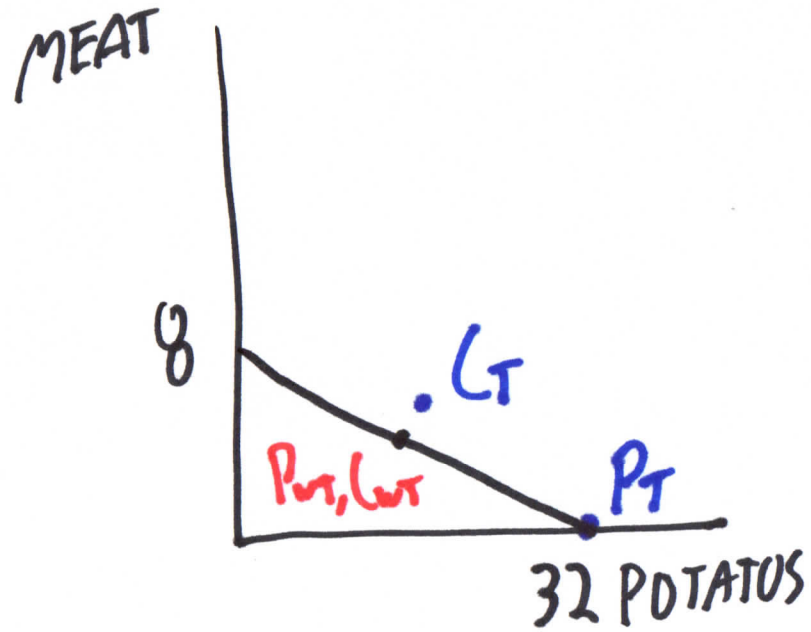
	MEAT	POTATOS	
FARMER	8oz	32oz (C)	$\frac{1}{2}$ TIME ON EACH 4oz M, 16oz P
RANCHER	24oz (A) (C)	48oz (A)	12oz M, 24oz P

COMPARATIVE ADV. COMES FROM OPP'T COSTS

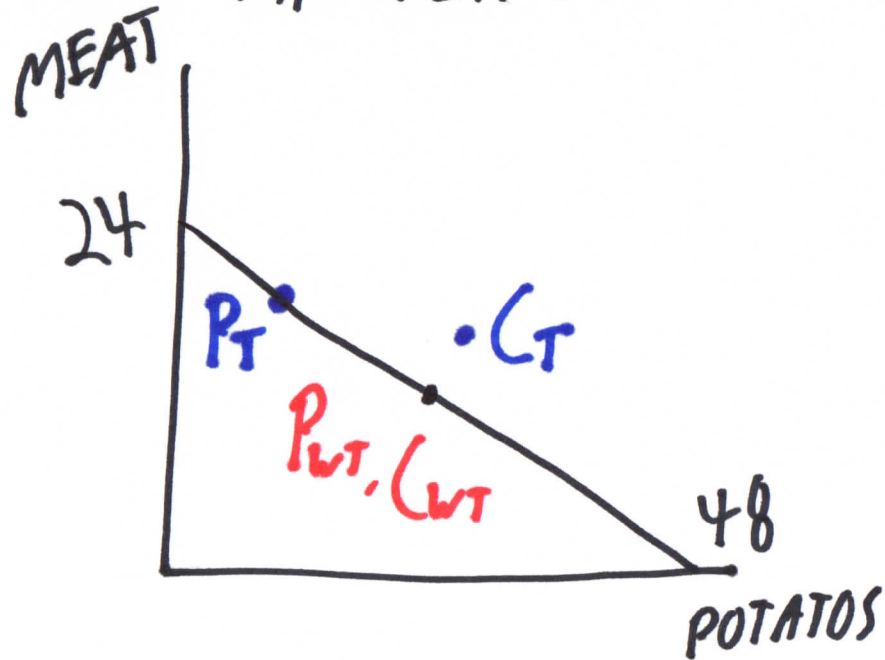
FARMER: 1 oz of M COSTS 4oz P
1 oz of P COSTS $\frac{1}{4}$ oz M

RANCHER: 1 oz of M COSTS 2oz P
1 oz of P COSTS $\frac{1}{2}$ oz M

FARMER PPF



RANCHER PPF



WITHOUT TRADE	MEAT	POTATOS	PRODUCTION + CONSUMPTION	MEAT	POTATOS	PRODUCTION
	4	16		12	24	
WITH TRADE	0	32	← P_T → TRADE	18	12	
	+5	-15		-5	+15	
	5	17		13	27	
			← L_T →			

SUMMARY:

- CA IS DERIVED FROM LOW OPP'T COSTS
- SPECIALIZATION + TRADE BRING WELFARE GAINS TO ALL TRADERS
- REAL WORLD:

PRICES REFLECT CA

IMPORT LOW PRICED GOODS

EXPORT HIGH PRICED GOODS

Example: SHRIMPERS

- LOSERS FROM TRADE ARE INDUSTRIES w/ HIGHER PRICES RELATIVE TO FOREIGN COMPETITION

CH 3

COMPARATIVE ADVANTAGE
COMES FROM MANY THINGS

PRICE: OPP'T COSTS

: ECONOMIES OF SCALE

(BIGGER IS CHEAPER)

: RACE TO THE BOTTOM

(WORSEN ENVIRONMENT)

DIFFERENT VARIETIES OF
A SIMILAR PRODUCT

- DIFFERENT PREFERENCES