23.1 Introduction to International Trade

1. _____ refers to the exchange of goods and services between different economies.

23.2 Absolute Advantage and Comparative Advantage

2. _____, a country has an absolute advantage over another country in the production of a good if _____ _____.

3. A country having an absolute advantage in producing a good means:
- It can produce the same amount of the good using *(more / fewer)* units of resources than another country.
- It has a *(higher /lower)* productivity in producing the good.

4. A country has a comparative advantage over another country in the production of a good if _____.

5. The table below shows the amount of labour input required to produce toys and food by Country A and Country B.

	1 unit of toys	1 unit of food
Country A	4 man-hours	6 man-hours
Country B	5 man-hours	10 man-hours

Based on the above information,

(a) which country has an absolute advantage in producing toys? Explain.

_____

_____

(b) which country has a comparative advantage in producing toys? Explain.

_____

_____

_____

_____

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6. Given two countries and two goods, determine whether each of the following statements is correct.

Statement	Correct	Incorrect
(a) If a country has an absolute advantage in producing a good, it also has a comparative advantage in producing the good.		
(b) If a country has an absolute advantage in producing a good, it has an absolute disadvantage in producing the other good.		
(c) Suppose a country has an absolute advantage in producing a good. It may import the good from the international market.		
(d) A country can have absolute advantages in producing two goods at the same time.		
(e) If a country has a comparative advantage in producing a good, it has a comparative disadvantage in producing the other good.		

23.3 The Principle of Comparative Advantage

7. The principle of comparative advantage states that _____
_____
_____.

8. Based on Question 5, according to the principle of comparative advantage, explain which country will export toys.

_____
_____

23.4 Terms of Trade and Gains from Trade

9. For terms of trade to be mutually beneficial, it must lie between _____
_____.

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10. The following table shows the quantities of apples or clothing produced by Country A and Country B with 1 unit of resources.

	Apples (units)		Clothing (units)
Country A	4	OR	16
Country B	5	OR	15

(a) Calculate the opportunity costs of producing 1 unit of apples for the two countries.

_____

_____

(b) Find the range of terms of trade for apples over which exchange between the two countries is mutually beneficial.

_____

(c) Suppose the exchange ratio is 1 unit of apples for 3.5 units of clothing.

- Calculate the gain from trade for the apple-exporting country from exporting 1 unit of apples.

  _____

- Suppose the apple-importing country has to pay a transportation cost of 0.2 units of clothing for each unit of import. Calculate the gain from trade for the apple-importing country from importing 1 unit of apples.

  _____

11. Identify which of the following is/are the factor(s) that cause(s) two countries to stop trading. Put a tick (✓) in the appropriate box(es).

(a) The two countries have the same opportunity cost in producing the same good.	☐
(b) The two countries have the same factor endowment.	☐
(c) The terms of trade of a good does not lie between the two countries' costs of producing the good.	☐
(d) The transportation cost paid by the two countries is higher than their total gain from trade.	☐

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