

IB Economics – International Trade

3.3: Absolute and Comparative Advantage HL



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3.3 ABSOLUTE AND COMPARATIVE ADVANTAGE: STUDENT LEARNING ACTIVITY

Answer the questions that follow.

1. DEFINITIONS

Define the following terms:

- Capital
- Closed economy
- Consumer welfare
- Costs of production
- Economic welfare
- Economies of scale
- Exports
- Factor endowment
- Homogenous goods
- Import
- Inputs
- Long-run average cost
- Market power
- Natural resources
- Open economy
- Opportunity cost
- Quota
- Raw materials
- Real income
- Resources
- Specialisation
- Specialised capital
- Tariffs
- X-inefficient

[10 marks]

2. SHORT-ANSWER QUESTIONS

1. Distinguish between the two international trade theories: absolute and comparative advantage. **[4 marks]**
2. Justify whether absolute or comparative advantage provides the more powerful theory in explaining how countries can benefit from international trade. **[6 marks]**
3. Think and plan carefully! Using the table below, create a data set of your own showing two countries' output of two goods or services. Use this data set to: **[8 marks]**

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Table 1: Absolute advantage

| Country | Maximum number of _____ able to be produced (production efficiency) | Maximum number of _____ able to be produced (production efficiency) |
|---------------------------|---|---|
| Name of country: _____ | or | |
| Name of country: _____ | or | |

- i. Draw a diagram showing which country (or countries) have an absolute advantage in the production of a good.
 - ii. Using the PPC model, and showing possible points of production and consumption, explain how each country can benefit from specialisation and international trade.
4. Explain how countries come to have an absolute and comparative advantage in the production of a good or a service. **[4 marks]**
5. Outline the limitations of the theory of comparative advantage. **[4 marks]**
6. Countries A and B can produce the following quantities of beer and potato crisps. With a fixed amount of resources. Answer the questions that follow: **[10 marks]**

| Country | Units of beer | Units of potato chips |
|-----------|---------------|-----------------------|
| Country A | 60 | 15 |
| Country B | 90 | 30 |

- i. Draw the PPC diagrams for country A and country B.
- ii. Calculate the opportunity cost of beer and potato chips in country A.
- iii. Calculate the opportunity cost of beer and potato chips in country B.
- iv. Identify which country has the comparative advantage in the production of beer.
- v. Identify which country has the comparative advantage in the production of potato chips.
- vi. Explain how both countries can benefit from specialisation and trade.
- vii. Show on the PPC diagrams how both countries A and B can increase consumption.

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7. Country A has an absolute advantage over country B In the production of both milk and honey, but country B has a comparative advantage in honey production. **[8 marks]**
- Draw a diagram that shows the above information
 - Using a diagram, explain how both countries could gain from specialisation and trade
8. Answer the following question based on data in the table below. **[6 marks]**

| | Production possibilities | | Production and consumption in a closed economy | | Production after specialisation according to absolute advantage | | Consumption with trade based on absolute advantage | |
|------------------|--------------------------|----------|--|----------|---|----------|--|----------|
| Country | Tea | Biscuits | Tea | Biscuits | Tea | Biscuits | Tea | Biscuits |
| Country A | 8 | 4 | 4 | 2 | | | 5 | 3 |
| Country B | 3 | 6 | 1.5 | 3 | | | 5 | 3 |
| Total production | | | | | | | | |

- Determine the missing data values in the table above.
 - Calculate the opportunity of cost of tea and biscuits in countries A and B.
 - Use these results to explain why absolute advantage trade theory is a special case of comparative advantage theory.
9. Comparative advantage theory suggests that under some circumstances there may be no benefits to specialisation and trade for countries. Explain what these circumstances may be. **[4 marks]**
10. Answer the following question based on data in the table below. **[10 marks]**

| | Country A | Country B |
|--------|-----------|-----------|
| Good A | 1 | 2 |
| Good B | 2 | 4 |
| | Country C | Country D |
| Good C | 6 | 3 |

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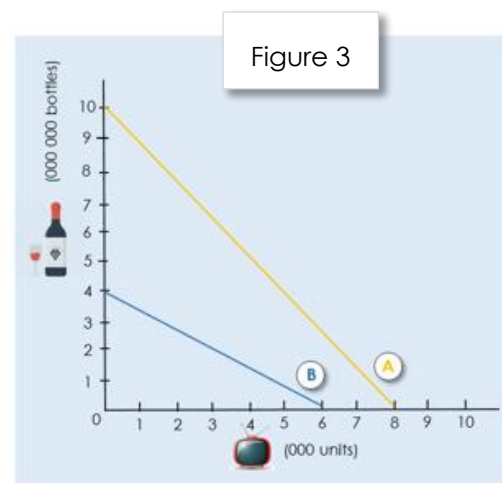
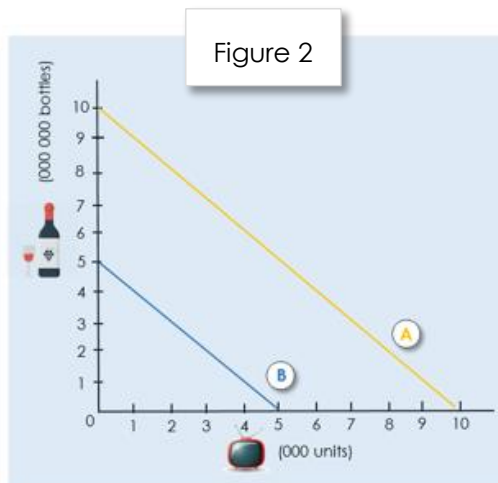
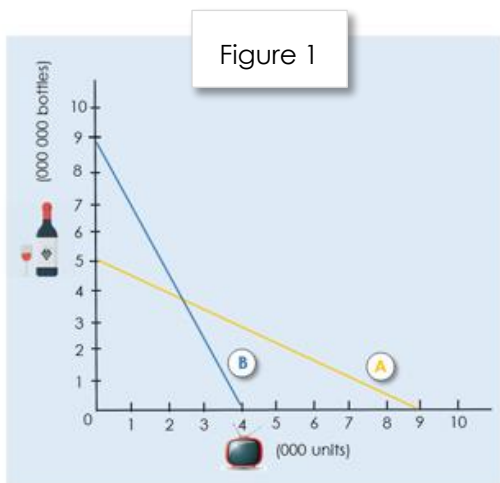
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| | | |
|--------|------------------|------------------|
| Good D | 3 | 1 |
| | Country E | Country F |
| Good E | 1 | 4 |
| Good F | 2 | 2 |
| | Country G | Country H |
| Good G | 8 | 2 |
| Good H | 6 | 4 |
| | Country I | Country J |
| Good I | 8 | 2 |
| Good J | 2 | 4 |

- i. Calculate the opportunity costs for each country and determine which good (if any) that each country has a comparative advantage.
- ii. Draw PPC diagrams that show the comparative advantage of each country.
- iii. Identify the particular good each country should specialise in. Which good should it export, and which good should it import?

11. In the absence of an absolute advantage, explain why a country should specialise in producing the good that has the lowest opportunity cost of production and engage in international trade.

[4 marks]



12. Using the three diagrams above, answer the following questions.

[4 marks]

- i. In figure 1, identify which country has an absolute advantage in which goods (if any).

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- ii. In figure 2, explain whether or not either country can benefit from specialisation and international trade.
- iii. In figure 3, identify which country has an absolute advantage in which goods (if any).
- iv. In figure 3, and using opportunity cost information, explain whether either country can benefit from specialisation and trade.

3. MULTICHOICE QUESTIONS

Complete each interactive quiz.

[50 marks]

3.3A Comparative Advantage

Start quiz! ▶

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Grab your calculator!

The image shows a digital interface for a quiz. At the top, the title '3.3A Comparative Advantage' is displayed. Below the title is a blue button with the text 'Start quiz!' and a right-pointing arrow. Underneath the button is a large, semi-transparent grey arrow pointing to the right, which contains the text 'www.IBDeconomics.com', 'IB Diploma Economics', and 'Grab your calculator!'. The background of the interface features a blue globe with white grid lines, and in the foreground, the letters 'V', 'i', and 'e' are rendered in a large, blue, 3D-style font.

3.3B Comparative Advantage

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The image features a promotional banner for a quiz. At the top, the text '3.3B Comparative Advantage' is displayed. Below it is a blue button with the text 'Start quiz!' and a white play icon. Underneath the button, the website 'www.IBDeconomics.com' is listed, followed by 'IB Diploma Economics' and 'Grab your calculator!'. A large, semi-transparent play button icon is overlaid on the text. The bottom portion of the banner shows the word 'vibe' in a stylized font, with the letters 'v' and 'e' inside blue spheres, and the letters 'i' and 'b' in white. The background of the banner is a light blue globe.

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