

- What the benefits of international trade and what is the difference between absolute and comparative advantage.

What are the benefits of international trade

- We now have a global economy.
- Imagine if America did not import anything from other countries
 - No electronics
 - Nothing to drive
 - No coffee, chocolate, precious metals.
- Imagine if America did not export anything
 - Many American workers are employed in industries that export their goods overseas
 - Much of the world's engineering and scientific equipment is produced here and sold other places.

- Nations benefit through world trade because each differs in the type and amount of the factors of production it has available for use. The availability of natural resources is the single most important factor.
- Also there are difference in availability of labor and capital for producing certain goods and services.
 - Much of America's economy is based on high technology production because the factors of production available to us allow for us to do so most efficiently
 - Many manufactured goods are not produced here because other countries have factors of production available to them that makes them better and cheaper then making them here
 - This leads to what is called absolute vs. comparative advantage

Absolute and comparative advantage

- If the US could produce everything more cheaply than every other nation, it might not want to import anything.
- You know this situation does not exist for any nation because of differing opportunity costs between nations. All nations must make choices in how they use their scarce resources.

Absolute advantage

- The ability of one country to produce a product more efficiently than another country
- Specialization- the idea that a nation should produce and export a limited assortment of goods for which it is particularly suited in order to remain profitable.
- The distribution of resources in a nation often gives it an advantage over another nation producing certain goods or services
 - Brazil grows bananas more efficiently than most other countries could.
 - France grows grapes but could not grow bananas

- A nation does not need to have an absolute advantage in the production of a certain good or service to find it in the nations best interest to specialize elsewhere . Instead they need the lowest opportunity cost
- Comparative advantage the ability of a country to produce a product at a lower opportunity cost than another country.