

Trading

Why do people trade?

As long as the trade is voluntary, for both parties the value of,

$$\text{Item received} > \text{Item given away}$$

Usually made easier through the use of money.

Basically, trading settling problems in allocation strategies.

Output problems

Output problems state that you get a certain amount of product out of a given input.

Input problems

Input problems state that it takes a certain amount of input to get a given product.

Absolute Advantage

For output problems:

You look at if one nation (individual/company) can produce more output with the same resources as the other.

For Input Problem:

You look at who uses the least amount of input to get the output.

Comparative Advantage

An individual, business, or country can produce a good or service at a lower Opportunity Cost than another producer.

Opportunity Cost will always be expressed in the GOOD not the input