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.
One actor cant have the comparative advantage in both situations.

Terms of Trade

The rate by which one unit of a good or service is traded for another unit of a good or service.
The Terms of Trade will only be beneficial to both producers if the exchange rate falls between both of their opportunity cost.

Finding Mutually Beneficial Terms of Trade

1. Calculate the opportunity costs and identify which nations have the comparative advantage.
    1. A nation which has comparative advantage in something should specialize in that something.
2. Pick a good in which the opportunity costs of both are whole numbers
3. Mutually Beneficial Terms of Trade will be between the 2 opportunity costs.

Consumption Possibilities

- Combinations of goods and services that could be consumed.
- People in the nations have greater access to the two goods than they did before.