Topic 21: why do countries trade

Gains from international trade

- Lower prices
- Greater choice
- Difference in resources
- Economies of scale – size of market increases and companies get to exploit economies of scale
- Increased competition – leads to greater efficiency
- More efficient allocation of resources – resources are used in the most efficient way
- Source of foreign exchange (currency)
- Contribution to a country's economic growth

Absolute advantage: a country has absolute advantage over another country when it can product a good or service with fewer resources than another country

Comparative advantage: when a country can produce a good or service with a lower opportunity cost than another country

- A country is likely to have comparative advantage in a certain industry based on its factor endowments

- Assumed perfect knowledge between consumers and producers
- Assumed no transport costs
- Assumed that an economy only produces 2 goods
- Assumed no diseconomies to scale
- Assumed that factors of production remain in their own countries to be manufactured
- Assumed free trade

World Trade Organisation: is an international body that sets rules for trade and settles disputes between member countries. It advocates free trade among its member countries.

- Administer WTO trade agreements
- Be a forum for trade negotiations
- Handle trade disputes
- Monitor national trade policies
- Provide technical assistance for training in developing countries
- Cooperate with other international organisations