

# Benefits of Trade

## Why Trade Makes Us Better Off

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# Key Benefits of Trade

- ▶ **Trade makes people better off when their preferences differ.**
  - ▶ People have different tastes, needs, and preferences.
  - ▶ Trade allows individuals to access goods and services that align with their preferences.
- ▶ **Trade increases productivity through specialization and the division of knowledge.**
  - ▶ Specialization allows individuals and firms to focus on what they do best.
  - ▶ The division of knowledge leads to innovation and efficiency.
- ▶ **Trade increases productivity through specialization according to comparative advantage.**
  - ▶ Comparative advantage enables countries to produce goods at lower opportunity costs.
  - ▶ This leads to higher global output and mutual gains from trade.

# Why Specialization Matters

- ▶ **Self-sufficiency is inefficient.**

- ▶ If one person had to grow food, tailor clothes, and make shoes, they would struggle to excel in any of these tasks.
- ▶ Specialization allows individuals to focus on their strengths, leading to higher quality and efficiency.

- ▶ **Comparative advantage enables mutual gains.**

- ▶ Even if one country is better at producing everything, trade allows both countries to benefit by specializing in what they do relatively better.

# Comparative Advantage

- ▶ **Rearranging tasks increases output.**
  - ▶ By specializing in tasks where individuals or countries have a comparative advantage, overall output increases.
- ▶ **Improvements benefit everyone.**
  - ▶ If one country becomes more efficient in producing a good, it benefits trading partners by providing better or cheaper goods.
- ▶ **Differences drive trade benefits.**
  - ▶ The more different countries are in their capabilities, the greater the gains from trade.

# Will Lowering Tariffs Harm Farmers in India?

- ▶ **Lower tariffs can benefit Indian farmers.**
  - ▶ India's low labor costs make it competitive in global markets.
  - ▶ Selling at global prices can increase exports and earnings for farmers.
- ▶ **Government support is crucial.**
  - ▶ Quality education and policies can help farmers and entrepreneurs specialize and compete globally.
- ▶ **Food prices in India are lower than global prices.**
  - ▶ Selling at global rates can expand exports and increase revenue.

# Will We Lose Jobs Through Lower Tariffs?

- ▶ **Trade moves jobs, but doesn't destroy them.**
  - ▶ Lower tariffs may reduce jobs in import-competing industries but increase jobs in export industries.
- ▶ **Imports are paid for with exports.**
  - ▶ Countries export goods to pay for imports, creating a balanced trade ecosystem.
- ▶ **Wages increase due to comparative advantage.**
  - ▶ Specialization leads to higher productivity and wages on average.

# Conclusion

- ▶ Trade benefits everyone through specialization and comparative advantage.
- ▶ Lower tariffs can expand markets and increase earnings.
- ▶ Trade moves jobs but increases overall productivity and wages.