## Key Concepts and Summary

### 19.1 Absolute and Comparative Advantage

A country has an absolute advantage in those products in which it has a productivity edge over other countries; it takes fewer resources to produce a product. A country has a comparative advantage when it can produce a good at a lower cost in terms of other goods. Countries that specialize based on comparative advantage gain from trade.

### 19.2 What Happens When a Country Has an Absolute Advantage in All Goods

Even when a country has high levels of productivity in all goods, it can still benefit from trade. Gains from trade come about as a result of comparative advantage. By specializing in a good that it gives up the least to produce, a country can produce more and offer that additional output for sale. If other countries specialize in the area of their comparative advantage as well and trade, the highly productive country is able to benefit from a lower opportunity cost of production in other countries.

### 19.3 Intra-industry Trade between Similar Economies

A large share of global trade happens between high-income economies that are quite similar in having well-educated workers and advanced technology. These countries practice intra-industry trade, in which they import and export the same products at the same time, like cars, machinery, and computers. In the case of intra-industry trade between economies with similar income levels, the gains from trade come from specialized learning in very particular tasks and from economies of scale. Splitting up the value chain means that several stages of producing a good take place in different countries around the world.

### 19.4 The Benefits of Reducing Barriers to International Trade

Tariffs are placed on imported goods as a way of protecting sensitive industries, for humanitarian reasons, and for protection against dumping. Traditionally, tariffs were used as a political tool to protect certain vested economic, social, and cultural interests. The WTO has been, and continues to be, a way for nations to meet and negotiate in order to reduce barriers to trade. The gains of international trade are very large, especially for smaller countries, but are beneficial to all.