## PFL Academy

Teacher Guide: Chapter 55 — International Trade and Economic Development

### OVERVIEW

| TIME | MATERIALS | PREREQUISITES |
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| 45-50 Minutes | Student Activity Packet | L-49 Opportunity Cost, L-50 Supply & Demand, L-54 Unemployment |

### LESSON FLOW

**5 min** — **THE CHALLENGE**

- Have students check clothing tags—most will say China, Vietnam, Bangladesh. Make trade tangible.
- Mention iPhone supply chain (43 countries)—globalization is inescapable.
- Discussion: "Should we make everything in America? Why or why not?"

**10 min** — **CORE CONCEPTS**

- Explain comparative vs. absolute advantage using simple 2-person example first.
- Key insight: Even if you're better at EVERYTHING, specialize in what you're RELATIVELY best at.
- Review tariffs and exchange rates—both affect prices students pay.

**25-30 min** — **APPLY IT**

- **Part A (10 min):** Comparative advantage calculation. Help with opportunity cost math—the insight is more important than perfect calculation.
- **Part B (10 min):** Tariff stakeholder analysis. Encourage nuance—there are real winners AND losers.
- **Part C (10 min):** Exchange rate calculations. Focus on strong dollar helps consumers, hurts exporters.

**10 min** — **CHECK YOUR UNDERSTANDING**

- Review Q2 (tariff stakeholders) and Q4 (why economists support free trade).
- Q5 connects to career planning—tie back to L-54 structural unemployment from trade.
- Allow debate on trade policy—this is genuinely contested.

### DIFFERENTIATION

**Support**

- Pre-fill opportunity cost calculations for comparative advantage problem.
- Provide visual: Strong dollar = cheaper to travel abroad, more expensive for foreigners to buy our stuff.
- Work through tariff stakeholder analysis as a class first.
- Focus on the intuition, not the math: "Trade lets countries specialize."

**Extension**

- Research a specific trade agreement (USMCA) and analyze who benefited.
- Calculate the true cost of "Made in USA" for a specific product category.
- Analyze current trade disputes and predict economic outcomes.

- Debate: Should the US decouple from China economically?

## ANSWER KEY

### Part A: Comparative Advantage

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Country A:
Opportunity cost of 1 computer = 50/100 = 0.5 cars
Opportunity cost of 1 car = 100/50 = 2 computers

Country B:
Opportunity cost of 1 computer = 40/40 = 1 car
Opportunity cost of 1 car = 40/40 = 1 computer
```

**Comparative advantage in computers:** Country A (gives up only 0.5 cars vs. Country B's 1 car per computer)

**Comparative advantage in cars:** Country B (gives up only 1 computer vs. Country A's 2 computers per car)

**Optimal arrangement:** Country A specializes in computers, Country B specializes in cars, they trade. Both countries end up with more total goods than if they produced both themselves.

### Part B: Tariff Analysis

**Car Buyers:** NEGATIVE. Pay $37,500 instead of $30,000; less purchasing power, fewer choices.

**Domestic Auto Workers:** POSITIVE. Jobs protected; foreign competition reduced.

**Domestic Car Companies:** POSITIVE. Can charge higher prices; less competition.

**Foreign Countries:** NEGATIVE. Lose sales in US; may retaliate with tariffs on US exports.

**Government Revenue:** POSITIVE. Collects $7,500 per imported car.

> *Student verdicts will vary. Strong answers acknowledge trade-offs: tariffs protect jobs but hurt consumers. Economic consensus: costs typically exceed benefits, but political considerations differ.*

### Part C: Exchange Rate Calculations

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Calculation 1 (European Travel):
Current: €120 ÷ 0.92 = $130.43
With stronger dollar: €120 ÷ 1.00 = $120.00
Savings: $10.43/night

Calculation 2 (Japanese Import):
Current: ¥600,000 ÷ 150 = $4,000
With weaker dollar: ¥600,000 ÷ 120 = $5,000
Cost increase: $1,000 (25% more)

Calculation 3 (US Export):
Current: $500 × 0.92 = €460
With stronger dollar: $500 × 1.00 = €500
Effect: MORE expensive for foreigners, exports DECREASE
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### Check Your Understanding

**1.** B (Bangladesh has comparative advantage—lower opportunity cost in clothing)

**2.** BENEFITS: Domestic steel producers and workers (protected from competition). HURTS: Consumers and businesses that use steel (cars, construction, appliances)—they pay higher prices. Also hurts foreign steel producers.

**3.** Dollar STRENGTHENED (buys more euros). American tourists in Europe benefit—their dollars go further. Hotels, meals, souvenirs all cost fewer dollars.

**4.** Total benefits (lower prices for ALL consumers) exceed total costs (job losses in specific industries). Benefits are diffuse ($100s/year per person), costs are concentrated (entire livelihoods). Solution: free trade + compensation programs for displaced workers.

**5.** *Should identify specific threat (e.g., "coding jobs could be outsourced") and opportunity (e.g., "work for multinational company"). Strong answers connect to L-54 structural unemployment and propose skill development strategy.*

## COMMON MISCONCEPTIONS

| Misconception | Clarification |
|---|---|
| "We should make everything here to create jobs." | We COULD make everything here, but at MUCH higher cost. $2,500 iPhones and $50 t-shirts would hurt all consumers. Specialization through trade creates MORE total wealth. |
| "Trade deficits mean we're losing." | Trade deficit just means we import more than export. We get real goods (cars, electronics); they get dollars. Not inherently bad—reflects consumer preferences. |
| "A strong dollar is always good." | Good for consumers (cheaper imports, cheaper travel abroad). BAD for exporters and US workers in export industries (our goods more expensive for foreigners). |
| "Tariffs are paid by foreign countries." | Tariffs are paid by US IMPORTERS and passed to US CONSUMERS through higher prices. Foreign producers may lose sales, but Americans pay the tax. |