

## Day - 5

## ★ Free Trade -

- Restricted Trade :

→ Either by tax

→ mention country of origin of imported good

- None of the above 2 happen in free Trade

- (From slides)

merchant: cost  $\rightarrow$  £100  $\downarrow$

1 unit of cloth

$\frac{9}{8}$  wine  $\leftarrow$  Re 90  $\leftarrow$  Portugal

$L \rightarrow \text{England} \rightarrow \frac{9}{8} \times 120 = \text{£}135$

gain = £35 (Arbitrage)

→ Specialisation  
Labour Division  
Law of Comparative Advantage } min. opp. cost  
↓  
Efficient

→ Comparative Advantage (CA) is a dynamic concept

→ Demand and Supply:

• Polymers will not react in mild

- Producers will produce goods in which it has lowest O.C.

- Producers will specialize
- Labour Division

Q1.) What will be the rate at which goods will be exchanged?

Q2.) How will prices be determined?

Ans 2.) Interaction of producers and consumers.

Q3.) What is demand?

Q4.) What is the difference between desire and demand?

$$\rightarrow u(x) > 0$$

Ans.) Desire - want [Utility / satisfaction obtained from consuming the good]

Demand - Ability to pay for the good

→ Factors determining demand of a good:

- Price of good
- Income
- Prices of other related goods.
- weather, etc.

How demand of a good varies as the price of the good changes if other factors (Income, prices) remains constant.

