

Trade Price – A Clarification

Joe	Trade Price	Liz
5 salads → 1 smoothie	2 salads → 1 smoothie	
	2 salads ← 1 smoothie	1 salad ← 1 smoothie
1 salad → 1/5 smoothie	1 salad → 1/2 smoothie	
	1 salad ← 1/2 smoothie	1 salad ← 1 smoothie

Joe gets a smoothie for less at the trade price (2 salads) than he can get a smoothie himself (5 salads). Liz gets more for a smoothie at the trade price (2 salads) than she can get for a smoothie herself (1 salad).

Joe gets more for a salad at the trade price (1/2 smoothie) than he can get for a salad himself (1/5 smoothie). Liz gets a salad for less at the trade price (1/2 smoothie) than she can get a salad herself (1 smoothie).

It is therefore advantageous for both Joe and Liz to trade under the mutually agreed *trade price*:

for Joe to sell (export) salads and buy (import) smoothies
and

for Liz to buy (import) salads and sell (export) smoothies