

Ch 17 International Trade

I. Absolute and Comparative Advantage

- the key to trade is specialization (do what you're good at)
- different places do different things well.
- Countries will typically export what they're good at.
 - exports are goods that one country sells to another.

A. The U.S. and International Trade

- needs both G & S.
- imports: goods that a country buys from another.
- trade because they think the products they're getting are more valuable than the ones they gave up.

B. The Basis for Trade

1. Absolute Advantage

- simply when one country can produce more of a product than another.

2. Comparative Advantage

- when one country can produce a product at a lower opportunity cost.
 - a country will specialize in the products it has a comparative advantage in.

* No practice problems.