

## Summary

### 4.1 Benefits of international trade

Subject	Year	Start date	Duration
Economics	IB2	Week 3, November	<b>1 week</b> 1 hour

#### Course Part

#### 4. The global economy

#### Description

**4.1 Benefits of international trade**, you should be able to:

- Understand the following terms: free trade, interdependence, specialisation, efficiency.
- Identify and explain the benefits of international trade, including:
  - Increased competition
  - Lower prices
  - Greater choice
  - Acquisition of resources
  - More foreign exchange earnings
  - Access to larger markets
  - Economies of scale
  - More efficient resource allocation
  - More efficient production
- Draw and explain a diagram illustrating exports when world price is above domestic price and illustrating imports when world price is below domestic price.

#### **Higher level only:**

- Understand the following terms: free trade, interdependence, specialisation, efficiency, production possibility curve (PPC), comparative advantage, absolute advantage, factor endowment, opportunity cost, terms of trade. Calculate, using a diagram, the quantity of exports, quantity of imports, import expenditure and export revenue.
- Explain the theory of absolute advantage.
- Explain, using a diagram, the gains from trade arising from a country's absolute advantage in the production of a good.
- Explain the theory of comparative advantage.
- Describe the sources of comparative advantage.
- Draw a diagram to show comparative advantage.
- Calculate opportunity costs from a set of data in order to identify comparative advantage.
- Draw a diagram to illustrate comparative advantage from a set of data.
- Discuss the real-world relevance and limitations of the theory of comparative advantage.

## Inquiry & Purpose

### Inquiry / Higher Order Questions

#### Type

#### Inquiry Questions

**Skills-based**

Free trade is advocated on the grounds that it leads to greater efficiency. Yet it results in both winners and losers. Do economists have a moral responsibility toward the losers when they advocate free trade?

## Curriculum

### Objectives

#### **Application and analysis (A02)**

Apply economic concepts and theories to real-world situations

### Syllabus Content

#### **Unit 4: The global economy**

Real-world issue 1 - Who are the winners and losers of the integration of the world's economies?

Conceptual understandings

The increased interdependence of economies has benefits and costs.

Increased economic integration may result in efficiency, welfare gains and improvements in economic well-being but the benefits may not result in equity.

Key concepts: scarcity, choice, efficiency, equity, economic well-being, sustainability, change, interdependence, intervention.

#### 4.1 Benefits of international trade

Benefits of international trade, including:

increased competition

lower prices

greater choice

acquisition of resources

more foreign exchange earnings

access to larger markets

economies of scale

more efficient resource allocation

more efficient production

Diagram: free trade illustrating exports when world price is above domestic price

Diagram: free trade illustrating imports when world price is below domestic price

Calculation (HL only): from a diagram, the quantity of exports, quantity of imports, import expenditure, export revenue

Absolute and comparative advantage (HL only)

Gains from trade

Sources of comparative advantage

Opportunity costs


Diagram (HL only): linear PPC showing differing opportunity costs and the potential gains from specialization and

IB DP IB Economics Group 3 (IB2)

trade as a result of comparative advantage

Calculation (HL only): opportunity costs from a set of data in order to identify comparative advantage

Limitations of the theory of comparative advantage (HL only)

 Concepts

The increased **interdependence** of economies has benefits and costs.

- Increased economic integration may result in **efficiency**, welfare gains and improvements in **economic well-being** but the benefits may not result in **equity**.

 ATL Skills

 Approaches to Learning


 Thinking

- In this unit, we will
  - give students time to think through their answers before asking them for a response
  - reward a new personal understanding, solution or approach to an issue

 Developing IB Learners

 Learner Profile

 Inquirers

 Balanced