2.23 International Trade: Absolute and Comparative Advantage: Test Pack

AQA 7136 · Calculators not allowed · about 15 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer all questions. Full sentences are required for the 25-mark evaluation question only. Time guidance: 15 minutes.

1 Define Adam Smith's concept of absolute advantage in the context of two countries producing two goods.

(Total for Question 1 is 1 mark)

2 Define comparative advantage as used in Ricardo's trade theory for two countries and two goods.

(Total for Question 2 is 1 mark)

3 State two key simplifying assumptions of Ricardo's comparative advantage model with two countries and two goods.

(Total for Question 3 is 2 marks)

4 Explain why absolute advantage is not required for two countries to gain from trade; use the concept of comparative advantage in your explanation.

(Total for Question 4 is 2 marks)

© Revision Library | revisionlibrary.co.uk

5 Explain, briefly, how specialisation according to comparative advantage can increase total world output when two countries trade.

(Total for Question 5 is 2 marks)

---

6 Explain how positive transport costs between trading partners could reduce or eliminate the gains from comparative advantage.

(Total for Question 6 is 2 marks)

© Revision Library | revisionlibrary.co.uk

Mark scheme · 2.23 International Trade: Absolute and Comparative Advantage: Test Pack

Question 1

a country has an absolute advantage in producing a good when it can produce more of that good with the same resources, or produce the same amount using fewer resources, than another country — **B1**

Answer: A country produces more of a good with the same resources, or the same with fewer resources, than another country.

Question 2

a country has a comparative advantage in producing a good if it can produce that good at a lower opportunity cost than the other country — **B1**

Answer: Comparative advantage is producing a good at a lower opportunity cost than another country.

Question 3

constant returns to scale / labour is the only factor of production and has constant productivity — **B1**

no transport costs and perfect mobility of labour within countries but immobility across countries — **B1**

Answer: Examples: constant returns to scale with labour as sole factor; no transport costs and factor immobility across countries.

Question 4

gains from trade depend on differences in opportunity costs, not absolute output levels — **M1**

even if one country is absolutely more productive in both goods, each can still benefit by specialising in the good with the lower opportunity cost and trading — **A1**

Answer: Trade gains come from comparative advantage: even an absolute winner in both goods can gain by specialising where its opportunity cost is lowest and trading for the other good.

Question 5

specialisation means each country focuses on the good for which it has the lower opportunity cost, producing more efficiently — **M1**

when they trade, both can obtain a mix of goods that would have required more resources to produce domestically, so combined output and consumption possibilities increase — **A1**

Answer: Specialisation on the lower opportunity cost good raises each country's output in that good; trade then allows both to consume more than their individual PPFs permitted.

Question 6

transport costs act like an extra cost per unit, effectively raising the domestic opportunity cost of imported goods — **M1**

if transport costs are high enough they can make imports more expensive than domestic production, so the terms of trade interval may vanish and specialisation no longer yields net gains — **A1**

Answer: Transport costs add to trade prices, shrinking the range of mutually beneficial terms of trade; if large they can make trade unprofitable and cancel gains from specialisation.

© Revision Library | revisionlibrary.co.uk