AP Macroeconomics Series: Making Sense of Comparative Advantage and Barriers to Trade

Martha Rush

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Intro

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About me....

- married 25+ years, two sons, two dogs
- 25 years at Mounds View High School
- *Beat Boredom (2018)*
- NeverBore consulting, blog (MarthaRush.org)
- AP reader since 2007 (Macro & Micro) and consultant since 2016
- CEE contributor (HS Econ, EconEdLink)
- National Econ Challenge coach
- Hobbies: Travel, reading, tennis, swimming, craft beer

Review: Comparative Advantage (Macro 1.3)

TABLE 6.4

Mexico's Production Possibilities Table (in Tons)

Product	Production Alternatives				
	A	**B**	**C**	**D**	**E**
Avocados	0	20	24	40	60
Soybeans	15	10	9	5	0

U.S. Production Possibilities Table (in Tons)

Product	Production Alternatives				
	R	**S**	**T**	**U**	**V**
Avocados	0	30	33	60	90
Soybeans	30	20	19	10	0

Review: Comparative Advantage (Macro 1.3)

TABLE 6.4

Mexico's Production Possibilities Table (in Tons)

		Production Alternatives			
Product	A	B	C	D	E
Avocados	0	20	24	40	60
Soybeans	15	10	9	5	0

	Mexico	U.S.
Avocados	60	90
Soybeans	15	30

TABLE 6.5

U.S. Production Possibilities Table (in Tons)

		Production Alternatives			
Product	R	S	T	U	V
Avocados	0	30	33	60	90
Soybeans	30	20	19	10	0

Review: Comparative Advantage (Macro 1.3)

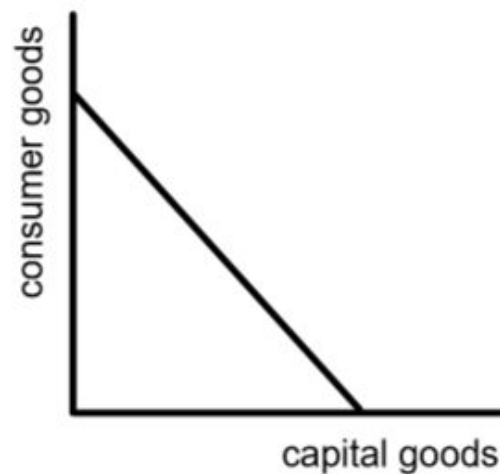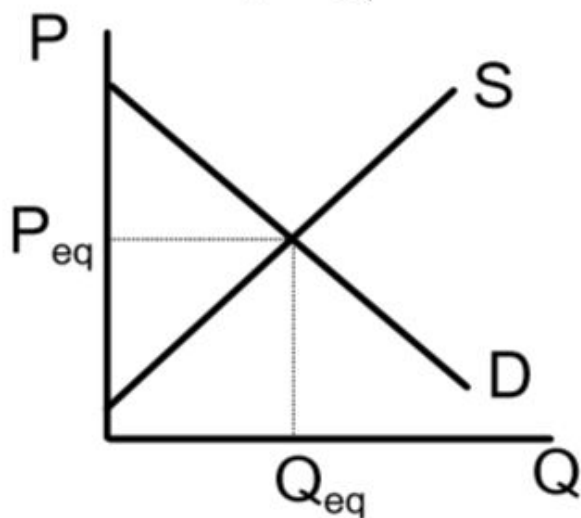Why and how do countries benefit from specialization and trade?

- Total production increases
- Nations can produce their lowest cost goods
- Production processes improve
- Prices decrease
- Standard of living increases

Review: Benefits of Trade

$P_w < P_{eq}$
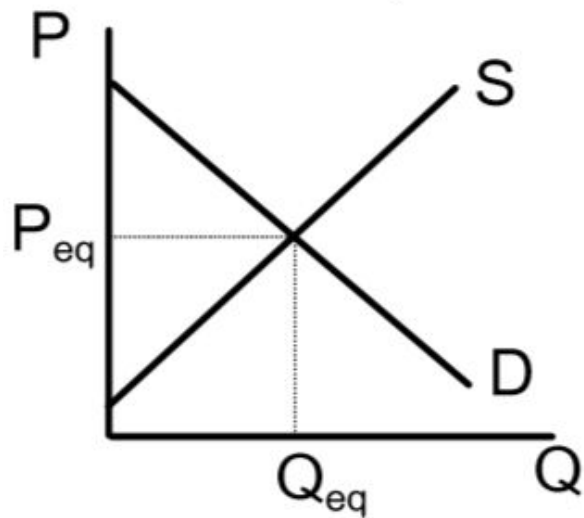
$P_w > P_{eq}$

Socrative Quiz Question 1

www.socrative.com
RUSH240

Review: Input Problems

The table below shows how many units of blocks are required to produce one unit of toys of books in each country.

	India	China
Corn	9	8
Rice	3	2

*CEE Workbook, Activity 1-3

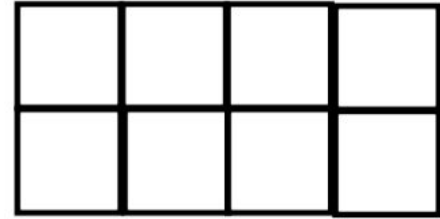## Why is this more difficult?

Review: Input Problems

It helps to make the problem **tangible**.

units of blocks

minutes on a clock

acres of land

Apply: Input Problems

The table below shows how many acres are required to produce one unit of corn or wheat in each country.

	U.S.	Canada
Corn	6	5
Wheat	3	4

	Cars	Planes
ABC Corp	8 days	10 days
XYZ Corp	16 days	12 days

MONTH:_____

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY

Socrative Quiz Question 2
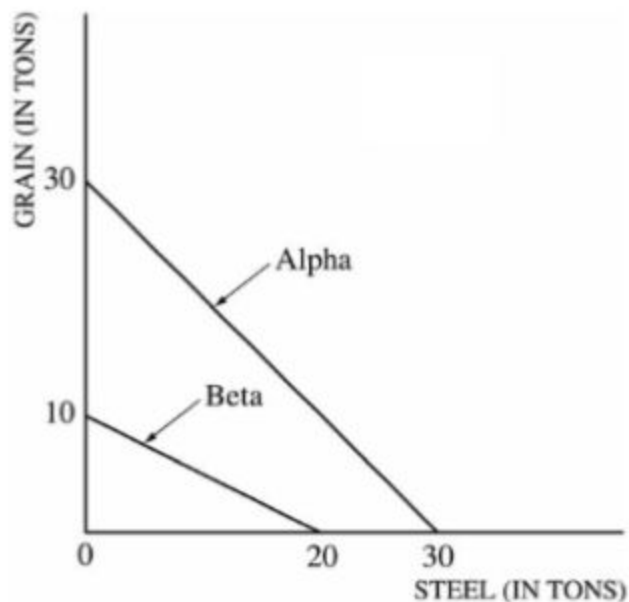
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Review: Terms of Trade
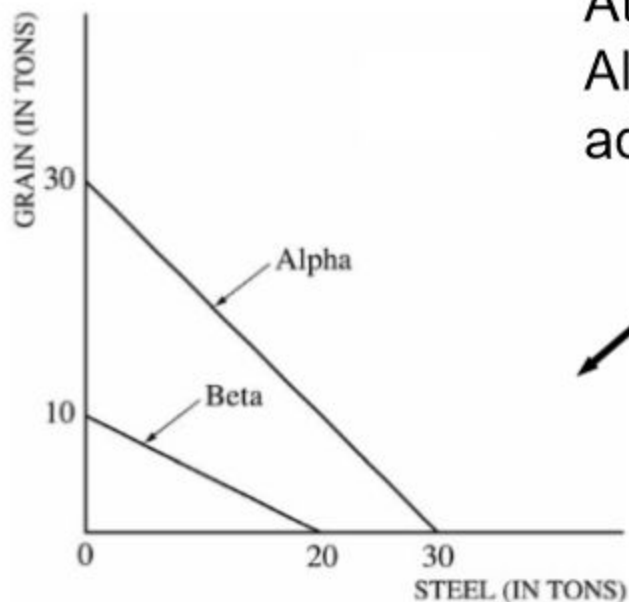
At what terms of trade would Alpha and Beta find it mutually advantageous to trade?

Review: Terms of Trade

1. Pick 1 good
2. Calculate OCs for that good in each country
3. Find a number in between

Opportunity cost of 1 unit of steel:
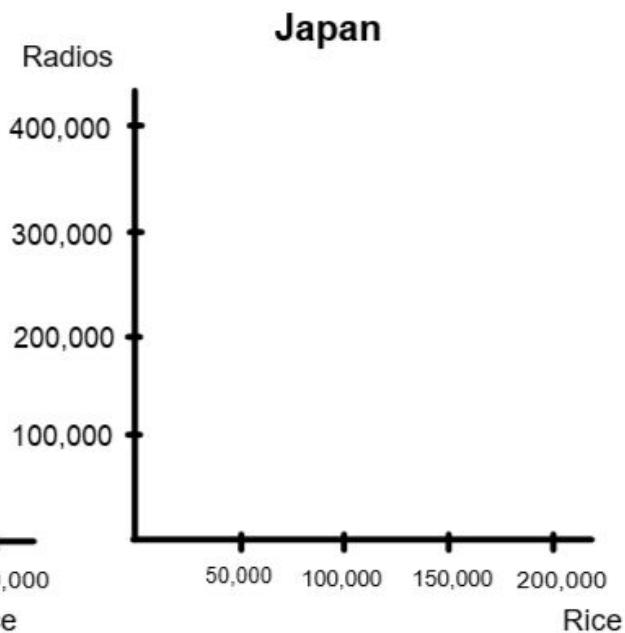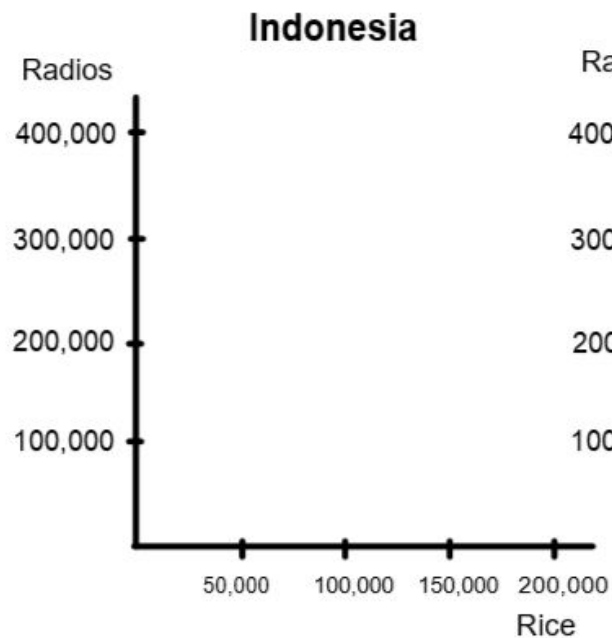
in Alpha _____

in Beta _____

Tip: Apply the Terms of Trade

Given equal time and labor, Indonesia and Japan can each produce either number of radios or the pounds of rice noted in the table below

	Radios	Rice
Indonesia	50,000	100,000
Japan	400,000	100,000

- Calculate each nations' opportunity costs for each good.
- Which nation has a comparative advantage in each good?

	Radios	Rice
Indonesia	50,000	100,000
Japan	400,000	100,000

Indonesia

Radios

- 400,000
- 300,000
- 200,000
- 100,000

50,000   100,000   150,000   200,000

Rice

Japan

Radios

- 400,000
- 300,000
- 200,000
- 100,000

50,000   100,000   150,000   200,000

Rice

Socrative Quiz Questions 3 & 4
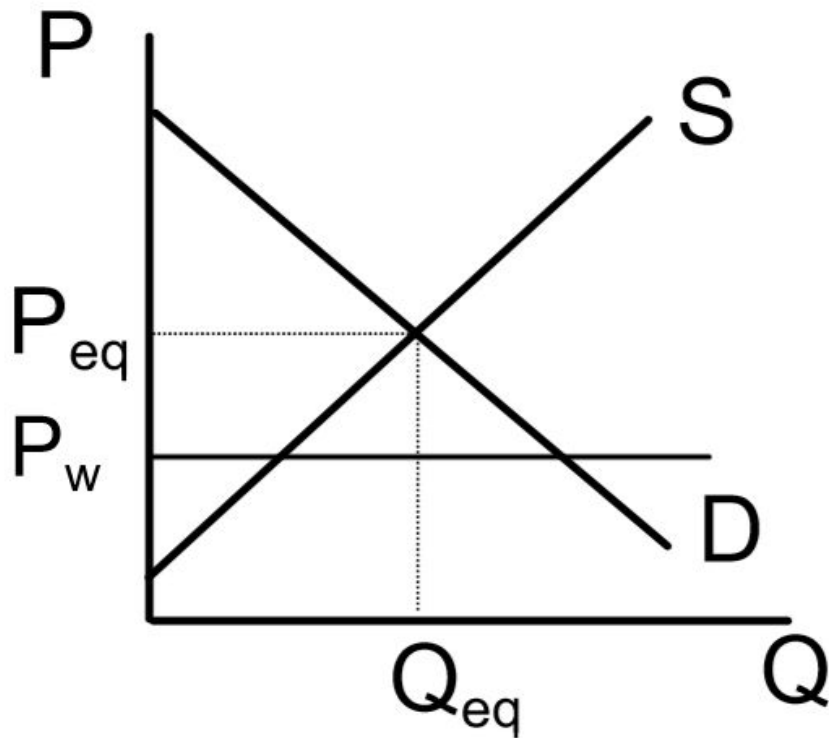
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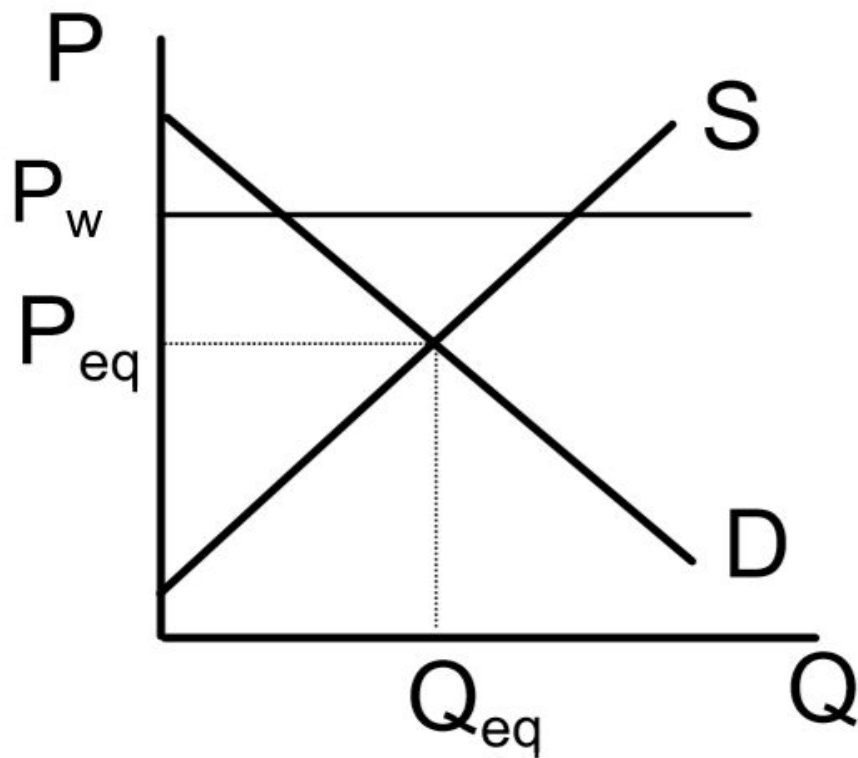# Tips: Barriers to Trade

$P_w < P_{eq}$

Tips: Barriers to Trade

$P_w > P_{eq}$

Jamboard: Graphing Scenarios