

# Gains from Trade

## How does trade make people better off?

### Speaking of Economics

As you complete the Reading Notes, use these terms in your answers:

specialization	economic interdependence
division of labor	absolute advantage
barter	comparative advantage
voluntary exchange	
money	

### PREVIEW

Imagine that you are the manager of a fast-food restaurant. You are outgoing, interact well with customers, and work the cash register proficiently. You are also efficient in the kitchen and can manage several tasks at once, such as making pizzas, preparing salads, and filling drinks. You have one employee who is slow in the kitchen and often struggles to cook while filling drink orders. Your employee works the cash register well but interacts little with the customers.

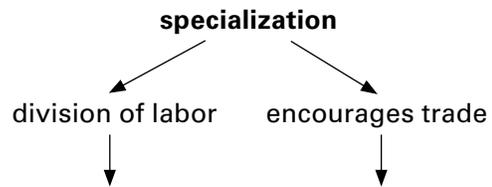
Answer these questions.

1. What is your opportunity cost if you work the cash register?
2. What is your opportunity cost if you work in the kitchen?
3. Based on your opportunity costs, describe where you will work and where you will place your employee. Explain your rationale.

### READING NOTES

#### Section 2

1. As you read, create a flowchart showing the effects of specialization on the economy. Include these terms in your flowchart: *division of labor, productivity, standard of living, economic interdependence*. The flowchart has been started for you.



2. Explain why not all societies specialize.
3. Reflect on a time when you recently traded or bought an item. Describe this exchange, using the following economic terms: *voluntary exchange, coincidence of wants, barter, money*.
4. Create two illustrations, one showing a society that is *self-sufficient* and one showing a society that is *economically interdependent*. For each illustration, write a one- or two-sentence caption that uses these terms.
5. What is significant about the Commerce Clause of the Constitution?

#### Section 3

1. Create a simple sketch showing what Alexander Selkirk and Pirate Jack could produce if the two men lived independently on different sides of the island. Write a one- or two-sentence caption explaining why Pirate Jack has an absolute advantage in food production. Use the term *absolute advantage* in your caption.

2. Create a sketch showing Selkirk and Pirate Jack calculating their opportunity costs to determine their comparative advantage. Write a one- or two-sentence caption explaining why Pirate Jack has a comparative advantage in gathering turnips and Selkirk has a comparative advantage in digging clams. Use the terms *comparative advantage* and *opportunity cost* in your caption.
3. Create a sketch showing Selkirk’s and Pirate Jack’s gains from trade when they produce and trade the good for which they hold a comparative advantage. Write a one- or two-sentence caption explaining why both men benefit from trade in this scenario. Use the terms *comparative advantage* and *gains from trade* in your caption.
4. Sarah and Joe can both produce kites and toy trains. The table shows the number of kites and trains they can each produce in one hour.

**Kites and Trains Produced**

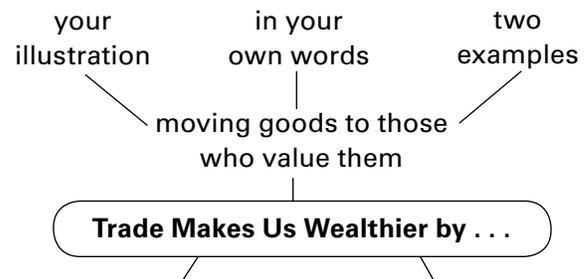
	Trains per Hour	Kites per Hour
Sarah	3	2
Joe	1	1

- a. Who has an absolute advantage in the production of both kites and toy trains? How can you tell?
  - b. Who has a comparative advantage in producing kites? Why?
  - c. Who has a comparative advantage in producing toy trains? Why?
5. Identify the factors that may result in each of the following places having a comparative advantage in producing the corresponding good. For example, for “Idaho—potatoes,” you might write, *Idaho has a comparative advantage in growing potatoes because of its rocky and sandy soil.*
    - a. Hawaii—pineapples
    - b. Texas—beef
    - c. Japan—advanced technologies

**Section 4**

1. Create a spoke diagram showing how trade makes us wealthier.
  - a. In the center of a page, in an oval, write, *Trade makes us wealthier by . . .*
  - b. Attach three spokes to the center oval, one for each of these statements:
    - *moving goods to those who value them*
    - *increasing the quantity and variety of goods*
    - *lowering the costs of goods*
  - c. As you read the section, add three spokes to each statement with these things:
    - a simple illustration
    - an explanation of the statement in your own words
    - two examples of how it makes us wealthier

A sample spoke diagram is started for you.



2. Write one or two sentences in support of this statement: *Free trade is good for America.* Then write one or two sentences that refute it.

**PROCESSING**

Create a colorful comic strip illustrating the concept of comparative advantage. Your comic strip should include

- at least two characters (not Selkirk or Pirate Jack).
- a title.
- a caption or voice bubble containing the term “*comparative advantage*.”
- captions or voice bubbles containing at least two of these terms: *specialize/specialization*, *division of labor*, *opportunity cost*, *absolute advantage*, *economic interdependence*.