

SESSION 14:

Absolute Advantage & Comparative Advantage

Session Description

Students will learn that people engage in trade voluntarily because they expect to benefit. They will also learn the roles that absolute advantage and comparative advantage play in specialization and trade.

Talking Points

1. Trade increases the value society receives from a given or fixed amount of goods and services because both traders gain from a voluntary trade. Each trader receives goods or services that they value more highly than the goods or services they trade.
2. In addition, trade makes specialization possible, allowing people to increase the amount of goods and services that can be produced.
3. The producer/country that has the greater output of a good or service per unit of input (or resource) used has an absolute advantage in the production of that good or service.
4. The producer/country that has the lower opportunity cost of producing a good or service, in terms of other goods or services that must be given up to produce that good or service, has a comparative advantage in the production of that good or service.
5. Even if a producer/country doesn't have an absolute advantage in producing a good or service, it can still have a comparative advantage in producing that good or service.
6. Producers/countries should specialize in the production of those goods or services for which they have a comparative advantage.
7. Trade expands a country's consumption possibilities beyond its production possibilities and, thus, makes it possible for people in the country to consume more goods and services, which are the fundamental gains from trade.

Session 14: Standards and Benchmarks

Arkansas Economic Standards

Strand: Global Economy

Content Standard 7: Students will analyze ways in which trade leads to increased economic interdependence.


- GE.7.E.1 Analyze the role of comparative advantage in trade and global markets using available data and a variety of sources

Common Core State Standards

- CCSS.ELA-Literacy.RH.9-10.1 Cite specific textual evidence to support analysis of primary and secondary sources, attending to such features as the date and origin of the information.
- CCSS.ELA-Literacy.RH.9-10.2 Determine the central ideas or information of a primary or secondary source; provide an accurate summary of how key events or ideas develop over the course of the text.
- CCSS.ELA-Literacy.RH.9-10.4 Determine the meaning of words and phrases as they are used in a text, including vocabulary describing political, social, or economic aspects of history/social science.
- CCSS.ELA-Literacy.SL.9-10.1 Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 9–10 topics, texts, and issues, building on others' ideas and expressing their own clearly and persuasively.
- CCSS.ELA-Literacy.SL.9-10.1d Respond thoughtfully to diverse perspectives, summarize points of agreement and disagreement, and, when warranted, qualify or justify their own views and understanding and make new connections in light of the evidence and reasoning presented.
- CCSS.ELA-Literacy.L.9-10.4 Determine or clarify the meaning of unknown and multiple-meaning words and phrases based on *grades 9–10 reading and content*, choosing flexibly from a range of strategies.
- CCSS.ELA-Literacy.L.9-10.6 Acquire and use accurately general academic and domain-specific words and phrases, sufficient for reading, writing, speaking, and listening at the college and career readiness level; demonstrate independence in gathering vocabulary knowledge when considering a word or phrase important to comprehension or expression.
- CCSS.ELA-Literacy.RH.11-12.1 Cite specific textual evidence to support analysis of primary and secondary sources, connecting insights gained from specific details to an understanding of the text as a whole.
- CCSS.ELA-Literacy.RH.11-12.2 Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.

- CCSS.ELA-Literacy.SL.11-12.1 Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 11–12 topics, texts, and issues, building on others’ ideas and expressing their own clearly and persuasively.
- CCSS.ELA-Literacy.SL.11-12.1d Respond thoughtfully to diverse perspectives; synthesize comments, claims, and evidence made on all sides of an issue; resolve contradictions when possible; and determine what additional information or research is required to deepen the investigation or complete the task.
- CCSS.ELA-Literacy.L.11-12.4 Determine or clarify the meaning of unknown and multiple-meaning words and phrases based on *grades 11–12 reading and content*, choosing flexibly from a range of strategies.
- CCSS.ELA-Literacy.L.11-12.6 Acquire and use accurately general academic and domain-specific words and phrases, sufficient for reading, writing, speaking, and listening at the college and career readiness level; demonstrate independence in gathering vocabulary knowledge when considering a word or phrase important to comprehension or expression.

Session 14: Resources

1. Video: Everyday Economics: Comparative Advantage and the Tragedy of Tasmania (Marginal Revolution University; 7:35);
<http://mr.university.com/courses/everyday-economics/comparative-advantage-and-tragedy-tasmania>
 - a. To create a free account, click “Register” and complete the online form.
 - b. You will receive an email to activate your account.
2. High School Economics (*Virtual Economics*® 4.5)
 - a. Lesson 26: Comparative Advantage
3. Lesson: The Global Economy: It’s a Small World After All (*Page One Economics* Classroom Edition, Federal Reserve Bank of St. Louis);
<https://www.stlouisfed.org/education/page-one-economics-classroom-edition/the-global-economy-its-a-small-world-after-all>
 - a. Choose “Classroom Edition.”
4. Focus Globalization (*Virtual Economics*® 4.5)
 - a. Lesson 2: Why People Trade, Domestically and Internationally
5. Capstone: Exemplary Lessons for High School Economics (*Virtual Economics*® 4.5)
 - a. Lesson 41: Why People Trade: Comparative Advantage
6. Online Course: Comparative Advantage (Federal Reserve Bank of St. Louis)
 - a. Go to <https://www.stlouisfed.org/education>.
 - b. Choose  Teachers: Go directly to the Online Course Login .
 - c. Register or, if you already have an account, log in.
 - d. Register your class for the course as follows:
 - i. Choose the “COURSES” tab.
 - ii. In the “COURSE NAME” column choose “Comparative Advantage.”
 - iii. Choose “ADD TO CLASSROOM” and follow the prompts.