

Tools for Teaching the Arkansas High School Economics with Personal Finance Course

Session 14:

Absolute Advantage and 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.

Standards and Benchmarks (see page 14.4)

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.

Resources

NOTE: See p. v for instructions on how to set up an [Econ Lowdown](#) account and assign resources found in the Resource Gallery to your students.

Online Modules

Allow time for students to complete the modules:

- Comparative Advantage (120:00)
https://www.econlowdown.org/resource-gallery/comparative_advantage
- How Trade Helps Each Side (5:00)
<https://www.econlowdown.org/resource-gallery/how-trade-helps-each-side>
- Jack of All Trades: Production Possibilities Frontier (20:00)
https://www.econlowdown.org/resource-gallery/comparative_advantage_production_possibilities_frontier
- Jack of All Trades: Advanced Specialization (30:00)
https://www.econlowdown.org/resource-gallery/comparative_advantage_advanced_specialization
- Jack of All Trades: Comparative Advantage (30:00)
https://www.econlowdown.org/resource-gallery/comparative_advantage_comparative_advantage
- Jack of All Trades: Benefits of Trade (20:00)
https://www.econlowdown.org/resource-gallery/comparative_advantage_benefits_of_trade
- Opportunity Cost (15:00)
https://www.econlowdown.org/resource-gallery/opportunity_cost

Audio Q&A

Allow time for students to listen to the podcasts and answer the questions:

- EconoFact Audio Series—A Brief History of International Trade (and Why It Matters Today) (30:00)
<https://www.econlowdown.org/resource-gallery/econofact-a-brief-history-of-international-trade-and-why-it-matters-today-podcast>
- EconoFact Audio Series—Trade and Jobs: Who Loses, Who Adapts, and Who Pays? (30:00)
<https://www.econlowdown.org/resource-gallery/econofact-trade-and-jobs-who-loses-who-adapts-and-who-pays>

Reading Q&A

Allow time for students to read the essays and answer the questions:

- *Page One Economics*®—Does International Trade Create Winners and Losers?
<https://www.econlowdown.org/resource-gallery/does-international-trade-create-winners-and-losers>
- *Page One Economics*®—Global Economy: It's a Small World After All
<https://www.econlowdown.org/resource-gallery/the-global-economy-its-a-small-world-after-all>

Lessons

Allow time for students to complete the lessons:

- *High School Economics*, 3rd Edition (email acee@economicsarkansas.org to order this book)
 - Lesson 26: Comparative Advantage
Visuals and activities for this lesson can be found at
<https://highschooleconomics.councilforeconed.org/>
- Comparative Advantage: Trading Pizzas and Brownies
<https://www.stlouisfed.org/education/comparative-advantage-trading-pizzas-and-brownies>

Standards and Benchmarks

Arkansas Economic Standards

Content Standard E.1: Students will understand the impact of economic decision-making. This includes the exchange of goods and services; role of producers, consumers, and government in the marketplace; and growth, stability, and interdependence within a global economy.

Content Standard E.3: Students will understand the exchange of goods and services. This includes different allocation methods and changes in supply and demand; the role of producers, consumers, and government in a market economy; and the degree of competition among buyers and among sellers in markets.

Content Standard E.4: Students will understand the growth, stability, and interdependence within a national economy. This includes the current and future state of the economy using economic indicators and monetary and fiscal policies for a variety of economic conditions.

Content Standard E.5: Students will understand the growth, stability, and interdependence within a global economy. This includes ways in which trade leads to increased economic interdependence.

- **E.5.ECON.1:** Analyze the role of comparative advantage in trade and global markets using available data and a variety of sources.