

# Module 8 – Key Concepts (Ch. 8 & Ch. 9)

## Chapter 8: Comparative and Absolute Advantage

### Absolute Advantage

- When someone (or a country) can produce **absolutely more of a good** using the **same amount of resources**.

### Comparative Advantage

- When someone (or a country) can produce a good at a **lower opportunity cost** than another.
- This measure is relative, you cannot be comparatively better at everything.

## Input vs. Output Approach (OC)

### Output Approach

Opportunity cost is what you give up divided by what you're getting.

### Input Approach

Opportunity cost is time of what you are doing divided by what you are not.

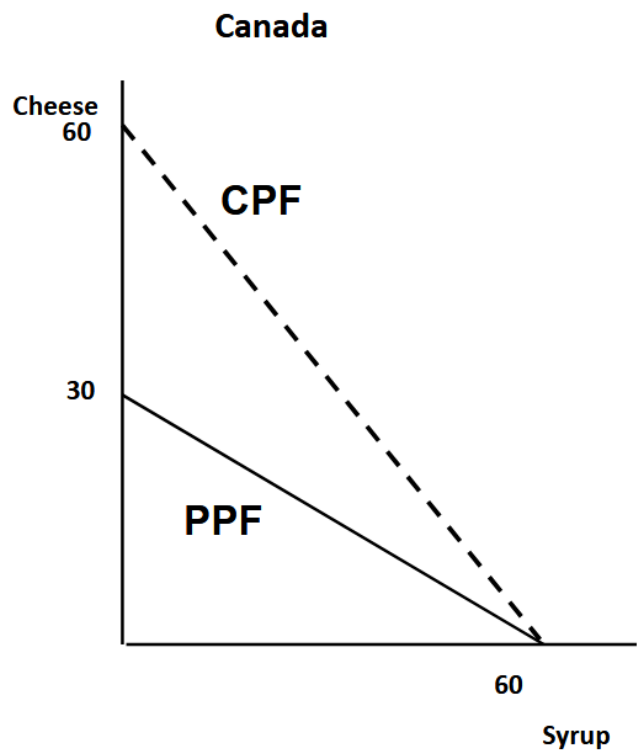
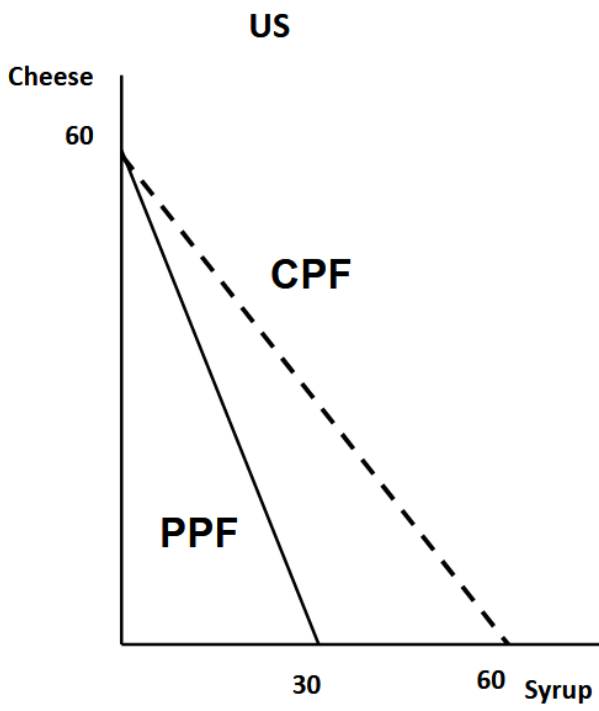
## Chapter 9: International Trade

### Comparative Advantage Between Nations

- Countries specialize in goods where they have a **comparative advantage** and trade for others.
- This allows both nations to **consume beyond their Production Possibility Frontier (PPF)**.

Together, they can lead to **gains from trade**, meaning:

- Total production rises.
  - Both trading partners can **consume more than in autarky** (no trade).
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## Barriers to Trade

### Tariffs

- **Help** domestic producers.
- **Hurt** domestic consumers.
- **Generate** government revenue.
- Create **deadweight loss** (total welfare loss).

### Quotas

- Limits on the **quantity of imports**.
- Similar effects to tariffs but **no government revenue**.