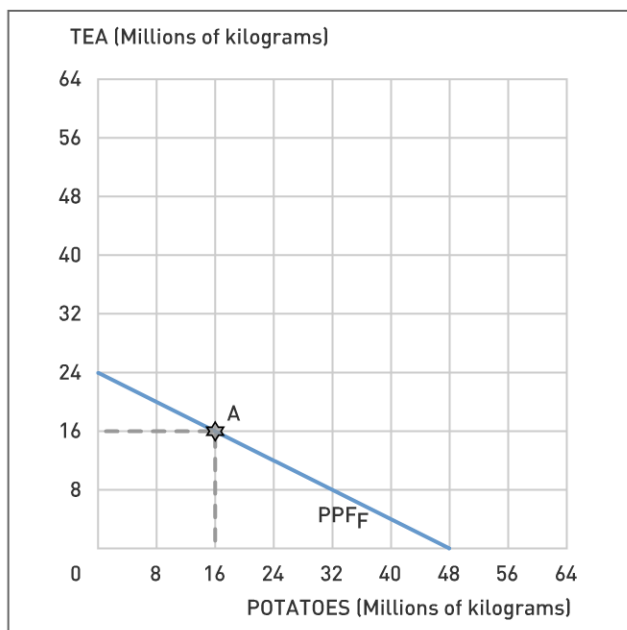


11. Specialisation and trade

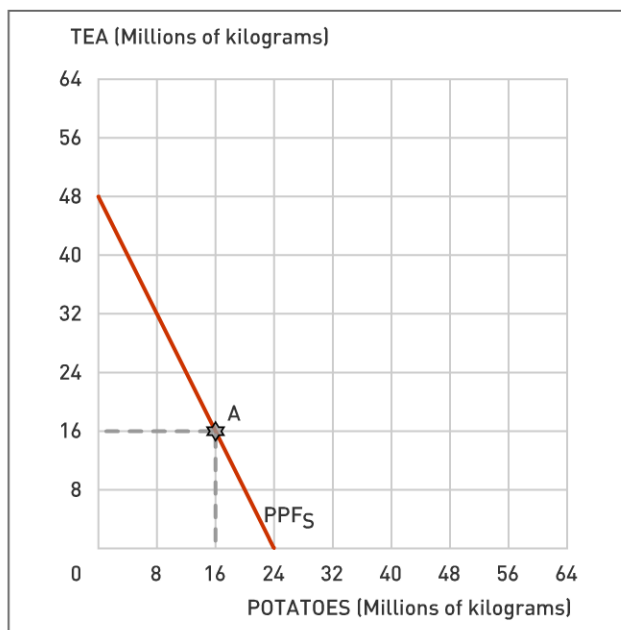
Economists believe that when two countries specialise and trade, each will be able to buy goods in which the other specialises at a lower cost than it would take to produce these goods itself.

The following graphs show the production possibilities frontiers (PPFs) for Freedonia and Sylvania. Both countries produce tea and potatoes, and each initially produces 16 million kilograms of tea and 16 million kilograms of potatoes before specialisation and trade, as indicated by the grey stars marked "A."

Freedonia



Sylvania



Freedonia has a comparative advantage in the production of potatoes ✓, while Sylvania has a comparative advantage in the production of tea ✓. Imagine that Freedonia and Sylvania specialise in the production of the goods in which each has a comparative advantage. Together, the two countries can produce 48 million ✓ kilograms of tea and 48 million ✓ kilograms of potatoes.

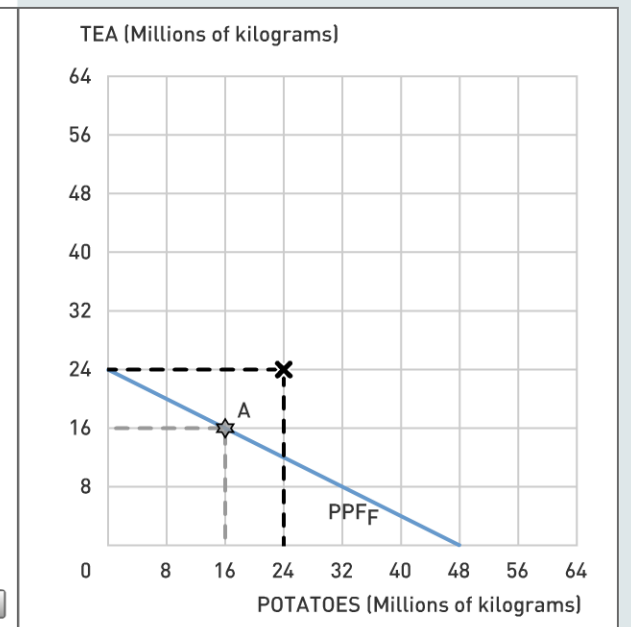
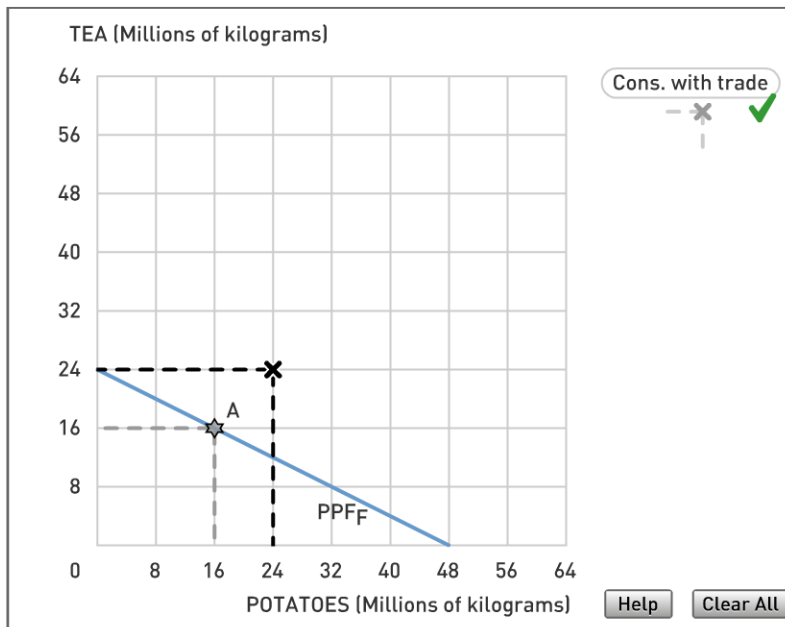
Explanation:

Open ▼

Imagine that Freedonia and Sylvania agree to trade. Each country focuses its resources on producing only the good for which it has a comparative advantage. The countries decide to exchange 24 million kilograms of potatoes for 24 million kilograms of tea.

This graph shows the production possibilities frontier for Freedonia. Place a black point (X symbol) on the graph to indicate Freedonia's consumption after trade. Dashed drop lines will automatically extend to both axes.

Answer

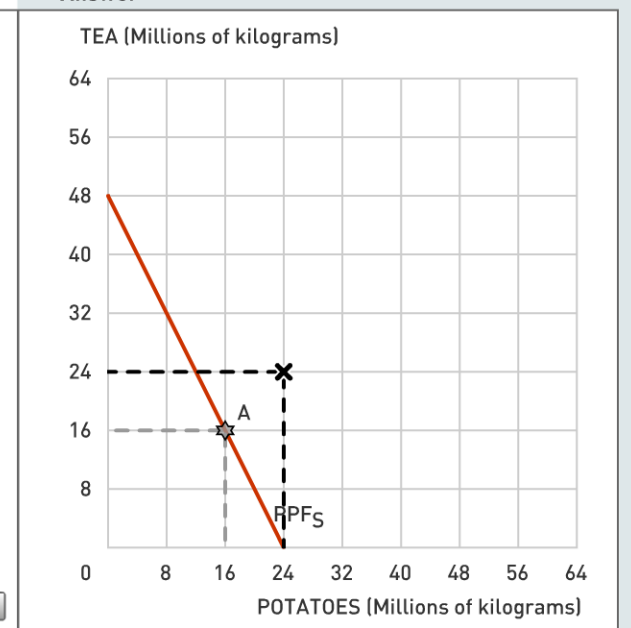
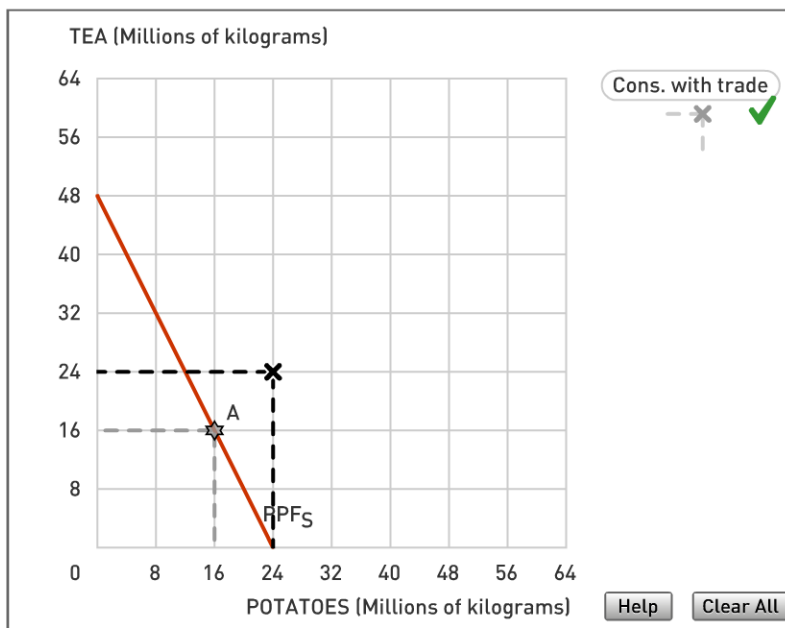


Explanation:

Open

This graph shows the production possibilities frontier for Sylvania. As you just did for Freedonia, place a black point (X symbol) on the diagram to indicate Sylvania's consumption after trade.

Answer



Explanation:

Open

Sylvania and Freedonia would not have been able to consume at the after-trade consumption bundles you found previously if they did not engage in international trade.

Explanation:

Open