Journal 6

2 July 2019

In past classes, we have briefly discussed the Theory of Comparative Advantage. The theory suggests that an individual or group of individuals may be the best at two things, but they must compare and determine which one is more beneficial due to time constraints. In terms of international trade: a country may be the best at producing steel and cotton, but the country will gain more in trade by exporting cotton. Because the country does not have the resources to produce good quality steel and cotton, the country chooses to shift their attention to only producing cotton. Today, we used models to show the practical reasoning behind this theory.

*This was a brief summary*

Say we have two people, Tristan and Aidan. They both are able to produce a table (*T*) and a chair (*C*). Tristan is able to produce one unit of *C* per unit of time spent in *C* production, and

0.5 units of *T* per unit of time spent in *T* production. Aidan is able to produce one unit of *C* per unit of time spent in *C* production, and 0.75 unit of *T* per unit of time spent in *T* production. The price of *C,* over the price of *T* is equal to 0.6. Since the price of *C,* over the price of *T* is greater than 0.5, it is more advantageous for Tristan to produce chairs. Since the price of *C,* over the price of *T* is less than 0.75, it is more advantageous for Aidan to produce tables.

 *Here, this student constructed her own example—different than the one we did in class—and convinces her/him self that she/he understands the concept of comparative advantage by applying it to a new example.*

The situation above would have taken place in autarky. If free trade were to occur, than the price of products would change due to a change in supply and demand. The price of an individual product reflects opportunity costs. If a product requires more resources than it would not be beneficial to produce if average international prices are low. When the relative price of a product is lower in a country (low opp. costs), that country will trade and export that product.

Over time, the price will increase in the autarky due to the lower supply and higher demand.

 *She/he again summarizes in her/his own words what we covered in class.*

 *This is a “conversation with oneself” about what class was about.*