

## 3.1: The Benefits of Trade



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### 3.1 THE BENEFITS OF TRADE: STUDENT LEARNING ACTIVITY

Answer the questions that follow.

#### 1. DEFINITIONS

Define the following terms:

- Closed economy
- Consumer welfare
- Economies of scale
- Exports
- Import
- Inputs
- Long-run average cost
- Market power
- Natural resources
- Open economy
- Raw material
- Real income
- Specialised capital
- X-inefficient

[10 marks]

#### 2. SHORT-ANSWER QUESTIONS

1. Explain the role of specialisation in allowing countries to benefit from international trade.

[4 marks]

2. Explain how the following groups benefit from international trade:

[8 marks]

- i. Producers
- ii. Consumers
- iii. The domestic economy and society
- iv. The global economy and society

3. Explain why international trade is considered as an 'engine for growth'.

[4 marks]

4. Identify 7 benefits of international trade.

[7 marks]

## 3.1: The Benefits of Trade

5. Explain how international trade results in lower prices for consumers. **[4 marks]**
6. Explain how international results in greater choice for consumers. **[4 marks]**
7. Explain how international results in producers being able to benefit from economies of scale. **[4 marks]**
8. Explain how international results in the ability to acquire needed resources to be used in production. **[4 marks]**
9. Explain how international results in a more efficient allocation of resources. **[4 marks]**
10. Explain how international results in increased competition and why this can be a good thing. **[4 marks]**
11. Explain how international creates a source of foreign exchange for countries and why this is a good thing. **[4 marks]**
12. Explain how specialisation can increase both real incomes and the purchasing power of real incomes. **[4 marks]**

### 3. MULTICHOICE QUESTIONS

Choose the best answer to each question. **[20 marks]**

1. Which of the following is not a benefit of international trade?
  - a. Lower prices for consumers
  - b. A more efficient allocation of resources
  - c. Decreased competition
  - d. A source of foreign exchange
2. International trade
  - a. Raises global incomes
  - b. Increases purchasing power parity
  - c. Decreases living standards
  - d. Results in exchange rate appreciation
3. Which of the following is not a benefit of international trade?
  - a. Lower prices for consumers

## 3.1: The Benefits of Trade

- b. Less choice for consumers but better quality goods and services
  - c. The ability of producers to benefit from economies of scale
  - d. The ability to acquire needed resources
4. When a country opens its economy to international free trade, which group is likely better off?
- a. Owners of domestic firms competing with imports
  - b. Households in the domestic economy consuming imports
  - c. Suppliers to domestic firms competing with imports
  - d. Employees in a domestic industry competing with imports
5. Which of the following is not a benefit of international trade?
- a. The ability of producers to benefit from economies of scale
  - b. A source of foreign exchange
  - c. Higher prices for the factors of production
  - d. Increased competition
6. Which of the following is not an assumption of the benefits of free trade?
- a. No production externalities
  - b. Economies of scale
  - c. Zero transportation costs
  - d. Factor of production mobility
7. Which of the following is not one of the gains from free trade?
- a. More allocative efficiency
  - b. More production efficiency
  - c. Decreased short-run average costs
  - d. Producer and consumer welfare gains
8. The main reason that international trade occurs is because of geographical differences in:
- a. Living standards
  - b. Resource endowments
  - c. Economic growth rates
  - d. International mobility of goods and services
9. The increased specialisation that occurs when countries engage in trade results in:
- a. Production externalities
  - b. Lower prices but less consumer choice
  - c. Increased diseconomies of scale
  - d. More consumer choice and increased purchasing power
10. Which of the following is not a benefit of international trade?
- a. Higher prices for consumers
  - b. Greater choice for consumers

# IB Economics – International Trade

## 3.1: The Benefits of Trade

- c. The ability of producers to benefit from economies of scale
  - d. The ability to acquire needed resources
11. Which of the following is not true of international trade?
- a. It makes everyone better off
  - b. On average, it makes most people better off
  - c. A country will always benefit from engaging in trade
  - d. Some groups will be better off, and some will be worse off
12. For any country engaging in international trade, reduced transportation costs will:
- a. Increase exports and decrease imports
  - b. Increase imports and decrease exports
  - c. Increase the volume of international trade
  - d. Decrease imports and increase factor mobility
13. Which is true of the benefits arising from international trade?
- a. Consumers benefit more than producers
  - b. Producers benefit more than consumers
  - c. There are likely winners and losers from international trade
  - d. International trade makes everyone better off
14. International trade will, on average, \_\_\_\_\_ the producer surplus and \_\_\_\_\_ the consumer surplus?
- a. Increase, decrease
  - b. Decrease, increase
  - c. Increase, increase
  - d. Decrease, decrease
15. Which of the following is not a benefit of international trade?
- a. The ability of producers to benefit from economies of scale
  - b. The ability to sell resources cheaply to multinational corporations
  - c. A more efficient allocation of resources
  - d. Increased competition
16. Globally, which is not true for the production of goods and services with international trade?
- a. More can be produced with the same resources
  - b. The same amount can be produced using less resources
  - c. There will definitely be groups in society that are worse off
  - d. Global resource depletion will cease
17. Increased efficiency, greater consumer choice and lower prices are driven by:
- a. Economies of scale only
  - b. Increased competition only
  - c. Economies of scale and increased competition

## 3.1: The Benefits of Trade

- d. The principles of comparative and absolute advantage
18. If one country cannot produce the same good as efficiently as another country it means:
- a. It has comparatively high unit costs
  - b. Has achieved lower economies of scale
  - c. Has an absolute disadvantage in the production of that good
  - d. Has a comparative disadvantage in the production of that good
19. When a country opens its economy to international free trade, which group is likely worse off?
- a. Consumers who now face more choice
  - b. The government who loses tariff revenue
  - c. Exporting firms who now face increased costs of production
  - d. Employees in a domestic industry competing with imports
20. Which of the following is not a benefit of international trade?
- a. The ability of producers to benefit from economies of scale
  - b. A more efficient allocation of resources
  - c. Increased tariff revenues
  - d. Increased competition

### 4. TRUE OR FALSE QUESTIONS

Indicate whether the following statements are true or false.

1. International trade encourages the efficient allocation of scarce resources.  
True  
False
2. International trade brings benefits to all consumer and producer groups.  
True  
False
3. Overall, international trade will benefit consumers and producers.  
True  
False
4. International trade increases the rate of global resource depletion.  
True  
False

## 3.1: The Benefits of Trade

5. The economies of scale from arising from international trade allow producers to charge higher prices.  
True  
False
6. Imports will always make a country poorer as consumers now purchase from overseas producers.  
True  
False
7. International trade makes domestic producers less efficient as competitive pressure increases.  
True  
False
8. International trade makes domestic producers more efficient as competitive pressure decreases.  
True  
False
9. Consumers will have less choice in goods and services as inefficient domestic producers exit the market.  
True  
False
10. Free international trade will improve the welfare of all members of society.  
True  
False