

57. Explain reasons for trade between nations and the impact of international trade (E-1B-M6)

What book, published in 1776, describes the capitalist system of international trade? \_\_\_\_\_

The author was: \_\_\_\_\_

He proposed that international trade benefits all concerned because it allows each nation to \_\_\_\_\_. That means that each nation is free to produce what it best produces and trade with other nations for what they best produce.

For example, imagine that England can produce 10 units of wool for 3 units of resources (labor, land, entrepreneurship, and capital multiplied by technology) in a year. France can produce 11 units of cheese for 5 units of resources in a year. However, England can only produce 6 units of cheese for 5 units of resources and France can only produce 7 units of wool for 4 units of resources in a year.

If each country seeks to be self-sufficient (i.e., produce their own goods and avoid international trade), and each country has 10 units of resources to spend, how much wool and cheese can each have in a year?

	England	France
Cheese		
Wool		

If each country trades goods at a 1:1 ratio (i.e., one unit of cheese for one unit of wool), how much can each have in a year?

	England	France
Cheese		
Wool		

Which alternative creates the most wealth (i.e., units of goods owned) in a year?

\_\_\_ Self-Sufficiency      \_\_\_ International Trade