

Lesson Plan: International Trade  
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Overview: This lesson is a brief overview of international trade. Included in this lesson are two activities that complement a Power Point presentation. The activities and Power Point were designed for a class on a block schedule but can easily be adjusted for other schedules. The lesson is intended for a high school Economics class.

Standards: This lesson was designed to address **Indiana State Standard Eight (8) for Economics – Trade**: Students will understand why individuals, businesses, and governments trade goods and services and how trade affects the economies of the world.

Objectives:

1. Students will be able to distinguish between absolute and comparative advantages in trade.
2. Students will be able to understand and defend the economic importance of international trade.
3. Students will be able to distinguish between fixed and flexible exchange rates.
4. Students will be able to analyze and explain the reasons for fluctuating values of currencies in relationship to one another.

Activities:

1. The main activity of this lesson is the Power Point presentation. The presentation can be used in its entirety or broken down in two parts (slides 1-10 and 11-18).
2. The first supporting activity is the Enrichment Activity for Comparative Advantage. This should be completed in conjunction with slide number five (5).
3. The second supporting activity is the Enrichment Activity for Converting Currency. This activity should be completed after slide fifteen (15). **Students will need to bring in a newspaper ad from a store like Wal-Mart, Meijer's, Target, or Kohl's.**

Note: Included with each Enrichment Activity is an answer key. (See the following 6 pages.)

Name \_\_\_\_\_

Date \_\_\_\_\_

### Enrichment Activity – Comparative & absolute Advantages

Product	Country A	Country B
One DVD Player	3 Hours of Labor	16 Hours of Labor
One TV	6 Hours of Labor	8 Hours of Labor
Total to make one of each	9 Hours of Labor	24 Hours of Labor

Suppose that Country A and Country B both make DVD players and TV's. The table above lists the production cost in terms of hours of labor for each product. Answer the following questions based upon the information provided in the table above.

1. Which country has the absolute advantage in producing DVD players? Please explain why?

\_\_\_\_\_

\_\_\_\_\_

2. Which country has the absolute advantage in producing TV's? Please explain why?

\_\_\_\_\_

\_\_\_\_\_

3. How many TV's is Country A giving up by producing one DVD player? \_\_\_\_\_ . How many DVD players is Country A giving up by producing on TV? \_\_\_\_\_ .

***The cost of what Country A gives up to make a TV or a DVD player can also be called the opportunity cost.***

4. What is Country B's opportunity cost of producing one DVD player? \_\_\_\_\_ . What is Country B's opportunity cost of producing one TV? \_\_\_\_\_ .

5. Which country has the comparative advantage in producing DVD players? Please explain why.

\_\_\_\_\_

\_\_\_\_\_

6. Which country has the comparative advantage in producing TV's? Please explain why.

\_\_\_\_\_

\_\_\_\_\_

7. Looking at this two countries, explain why one country can have an absolute advantage in producing something but not have a comparative advantage.

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8. How could Country A and Country B both save time by specializing in the production of one item and then trading to obtain the other? How much extra time would each country have as a result?

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9. Could each nation use the extra time to produce another item?

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Name \_\_\_\_\_

Date \_\_\_\_\_

**Enrichment Activity – Comparative & absolute Advantages**

Product	Country A	Country B
One DVD Player	3 Hours of Labor	16 Hours of Labor
One TV	6 Hours of Labor	8 Hours of Labor
Total to make one of each	9 Hours of Labor	24 Hours of Labor

Suppose that Country A and Country B both make DVD players and TV's. The table above lists the production cost in terms of hours of labor for each product. Answer the following questions based upon the information provided in the table above.

10. Which country has the absolute advantage in producing DVD players? Please explain why?

Country A, because it takes less time to produce a DVD Player.

11. Which country has the absolute advantage in producing TV's? Please explain why?

Country A, because it takes less time to produce one TV.

12. How many TV's is Country A giving up by producing one DVD player?

$\frac{1}{2}$  of a TV How many DVD players is Country A giving up by producing one TV? 2 DVD Players

***The cost of what Country A gives up to make a TV or a DVD player can also be called the opportunity cost.***

13. What is Country B's opportunity cost of producing one DVD player? 2 TV's

What is Country B's opportunity cost of producing one TV?  $\frac{1}{2}$  of a DVD Player

14. Which country has the comparative advantage in producing DVD players? Please explain why.

Country A has the comparative advantage in producing DVD players because its opportunity cost is less. It gives up only  $\frac{1}{2}$  of a TV compared to 2 TV's for Country B.

15. Which country has the comparative advantage in producing TV's? Please explain why.

Country B has the comparative advantage in producing TV's because it only gives up  $\frac{1}{2}$  of a DVD player while Country A must give up 2 DVD players to make 1 TV.

16. Looking at these two countries, explain why one country can have an absolute advantage in producing something but not have a comparative advantage.

Although Country A has the absolute advantage in producing both DVD players and TV's it does not have the comparative advantage in producing both. The reason for this is because comparative advantage considers what the country must give up in order to produce a certain product. In this example Country B is giving up less to make TV's than Country A is.

17. How could Country A and Country B both save time by specializing in the production of one item and then trading to obtain the other? How much extra time would each country have as a result?

If Country A specialized in making DVD players and Country B specialized in making TV's they could trade for the other product. Country A would spend six hours to make two DVD players and Country B would spend sixteen hours making only TV's. If they traded one product for another then they would both have one of each. Country A would save three hours and Country B would save eight hours.

18. Could each nation use the extra time to produce another item?

Both countries could use the time they save to produce one more product and therefore would have one of each plus an extra.

Name \_\_\_\_\_

Date \_\_\_\_\_

### Enrichment Activity – Converting Currency

**Directions:** First find the current exchange rates for five different currencies. These can be found in major newspapers or on the internet. One such website is [www.xe.com](http://www.xe.com). Place the name of the currency in the top row of the chart. Then place the amount of that currency that one (1) U.S. Dollar would buy.

Currency:					
One (1) US \$ =					

Second select ten items from the newspaper ad that you brought with you. The ten items should be from a few different types of products. (Clothing, Hardware, Groceries, Cleaning Supplies, Electronics, and Office/ School Supplies would all be examples of different types of products). Enter the name of the product and its cost in the first two columns of the chart below. Then enter the names of the currencies that you have selected above. Next, calculate the price of the product in each currency by dividing the price in U.S. Dollars by the exchange rate listed above for each currency. (\$25.99/.82Euro = 31.70 Euro)

		Currency One	Currency Two	Currency Three	Currency Four	Currency Five
Product	Price in \$					

1. Which countries would you expect to import more U.S. consumer goods? Why?

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2. Which countries would you expect to import less consumer goods from the United States? Why?

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Name \_\_\_\_\_

Date \_\_\_\_\_

## Enrichment Activity – Converting Currency

**Directions:** First find the current exchange rates for five different currencies. These can be found in major newspapers or on the internet. One such website is [www.xe.com](http://www.xe.com). Place the name of the currency in the top row of the chart. Then place the amount of that currency that one (1) U.S. Dollar would buy. **Currencies and values will vary. Examples could include:**

Currency:	EUR	GBP	JPY	CAD	CHF
One (1) US \$ =	.814	.542	110.539	1.316	1.253

Second select ten items from the newspaper ad that you brought with you. The ten items should be from a few different types of products. (Clothing, Hardware, Groceries, Cleaning Supplies, Electronics, and Office/ School Supplies would all be examples of different types of products). Enter the name of the product and its cost in the first two columns of the chart below. Then enter the names of the currencies that you have selected above. Next, calculate the price of the product in each currency by dividing the price in U.S. Dollars by the exchange rate listed above for each currency. (\$25.99/.82Euro = 31.70 Euro)

		Currency One	Currency Two	Currency Three	Currency Four	Currency Five
Product	Price in \$	EUR	GBP	JPY	CAD	CHF
Products will vary	Prices will vary					

- Which countries would you expect to import more U.S. consumer goods? Why?  
**Answers will vary. Those countries that have currencies that are stronger than the Dollar would be expected to import more U.S. consumer goods because it would be cheaper for them to do so.**
- Which countries would you expect to import less consumer goods from the United States? Why?

Answers will vary. Those countries that have currencies that are weaker than the Dollar would be expected to import less U.S. consumer goods because it would be more expensive for them.