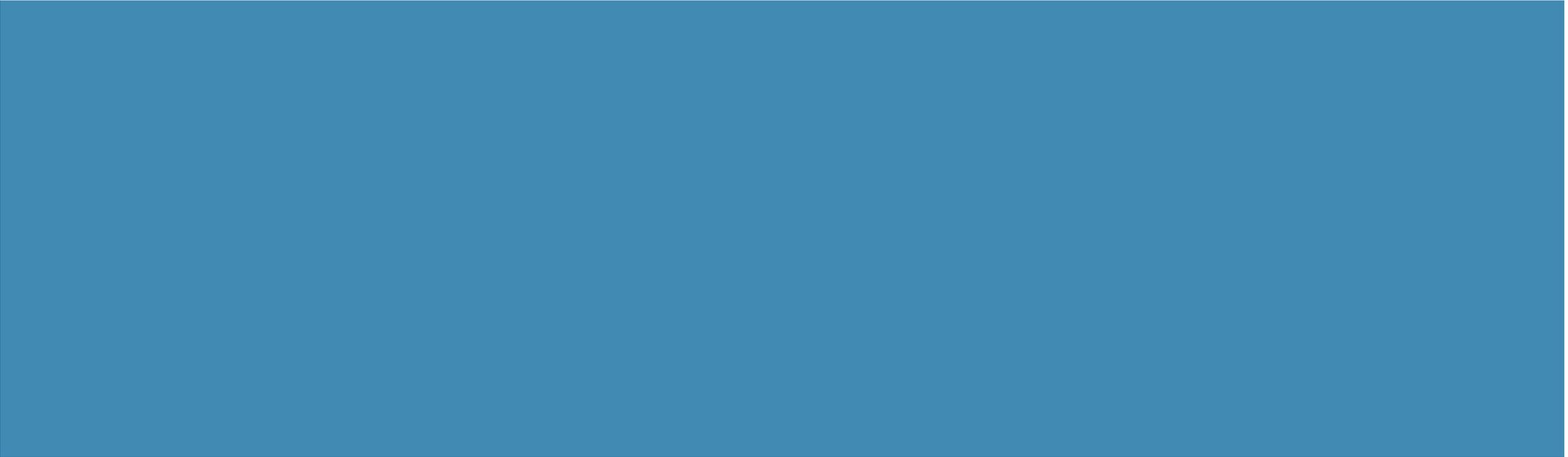




TRADE CREATES VALUE

UNIT II: 5 PRINCIPLES OF ECONOMICS



Picture all of the things you want – can you produce them?

HISTORY OF MARKETS

- Early humans satisfied their own needs by creating goods – no trade occurred
 - Self-sufficiency
- Nomadic herds form and begin bringing resources from place A to place B
- Small group trade occurred
- Established societies develop
- Communities seek resources unavailable in settled lands
- Wars contribute to the sharing of ideas and goods – trade routes will develop
- Societies develop routes of transportation – roads and water
- Special areas are created for the buying and selling of goods
- Specialization occurs
- Societies develop specific industries using local resources
- Trade occurs to improve all parties involved

TYPES OF MARKETS



amazon

ebay



“The division of labour is limited by the extent of the market”

-Adam Smith

PURPOSE OF TRADE

- **Trade:** The voluntary exchange of goods and services between two or more parties.
- Trade leads to **specialization**
 - When a business or area focuses on the production of a limited scope of products or services in order to gain greater degrees of productive efficiency within the entire system of businesses or areas.



PURPOSE OF TRADE

- Traders seek a **comparative advantage**
 - A situation in which an individual, business, or country can produce at a lower opportunity cost than a competitor can
 - In the United States people are specialized because of comparative advantage.
 - People become doctors, lawyers, teachers, plumbers, chefs, and entrepreneurs and rely on each other to take care of areas they are not skilled in.
 - This frees up time and resources for people to improve in their one area beyond what they could have if they had to spread out resources
- *Trade may not always guarantee equality – sometimes 2 parties win while 1 loses out.



QUESTIONS FOR CONSIDERATION

- If specialization leads to stronger trade and economies why doesn't the government help make college more affordable?
- Does a lower minimum wage impact the amount of people willing to enter the labor force?
 - Does this help or hurt specialization?
- What role does the government have in regulating trade with foreign countries?
- Do copyrights, trademarks, and patents (that restrict trade) limit economic growth?
- How do state-controlled markets fail according to Smith's theory of *The Invisible Hand*?

Participants in trade should seek to gain something of more value to them than they gave up