

# The gains from trade

## Part 1: Dynamic gains



WACE Economics: Unit 3

Video 2.1

# Static and dynamic gains

## **STATIC GAINS**

- More efficient allocation of resources
- Countries specialise in making the products in which they are internationally competitive

## **DYNAMIC GAINS**

- Extra competition – reduction in prices
- Extra choice – access to global brands
- Economies of scale – reduction in costs of production
- Learning economies – producers learn how to do things better
- International relations - Peace dividend
- Administrative savings – reduced time at borders

# Dynamic gains #1

## Increased competition

- Trade **increases competition**
- Domestic industry becomes **more efficient** to stay competitive
- Shifts domestic **supply curve downwards** or to the right)

### Evidence?

Inflation for traded products (tradables) is lower than inflation for products not traded internationally.

# Dynamic gains #2

## Increased variety / choice

More producers means product variety.

Consumers have added choice from extra brands and designs.

Evidence?

Most consumer goods, food and drink, travel and tourism

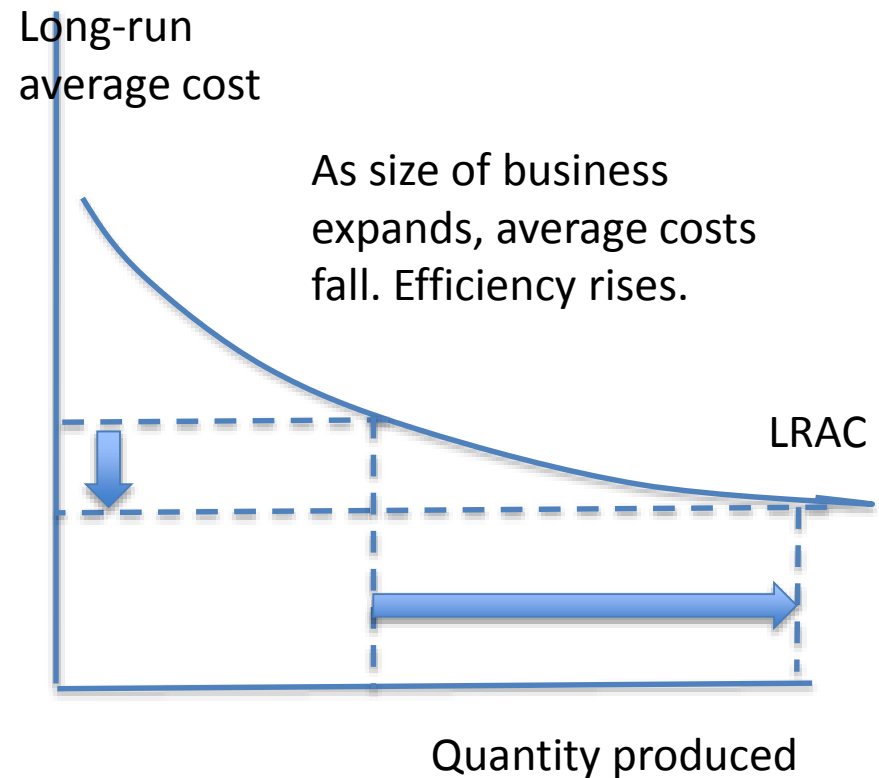
# Dynamic gains #3

## Economies of scale

Specialisation allows producers to increase the scale of their operations.

Increased production allows for producers to benefit from **economies of scale**.

### Economies of scale



# Examples of economies of scale

## Internal

(savings from within firm)

- Bulk buying
- Cheaper finance
- Better use of indivisible capital / management
- Marketing
- Distribution

## External

(savings due to others)

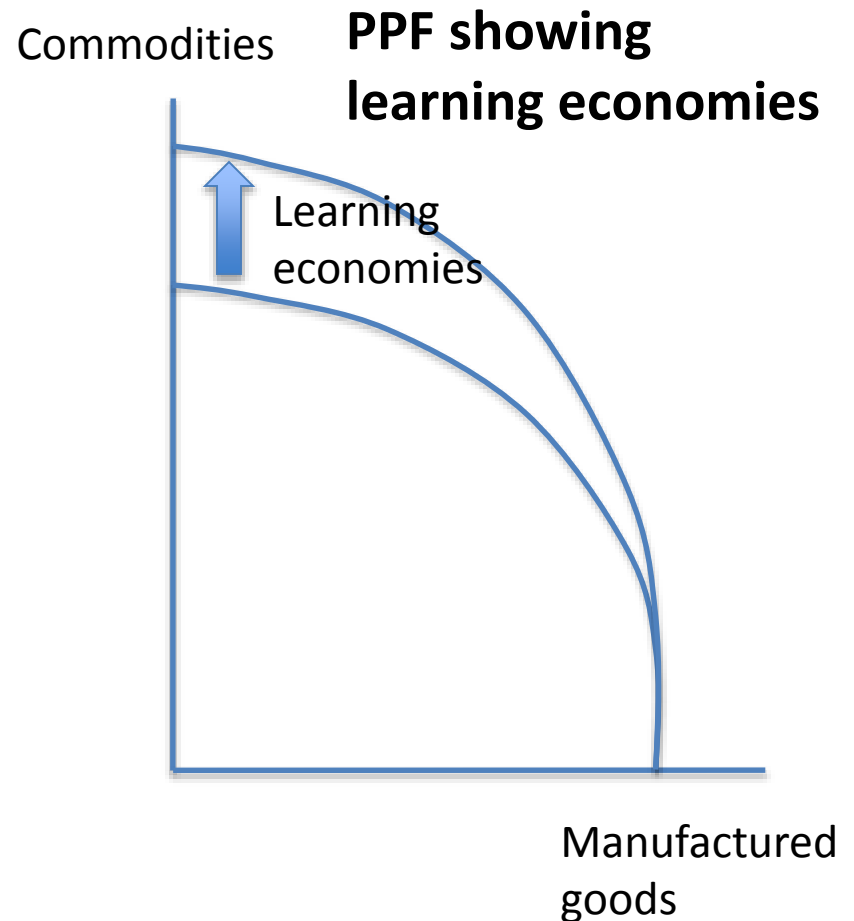
- Education / training provision
- Agglomeration (linked businesses locate nearby)
- Infrastructure (e.g. government builds new ports and roads)

# Dynamic gains #4

## Learning economies

Countries specialise in making products in which they are relatively efficient.

Increased production allows producers to gain knowhow and expertise and produces **learning economies**.



# Dynamic gains #5 – Peace Dividend

Countries that trade with each other (arguably) experience improved international relations and receive a so-called 'peace dividend'



## **Evidence?**

European Union, McDonalds?



# Dynamic gains #6 – Administrative gains

Trade agreements allow products to flow freely across national borders, reducing time and transport costs.



## **Evidence?**

Concern about reinstating a 'hard border' between Northern Ireland and Ireland (Eire) after Brexit

# Dynamic gains from trade: Summary

## **DYNAMIC GAINS**

- Extra competition – reduction in prices
- Extra choice – access to global brands
- Economies of scale – reduction in costs of production
- Learning economies – producers learn how to do things better
- International relations - Peace dividend
- Administrative savings – reduced time at borders

**End of presentation**