

ECONOMICS AT WORK EXERCISE

THE GAINS FROM INTERNATIONAL TRADE

REFERENCE: ‘The payoff from free trade’ (by Margaret Popper), *Business Week*, 24 June 2002, p. 26.

CHAPTERS RELEVANT TO THIS EXERCISE: Chapter 17 (*Microeconomics*), Chapter 20 (*Macroeconomics*).

OVERVIEW

The conclusion of economic theory that free trade is beneficial to nations is borne out by the results of a Canadian study which shows that countries with the freest trade had the highest rates of growth in Gross Domestic Product over the last decade of the twentieth century.

QUESTIONS

1. What are the criteria of ‘openness’ or ‘freedom of trade’ used in the study referred to in the article?
2. What did the study conclude about the comparative rates of *economic growth* of the top one-fifth of countries (in terms of freedom of trade) and the bottom one-fifth of countries?
3. How much ‘richer’ (as measured by Gross Domestic Product per capita) are the top 20 per cent of countries compared with the bottom 20 per cent? Elaborate on the distinction between the measures used in answering questions 2 and 3, and in talking about the gains from international trade generally.
4. What countries were ranked top in openness or freedom of trade? Where would you expect Australia to rank, and why? What countries would you expect to rank low in the list, and why?
5. Why is free trade of more importance to smaller countries?