**INTERNATIONAL TRADE**

The benefits of international free trade for countries and consumers do not arise because different countries are absolutely more efficient at producing certain goods, i.e. they have an absolute advantage, but because they are relatively more efficient i.e. they have a comparative advantage in the production of certain goods. These benefits may, however, be short lived if countries try to protect themselves from foreign competition by using trade restrictions, as these have effects not only on a country’s volume of trade but also on consumers within that country, exchange rates and gross national product.

(a) Explain what is meant by:

(i) international free trade;

(ii) exchange rates;

(iii) gross national product.

(b) Explain the difference between comparative and absolute advantage.

(c) (i) Explain how countries may benefit if they specialise and trade.

(ii) What disadvantages may arise if a country only specialises in the production of one or two goods.

(d) What advantages are there for consumers within a country if free international trade takes place?

(e) Explain how and why countries may wish to restrict trade. (Examples of real-life situations may be used in your answer).

**PROBLEMS CAUSED BY INFLATION**

What are the main problems associated with inflation?

Answer for the following question should be about a page