

- Country Y has absolute advantage (is more efficient) at producing both goods
- However Country Y is relatively more efficient (comparative advantage) when producing food
 - It produces food at a ratio of 4:1 (20/5) versus Country X and machinery at a ratio 3:1 (30/10)
 - Country Y should specialise in producing Food and trade for machinery

- Both Countries Specialise

Country	Commodities	
	Food	Machinery
Country X		$(10 \times 2) = 20$
Country Y	$(20 \times 2) = 40$	
Total Output	40	20





- Production for food has increased by 60% (15/25).
- Production of Machinery has decreased by 50% (20/40).
- Assuming there are only two countries in the world, as the 60% increase in food production is greater than the 50% decrease in Machinery production the world is using its resources more efficiently

- Terms of Trade
 - The number of imports that can be purchased with a unit of export
- Country X
 - 1 unit of Food is worth 2 Machines (10/5)
 - 1 Unit of Machinery is worth $\frac{1}{2}$ a unit of Food (5/10)
- Country Y
 - 1 Unit of Food is worth $1\frac{1}{2}$ a machines (30/20)
 - 1 Unit of Machinery is worth $\frac{2}{3}$ a unit of food (20/30)
- Terms of Trade
 - 1 unit of food is worth between $1\frac{1}{2}$ and 2 Machines
 - 1 machine is worth between $\frac{1}{2}$ and $\frac{2}{3}$ a unit of food

- Both Countries Specialise

Country	Commodities	
	Food	Machinery
Country X		$(10 \times 2) = 20$
Country Y	$(20 \times 2) = 40$	
Total Output	40	20

- Both Countries Trade

Country	Commodities	
	Food	Machinery
Country X	8 	5 
Country Y	32 	15 
Total Output	40	20