

- China has absolute advantage (is more efficient) at producing both goods
- However China is relatively more efficient (comparative advantage) when producing TVs
 - It produces Clothing at a ratio of 4:3 ($\frac{4}{3}$) versus Spain and cars at a ratio 2:1 ($\frac{21}{10}$)
 - China should specialise in producing TVs and trade for clothing

- Both Countries Specialise

Country	Commodities	
	Clothing	TVs
SK	$(30 \times 2) = 60$	
China		$(20 \times 2) = 40$
Total Output	60	40

- Production for TVs has increased by 33% (10/30).
- Production of Machines has decreased by 14.2% (10/70).
- Assuming there are only two countries in the world, as the 33% increase in TV production is greater than the 14.2% decrease in clothings production the world is using its resources more efficiently and both countries benefit from trade

- Terms of Trade
 - The number of imports that can be purchased with a unit of export
- SK
 - 1 unit of Clothing is worth $\frac{1}{3}$ TV (10/30)
 - 1 Unit of TV is worth 3 (30/10/20) units of clothing
- China
 - 1 Unit of Clothing is worth $\frac{1}{2}$ a TV (20/40)
 - 1 Unit of TV is worth 2 units of Clothing 40/20)
- Terms of Trade
 - 1 unit of clothing worth between $\frac{1}{2}$ and $\frac{1}{3}$ of a TVs
 - 1 TV is worth between 2 and 3 a unit of clothing