**1. Define free trade and explain one benefit it provides to consumers.** (5 marks)

**Answer:**

* **Definition (2 marks):** Free trade refers to the international exchange of goods and services without any government-imposed restrictions like tariffs, quotas, or subsidies.
* **Benefit (3 marks):** One significant benefit of free trade to consumers is access to a wider variety of goods and services. When countries engage in free trade, they can import goods that may not be produced domestically or that are produced more cheaply abroad, leading to greater consumer choice and lower prices. This increased competition among producers from different countries drives down prices, allowing consumers to purchase more for less, thereby increasing their overall welfare.

**2. Explain the difference between absolute and comparative advantage, using examples.** (7 marks)

**Answer:**

* **Absolute Advantage (2 marks):** A country has an absolute advantage when it can produce a good using fewer resources (e.g., labor, capital) than another country. For example, if Country A can produce 10 tons of wheat using the same resources that Country B uses to produce 5 tons, Country A has an absolute advantage in wheat production.
* **Comparative Advantage (3 marks):** Comparative advantage occurs when a country can produce a good at a lower opportunity cost than another country, even if it does not have an absolute advantage. For example, if Country A is more efficient in producing both wheat and cloth compared to Country B but is relatively more efficient at producing wheat, it has a comparative advantage in wheat production. Country B would then have a comparative advantage in cloth, even if it is less efficient overall.
* **Examples (2 marks):** If Country A focuses on wheat and Country B on cloth, both countries can trade and benefit from specialization based on comparative advantage, leading to increased total output and welfare.

**3. Discuss the impact of free trade on a country's economic growth.** (10 marks)

**Answer:**

* **Introduction (2 marks):** Free trade can significantly influence a country's economic growth through various channels, including resource allocation, economies of scale, and market expansion.
* **Resource Allocation (2 marks):** Free trade allows countries to allocate resources more efficiently by specializing in the production of goods where they have a comparative advantage. This leads to a higher overall output and an increase in GDP.
* **Economies of Scale (2 marks):** With access to larger markets, firms can expand production, reducing the average cost per unit due to economies of scale. This increased efficiency contributes to higher economic growth.
* **Technology and Innovation (2 marks):** Exposure to international competition forces domestic firms to innovate, adopt new technologies, and improve productivity, all of which are essential drivers of long-term economic growth.
* **Capital and Investment (2 marks):** Free trade often leads to increased foreign direct investment (FDI), as multinational corporations seek to invest in countries with open markets. This influx of capital can boost economic growth by enhancing the productive capacity of the economy.

**4. Evaluate the extent to which free trade can lead to both benefits and costs for a developing country.** (15 marks)

**Answer:**

* **Introduction (2 marks):** Free trade offers significant benefits to developing countries, including economic growth and increased consumer welfare, but it also presents challenges such as income inequality and the loss of domestic industries.
* **Benefits of Free Trade (5 marks):**
  + **Economic Growth (2 marks):** Free trade encourages specialization based on comparative advantage, leading to more efficient resource use and higher GDP. Developing countries can export goods in which they have a comparative advantage, generating foreign exchange and improving their balance of payments.
  + **Access to Technology (1 mark):** Developing countries can import advanced technology and capital goods, boosting their productivity and industrial growth.
  + **Consumer Benefits (2 marks):** Consumers in developing countries gain access to a wider range of goods and services at lower prices, improving their standard of living.
* **Costs of Free Trade (5 marks):**
  + **Structural Unemployment (2 marks):** The influx of cheaper foreign goods can lead to the decline of domestic industries unable to compete, resulting in job losses and structural unemployment.
  + **Income Inequality (2 marks):** While free trade may increase overall wealth, the benefits may be unevenly distributed, leading to greater income inequality within the country.
  + **Loss of Sovereignty (1 mark):** Over-reliance on foreign markets can reduce a country's ability to make independent economic decisions, leading to potential exploitation by more powerful economies.
* **Conclusion (3 marks):** While free trade can drive economic growth and development, the extent of its benefits depends on how well a developing country manages the associated risks. Policymakers must ensure that the gains from trade are widely shared and that safety nets are in place for those adversely affected by trade liberalization. Strategic trade policies and investments in education and infrastructure are crucial for maximizing the benefits of free trade while minimizing its costs.

**5. Discuss how the concept of comparative advantage can lead to mutual benefits in international trade.** (10 marks)

**Answer:**

* **Introduction (2 marks):** Comparative advantage is the cornerstone of international trade theory, explaining how countries can benefit mutually by specializing in the production of goods where they have the lowest opportunity cost.
* **Theory Explanation (4 marks):**
  + **Opportunity Cost (2 marks):** Comparative advantage is based on the concept of opportunity cost, which measures the trade-off between different goods. A country has a comparative advantage if it can produce a good at a lower opportunity cost than another country.
  + **Specialization (2 marks):** By specializing in goods with lower opportunity costs and trading for others, countries can increase their total output and enjoy a more efficient allocation of resources.
* **Mutual Benefits (4 marks):**
  + **Increased Output (2 marks):** Trade based on comparative advantage allows countries to produce more of what they are best at and trade for what they are less efficient at producing, leading to an overall increase in global production.
  + **Consumer Welfare (2 marks):** Consumers in all trading countries benefit from a wider range of goods and services, often at lower prices, which enhances their welfare.