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# INEQUALITY AND TRADE

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**Segment Length: 4:26 minutes**

## **Lesson Description:**

Do the rich get richer and the poor get poorer? Does trade with other countries hurt us? Should we produce everything on our own? This segment looks at income, jobs, and trade.

## **Concepts & Key Terms:**

*Absolute Advantage* – The ability to produce a good or service at a lower cost/using fewer resources than others.

*Comparative Advantage* – The ability to produce a good or service at a lower opportunity cost – give up less – than others.

*Opportunity Cost* – The next best alternative not selected to what a person chooses; what one gives up for what one gets. Opportunity can be represented in terms of money, time, convenience, or other values. (See Opportunity Cost in the Articles and Videos in the Resources section for in-depth explanations.)

*Zero-Sum Game* – The belief that in economic transactions, one party loses and one party gains.

## **Objectives:**

Students will be able to:

- evaluate the two sides in the debate over whether poor people are becoming poorer.
- summarize the importance of trade on our lifestyles.
- hypothesize the effects of trade restrictions to protect citizens' jobs.

## **Preview Activity and Questions:**

Have students answer one of the following questions in their notebooks:

1. Have you heard the expression, “The rich get richer and the poor get poorer”? Do you think it is true? Why / Why not?
2. What does it mean to get richer? Is it just about money?

Use Think, Pair, Share to have students answer the preview question.

## **Viewing Guide:**

It is recommended that teachers show the video segment twice: once to allow students to view the video and focus on the issues presented, and once to allow them time to complete the viewing guide. After they complete the viewing guide, allow students a few minutes to work in pairs sharing and verifying answers.

## **Answers to Viewing Guide:**

1. myth
2. less
3. zero sum
4. countries
5. human history

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Class \_\_\_\_\_ Period \_\_\_\_\_ Teacher \_\_\_\_\_

## **Inequality and Trade Viewing Guide**

**Directions: As you watch the video, fill in the blanks with the correct words.**

1. We hear this \_\_\_\_\_ from the left and the right.
2. What are the poorest people in the U.S. able to consume today? So we can look at things like airline travel or cell phones, computers, cars, even things like living space. And what we see is that the poor today spend much \_\_\_\_\_ of their income on these kinds of items than they did before, and they're much more accessible to people today, even though they were once exclusively reserved for only the wealthiest Americans.
3. One reason people think the poor are doing worse is that they think it's a \_\_\_\_\_ - \_\_\_\_\_ game. Hollywood tells them that all the time.
4. Econ101 tells us that when \_\_\_\_\_ can trade those things that they're really good at making that it increases wealth overall. It's what economists refer to as comparative advantage. So comparative advantage says we should make things that it's cheap for us to make and we should buy from other people the things that it's expensive for us to make.
5. Trade has lifted millions of people out of poverty, particularly over the last 30 years. We now see the lowest number of people living in absolute poverty. That's under \$2 a day, the lowest it's ever been in recorded \_\_\_\_\_ . And that is directly related to trade.

**Now, take a few moments to reflect on the video and answer the questions below:**

What do you think are the two key points in this video segment?

1. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

2. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## Discussion and Analysis:

1. Do we live better today than people who lived 50 years ago? Explain.
2. Abby Blanco said that poor people spend less of their income on airline travel, cell phones, computers, cars, even living space, but those things are much more accessible to people today. What is the point she is making?
3. Why do you think most Americans believe that the poor are getting poorer?
4. The graph with the data from the Bureau of Labor Statistics showed income rising for all groups. How does that support or refute John Stossel's statement about the myth of the poor getting poorer?
5. What term did John Stossel use to explain that the amount of money is fixed and that for someone to make more money someone has to make less? Why is it called that?
6. How does the pizza tie in to the zero-sum game concept?
7. In the video, there is a clip from the movie "Wall Street." Gordon Gekko says "Money itself isn't lost or made, it's simply transferred." But Abby Blanco said that new kinds of wealth are created all the time. How is wealth created?
8. Many people think that when we trade with other countries, we lose. Have you ever traded with someone else? Did you think you were losing or gaining by trading? If you think you lost, why did you trade? If you think you won, do you think the other person lost? Did that person think he or she lost? What's the point?
9. Why do we trade with other countries?
10. Abby Blanco said we should make things that are cheap for us to make and buy from other people the things that are expensive for us to make. Do you agree? Explain.
11. Some people do lose their jobs because of trade. Should we protect their jobs by stopping trade? What would eventually happen if we did? Do you think we would be richer or poorer as a result? Explain.
12. According to John Stossel, the United Nations says a billion people are no longer miserably poor largely because of global trade. How does trade help people get out of poverty?

## Discuss These Lines from the Video:

1. Polls show most Americans believe that the poor are getting poorer.
2. The rich get richer, the poor get poorer.
3. People typically operate under the assumption that if I get a bigger piece of pizza, you have to get a smaller one. But that's not how wealth works.
4. It's a zero-sum game; somebody wins, somebody loses. Money itself isn't lost or made, it's simply transferred.
5. The trade argument is not just wrong, it's spectacularly wrong. NAFTA has created 34 million jobs in the United States and an additional six million jobs are tied directly to Mexican industry alone.

6. Econ101 tells us that when countries can trade those things that they're really good at making that it increases wealth overall. It's what economists refer to as comparative advantage.
7. In the U.S., we're really good at making service products. We're very good at making automobiles. We're good at making medicines and things like that. But it's relatively expensive for us to produce things like clothing and other textiles.
8. Some people are knocked out of the jobs that they're currently in. And certainly, we can talk about and be concerned about those people who are losing their jobs as a result of trade, and talk about different ways that we might make those transitions easier. But trade overall is a remarkably positive game for all parties involved.
9. Trade has lifted millions of people out of poverty, particularly over the last 30 years. We now see the lowest number of people living in absolute poverty. That's under \$2 a day, the lowest it's ever been in recorded human history. And that is directly related to trade.

### Quotes for Discussion:

*Globalization and free trade do spur economic growth, and they lead to lower prices on many goods.*  
**– Robert Reich**

*NAFTA recognizes the reality of today's economy – globalization and technology. Our future is not in competing at the low-level wage job; it is in creating high-wage, new technology jobs based on our skills and our productivity.*

**– John F. Kerry**

*It is here we come to the heart of the matter. The economic principle of comparative advantage', 'a country may, in return for manufactured commodities, import corn even if it can be grown with less labour than in the country from which it is imported.*

**– David Ricardo**

*Thousands of important and intelligent men have never been able to grasp the principle of comparative advantage or believe it even after it was explained to them*

**– Paul Samuelson**

*Trade liberalization is vital to the process of development. Voluntary international exchange widens consumers' range of effective choices and lowers the risk of conflict.*

**– James A. Dorn**

*As economic globalization gathers momentum, China and the United States have become highly interdependent economically. Such economic relations would not enjoy sustained, rapid growth if they were not based on mutual benefit or if they failed to deliver great benefits to the United States.*

**– Xi Jinping**

*Not only must we fight to end disastrous unfettered free trade agreements with China, Mexico, and other low wage countries, we must fight to fundamentally rewrite our trade agreements so that American products, not jobs, are our number one export.*

**– Bernie Sanders**

*Globalization has made copper and other minerals more valuable, and Ghana and Kenya have recently discovered mineral resources.*

**– Bill Gates**

*For the world economy as a whole – and especially for poorer nations – growing trade between high-wage and low-wage countries is a very good thing. Above all, it offers backward economies their best hope of moving up the income ladder. But for American workers the story is much less positive. In fact, it’s hard to avoid the conclusion that growing U.S. trade with third world countries reduces the real wages of many and perhaps most workers in this country. And that reality makes the politics of trade very difficult.*

– **Paul Krugman**

*What I believe unites the people of this nation, regardless of race or region or party, young or old, rich or poor, is the simple, profound belief in opportunity for all – the notion that if you work hard and take responsibility, you can get ahead.*

– **Barack Obama**

*Outsourcing and globalization of manufacturing allows companies to reduce costs, benefits consumers with lower cost goods and services, causes economic expansion that reduces unemployment, and increases productivity and job creation.*

– **Larry Elder**

*I will stand up for what I believe and for what I have always believed: Every person has a right to be rich in this country and I want to help them get there.*

– **Jim Cramer**

*I’m still a communist in the sense that I don’t believe the world will survive with the rich getting richer and the poor getting poorer – I think that the pressures will get so tremendous that the social contract will just come apart.*

– **Pete Seeger**

*As we get rich, the basics of life – food, clothing and shelter – become a very small part of total expenditure. And people have enough money to purchase things that enhance them spiritually, and I mean the word ‘spiritual’ not necessarily in a religious sense but in the sense that it adds to your feeling of well-being.*

– **Robert Fogel**

*American consumers benefit from free trade and investment.*

– **John Shadegg**

*Even when repressed, inequality grows; only the man who is below the average in economic ability desires equality; those who are conscious of superior ability desire freedom, and in the end superior ability has its way.”*

– **Will Durant**

*“Capitalism” is a dirty word for many intellectuals, but there are a number of studies showing that open economies and free trade are negatively correlated with genocide and war.*

– **Steven Pinker**

*The worst form of inequality is to try to make unequal things equal.*

– **Aristotle**

## **Activities:**

1. Have students complete the Opportunity Cost – Comparative Advantage Worksheet (page 39).

2. Distribute individual quotes from the Quotes for Discussion section to pairs of students. Have the students discuss the meaning of the quote, and write the meaning on the back of the quote. Collect the quotes and the students' explanations as an exit ticket.
3. Have students work in groups to research opportunity cost and comparative advantage and prepare a lesson to teach their classmates. The lesson should include an opportunity for students to read, watch, listen, and do, and should include an assessment activity.
4. Research data from the Bureau of Labor Statistics about income gains of American workers. Present your findings to the class on poster board or in a slideshow. (See link in the Resources section for help in preparing a slideshow.)
5. Show the class "Economics Made the World Great" or "The Hockey Stick of Human Prosperity," two of the bonus videos listed in the Resources section and included on this DVD, and have the students draw connections between this Stossel segment and the other video.
6. Conduct a classroom debate on the concept of a zero-sum game. The debate can be based on the expression, "the rich get richer and the poor get poorer," or on the argument that trade hurts one country and helps another. (See link below for a guide to conducting classroom debates.)
7. Read one of the articles in the Resources section. Then write a summary using Cornell (two-column) notes. (See link in the Resources section for help in taking Cornell notes.)
8. Research and write an essay about the North American Free Trade Agreement. You should include demonstrable effects of the agreement on all countries that signed on to the agreement.
9. Research and prepare a slideshow about jobs in our country. Be sure to include the numbers and types of jobs that exist, domestic-related and export-related jobs, (See link in the Resources section for help in preparing a slideshow.)
10. David Ricardo is credited with observing the law of comparative advantage. Research and write a biography of David Ricardo. (See link in the Resources section for help in writing a biography.)
11. The OECD (Organization for Economic Cooperation and Development) website has articles, policy papers, graphs, and videos about the effects of trade. Using the OECD website, prepare a research report on OECD's position on trade.  
<http://www.oecd.org/trade/tradeandjobs.htm>
12. Watch one of the videos listed in the Resources section. Then, write an essay about the video.
13. Read and write a book report on one to the books in the Resources section.

## Resources:

### Guides

A brief explanation of the Think, Pair, Share instructional strategy, with examples:

<http://www.readingquest.org/strat/tps.html>

A video explanation of Think, Pair, Share:

<https://www.teachingchannel.org/videos/think-pair-share-lesson-idea>

How to write a biography:

<http://www.infoplease.com/homework/wsbiography.html>

<http://homeworktips.about.com/od/biography/a/bio.htm>

How to write a book report:

<http://www.infoplease.com/homework/wsbookreporths.html>

For a clear, simple explanation of the Cornell note-taking system:

<http://coe.jmu.edu/learningtoolbox/cornellnotes.html>

<http://www.bucks.edu/~specpop/Cornl-ex.htm>

Preparing effective slideshow presentations:

[http://www.ehow.com/how\\_5032561\\_prepare-effective-powerpoint-presentation.html](http://www.ehow.com/how_5032561_prepare-effective-powerpoint-presentation.html)

<http://www.microsoft.com/en-us/showcase/details.aspx?uuid=22f09a63-cecb-4260-a44f-8223d07dd031>

<http://blog.synapsiscreative.com/the-info/7-big-powerpoint-mistakes-you-just-cant-afford-to-make>

Producing videos:

[https://www.ezvid.com/how\\_to\\_make\\_a\\_video\\_presentation\\_for\\_school\\_or\\_work](https://www.ezvid.com/how_to_make_a_video_presentation_for_school_or_work)

<https://tools4students.wikispaces.com/Video+Projects>

## Articles

“Buy American’ Hurts Americans” by Sheldon Richman

<http://reason.com/archives/2016/04/21/buy-american-hurts-americans?>

“Do Trade Agreements Kill Jobs?” by Steve Denning

<https://www.forbes.com/sites/stevedenning/2016/03/08/should-we-blame-trade-agreements-for-loss-of-jobs/#324faa64210d>

“How International Trade Affects the U.S. Labor Market” by Maximiliano Dvorkin

<https://www.stlouisfed.org/on-the-economy/2015/june/how-international-trade-affects-the-us-labor-market>

“Opportunity Cost” by David R. Henderson

<http://www.econlib.org/library/Enc/OpportunityCost.html>

“The Reason There Are Fewer Russian McDonald’s” by Elaine Schwartz

<http://econlife.com/2014/10/russias-food-embargo-ignores-comparative-advantage/>

“The Ricardian Law of Comparative Advantage” by Murray N. Rothbard

<https://mises.org/library/ricardian-law-comparative-advantage>

“Ricardo and comparative advantage at 200” by Douglas Irwin

<http://voxeu.org/article/ricardo-and-comparative-advantage-200>

“Rising Share of Americans See Conflict Between Rich and Poor”

by Rich Morin of the Pew Research Center

<http://www.pewsocialtrends.org/2012/01/11/rising-share-of-americans-see-conflict-between-rich-and-poor/>

“There Is No More Possibility Of Comparative Advantage Not Existing Than There Is Of My Nobel” by Tim Worstall

<https://www.forbes.com/sites/timworstall/2017/01/12/there-is-no-more-possibility-of-comparative-advantage-not-existing-than-there-is-of-my-nobel/#555597d65484>

“Women’s wages are rising: Why are so many families getting poorer?”

by W. Bradford Wilcox

<http://www.aei.org/publication/womens-wages-are-rising-why-are-so-many-families-getting-poorer/>

## Books

*America’s Comparative Advantage: Where America Excels!* by Dr Joseph S. Maresca

*Comparative Advantage: Specialize to rule* by Jean Blaise Mimbang, 50Minutes.com

*On The Principles of Political Economy and Taxation* by David Ricardo

*Comparative Advantage, Specialization, & Trade* by Brevitext™

## Videos

“Comparative Advantage”

<http://www.investopedia.com/terms/c/comparativeadvantage.asp>

“Comparative advantage specialization and gains from trade”

<https://www.khanacademy.org/economics-finance-domain/microeconomics/choices-opp-cost-tutorial/gains-from-trade-tutorial/v/comparative-advantage-specialization-and-gains-from-trade>

“Economics Made the World Great” (also on this DVD)

<https://www.youtube.com/watch?v=RYxMVNqIYTww>

“The Hockey Stick of Human Prosperity” (also on this DVD)

<https://www.mruniversity.com/courses/everyday-economics/trade-growth-hockey-stick-human-prosperity>

“Opportunity Cost”

<http://www.investopedia.com/terms/o/opportunitycost.asp>

## Websites

Organization for Economic Cooperation and Development (OECD)

<http://www.oecd.org/trade/tradeandjobs.htm>



Name \_\_\_\_\_ Date \_\_\_\_\_

Class \_\_\_\_\_ Period \_\_\_\_\_ Teacher \_\_\_\_\_

## Inequality and Trade

### Opportunity Cost - Comparative Advantage Worksheet

**Directions:** Use the charts to complete the questions that follow.

**Absolute Advantage**—the ability to produce a good or service at a lower cost/using fewer resources than others.

Let's assume that it takes each country the same amount of resources to make the same products, but that one country can produce more with those same resources.

| Country       | Cell Phones | Automobiles |
|---------------|-------------|-------------|
| China         | 6000        | 40          |
| United States | 3000        | 60          |

1. Which country has the absolute advantage in manufacturing cell phones? \_\_\_\_\_
2. Which country has the absolute advantage in manufacturing cars? \_\_\_\_\_

**Opportunity Cost**—the next best alternative not selected to what a person chooses; what one gives up for what one gets. Opportunity can be represented in terms of money, time, convenience, or other values.

Now, let's calculate opportunity cost.

| Country       | Cell Phones | Opportunity Cost of 1 Cell Phone | Automobiles | Opportunity Cost of 1 Automobile |
|---------------|-------------|----------------------------------|-------------|----------------------------------|
| China         | 6000        |                                  | 40          |                                  |
| United States | 3000        |                                  | 60          |                                  |

China's opportunity cost of producing 6000 cell phones is \_\_\_\_\_ automobiles.

China's opportunity cost of producing 1 cell phone is \_\_\_\_\_ of an automobile.

The United States' opportunity cost of producing 3000 cell phones is \_\_\_\_\_ automobiles.

The United States' opportunity cost of producing 1 cell phone is \_\_\_\_\_ of an automobile.

China's opportunity cost of producing 40 automobiles is \_\_\_\_\_ cell phones.

China's opportunity cost of producing 1 automobile is \_\_\_\_\_ cell phones.

The United States' cost of producing 60 automobiles is \_\_\_\_\_ cell phones.

The United States' opportunity cost of producing 1 automobile is \_\_\_\_\_ cell phones.

**Comparative Advantage**—the ability to produce a good or service at a lower opportunity cost—give up less—than another.

Answer the questions below on the table you just completed.

Which country has the lower opportunity cost of producing automobiles? \_\_\_\_\_

Explain your answer: \_\_\_\_\_

\_\_\_\_\_

Which country has the lower opportunity cost of producing cell phones? \_\_\_\_\_

Explain your answer: \_\_\_\_\_

\_\_\_\_\_

Which country has the comparative advantage in producing automobiles? \_\_\_\_\_

Explain your answer: \_\_\_\_\_

\_\_\_\_\_

Which country has the comparative advantage in producing cell phones? \_\_\_\_\_

Explain your answer: \_\_\_\_\_

\_\_\_\_\_

Which country should produce which product? \_\_\_\_\_

Why? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

What is the connection between this worksheet and the video segment? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_