Basic concepts:

- **Export / Import:**

Export = Supply – Demand (Supply > Demand)
Import = Demand - Supply (Supply < Demand)

- **Absolute advantage:** It is the ability of a producer to produce more goods or services than competitors with the same amount of inputs. (Adam Smith)

- **Opportunity cost:** It is the quantity of one good an agent must give up for starting producing (or increasing the production of) another good.

- **Comparative advantage:** A country exports the goods and services it is able to produce at the lowest opportunity costs. Similarly, the same country imports the goods and services it is internally producing at the highest opportunity costs. (David Ricardo)

- **Competitive advantage:** Given the technological endowment, the natural recourses and their productivity, a country may generate the conditions allowing for exporting part of its own production even if the specific situation of its own initial endowments would not have allowed it. This is possible if country agents may fix their selling prices as a mark-up over costs.

- **Production possibility frontier:** It is the set of all possible combinations of production achievable in a country in full employment and exploiting all the available inputs. In case of adopting just one input the frontier is linear. In case of adopting **two** factors of production, they both are suffering from decreasing returns to scale and the shape of the frontier is convex.