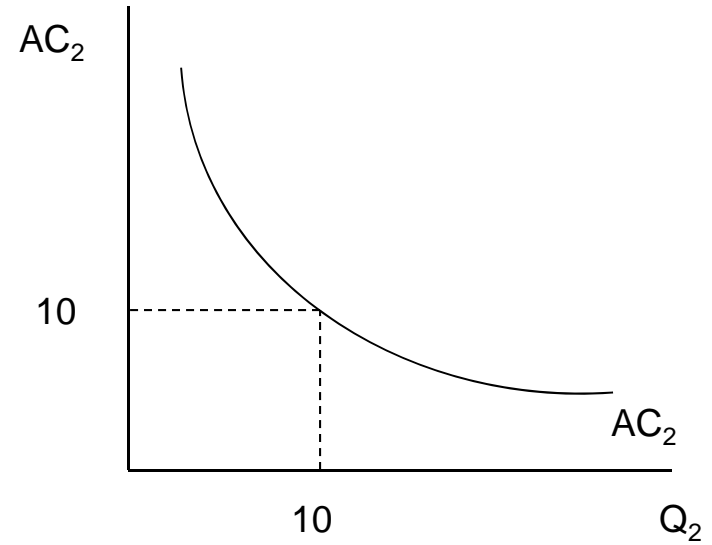
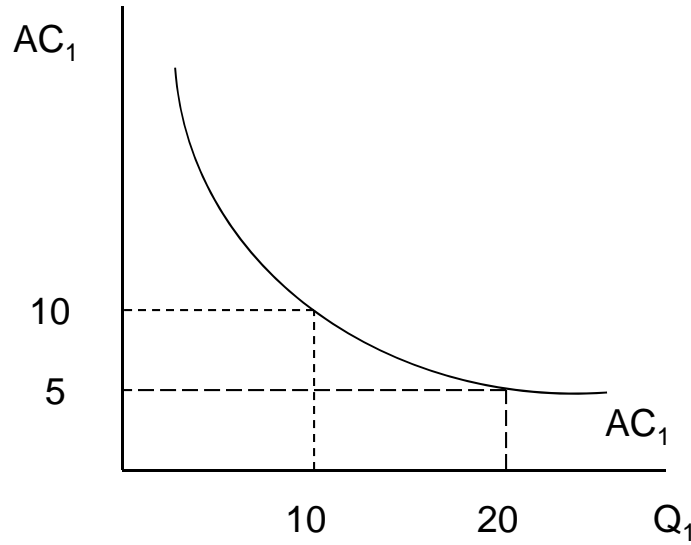
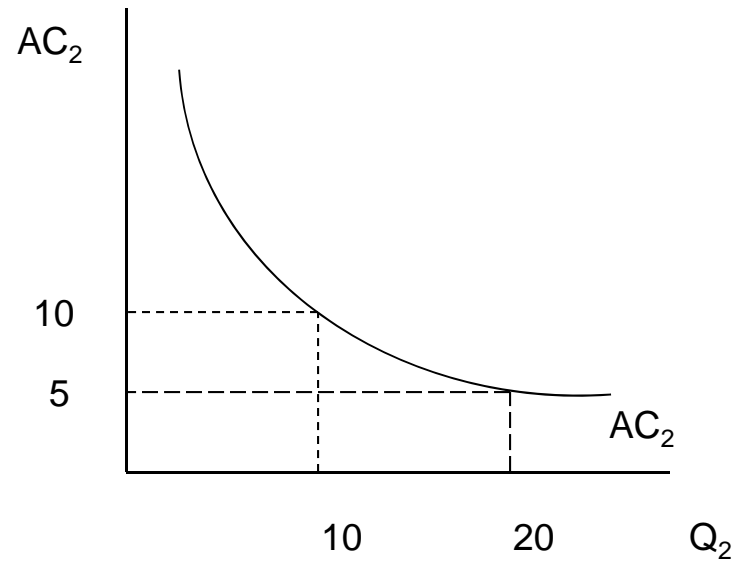
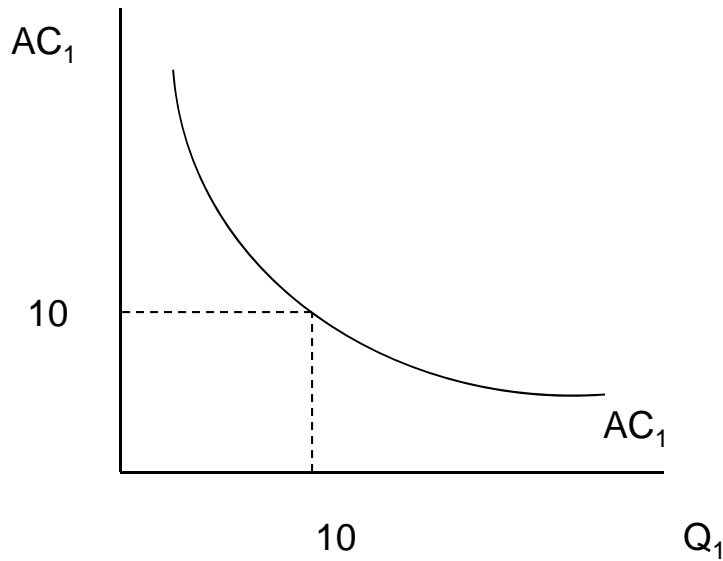


Increasing Returns to Scale and Trade: Simple Case

Country A



Country B



Under Autarky: World output = 20 of each, $AC = 10$.

But w/trade and specialization world output = 20 of each, **$AC = 5$** .