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Comparative and absolute advantage examples

What is absolute and comparative advantage. Is comparative or absolute advantage better. Real life examples of absolute advantage and comparative advantage. Can you have comparative and absolute advantage. Mercantilism absolute advantage and comparative advantage are examples of modern theories.

SCRITTO DA PAUL BOYCE[Updated on 7 November 2020 A comparative advantage is the ability of a nation to produce a product at a lower cost-opportunity. In other words, a nation sacrifices less Good A to produce Good B than other nations. This is in sharp contrast to the absolute advantage, since a nation can have a comparative advantage but not be more efficient than other countries. The comparative advantage law was originally introduced by David Ricardo in 1817. He defined it as a state for which a nation was more efficient in producing a certain good than another. However, unlike the absolute advantage, the comparative advantage considers the cost of opportunity. The comparative advantage is that a nation can produce a good at a lower cost-opportunity than another. It differs from the absolute advantage because it considers cost-opportunity. So the nation may not have an absolute advantage, but it is able to produce a good at a lower cost-opportunity. The comparative advantage is a better explained concept with an example. We consider two countries producing both cars and motorcycles. The table below shows what the country could produce if it spent all its resources. In this example, the United States produces 30 million cars and 10 million trucks, while Japan produces 25 million cars and 2.5 million trucks. The United States has an absolute advantage in the production of cars and trucks. However, it has a comparative advantage in trucks. That's because it's better to produce them. Although it is 1.2 times better than Japan in car production, it is 4 times better in truck production. To explain, Japan could produce 25 million cars or 2.5 million trucks. It can be reasonable to assume that it should produce cars, because it can produce more. However, it has a comparative advantage in car production. This is because it is relatively less efficient in the production of trucks. So the cost-opportunity is much higher. In other words, Japan is better at producing cars than trucks than the United States. The attentive reader can see that the United States can produce more cars or trucks of Japan. How does this translate into a comparative advantage? Well, it comes from the cost of opportunity. If the United States concentrated on car production, there would be few trucks because Japan is very inefficient in producing them. So the United States must give up more trucks to produce a car than Japan. Japan should give up 10 cars to produce 1 truck. This is because it can produce 25 million cars or 2.5 million trucks. On the contrary, the United States should give up 3 cars to produce 1 truck. So the cost-opportunity of producing a truck is lower than Japan. This is why the United States has a comparative advantage in the production of trucks. However, Japan has an opportunity cost advantage in car manufacturing. That's because you only have to give up 0.1 of a truck to produce a car. On the other hand, the United States has to give up 0.33 of a truck to produce a car. So... So... Opportunity cost of producing a car in Japan is far lower. As a result, it is more efficient for Japan for cars to produce and in the United States for closing trucks. To put things in context, Let's try to look at a comparative advantage from a different perspective. Cristiano Ronaldo, a famous soccer star has a clear advantage over the average person in his ability. For example, he is constantly rated as one of the best players in the world. However, we must also assume that he has great musical ability. He can't focus on both his football and music without compromising his ability in one or the other. So, which one did he focus on? Well for each level of musical focus, you have to give up your focus on football. This would be sub-optimal, because it is one of the best in the world in football. So, in terms of comparative advantage, he has one in football. Although Cristiano Ronaldo was an excellent musician, his talents are much greater than his ability as a musician. At the same time, Mr. Doyle can be average to both music and soccer. Yet he has a comparative advantage as he has to give up much less of his soccer talent in order to concentrate on the music. When a nation has an absolute advantage, it is completely more efficient. Namely, you can create a product at a lower cost. Conversely, the comparative advantage is where a country can produce a specific good at a lower opportunity cost. In other words, you have to give up less than one to get more than another. Historically, absolute advantage was the first theory to gain prevalence. It was originally thought by Adam Smith in his book A Wealth of Nations. In it, he observed that England was superior at making textiles, while Spain was better at making wine. Therefore, England has had an absolute advantage in the textile sector and should concentrate on this effort. David Ricardo later expanded on the original Smith's theory. He concluded that some nations may have a complete absolute advantage in many areas, but still face a level of opportunity cost. Thus, while France is better at producing wine and cheese, it can be more productive in making wine. In other words, nations will still trade if they have an absolute advantage because there is an element of opportunity cost. So, although France is good at making wine and cheese one because it is more efficient at making wine, it will make more profit from such efforts. You then have to other countries that might not be effective at making either wine or cheese. Yet because there is little opportunity cost between them, they focus on cheese. So, even if the other nation is not efficient, it must give up less wine to the cheeses produced than France does. Before we need to calculate the cost opportunity: China and India make both wheat and potatoes. China can produce both 100 kilograms of wheat or 200 kilograms of potatoes. As a result, 100kg of wheat = 200 kg of potatoes. So, for each 1 kg of wheat, China must give up 2 kg of potatoes. The cost of opportunity is therefore what the renunciation of production of the other product. So its opportunity cost of wheat production would be $2 \frac{\text{kg of potatoes}}{\text{kg of wheat}} = 2$. On the other hand, the opportunity cost of potato production is much lower: $1 \frac{\text{kg of wheat}}{\text{kg of potatoes}} = 0.5$. In contrast, India can produce 80 kilograms of wheat or 100 kilograms of potatoes, so 80 kilograms of wheat = 100 kilograms of potatoes. And for every kilogram of wheat, India has to give up 1.25 kilograms of potatoes. Therefore, the opportunity cost for India to produce wheat would be $1.25 \frac{\text{kg of potatoes}}{\text{kg of wheat}} = 1.25$. In contrast, the opportunity cost of producing potatoes is $1 \frac{\text{kg of wheat}}{\text{kg of potatoes}} = 0.8$. As you can see from the table above, China has an absolute advantage in producing both wheat and potatoes. However, which country has a comparative advantage? We can tell by looking at the product first and then comparing the cost-opportunity for each country. In this example, the cost-opportunity of wheat production in China is 2 potatoes. On the contrary, in India it is only 1.25. Therefore, the country that has the lowest opportunity cost has the comparative advantage. So, in this case, India would have the comparative advantage in wheat production and should focus on that. As for potato production, China has an opportunity cost of 0.5. In other words, he must sacrifice 0.5 wheat. At the same time, India has an opportunity cost of 0.8. So, if we look at the nation with the lowest cost-opportunity, it would be China to have the comparative advantage. Therefore, China should focus on potato production, while India focuses on wheat. Absolute Advantage Protectionism Cost Opportunity What is an example of comparative advantage? The comparative advantage comes from opportunity cost. So India may have to sacrifice 0.8 kg of wheat for 1 kg of potatoes. However, China may have to sacrifice only 0.5 kg of wheat to produce 1 kg of potatoes. In this example, China has a comparative advantage in potato production because it sacrifices less. What is the difference between absolute advantage and comparative advantage? When a nation has an absolute advantage, it is more efficient. That is, you can create a product at a lower cost. Conversely, a comparative advantage is when a country can produce a specific good at a lower opportunity cost. In other words, you have to give up less than one to get more than another. What is the comparative advantage in economics? A comparative advantage is when a nation is able to produce a product at a lower opportunity cost. For example, a nation must give up less than one product A to produce more than one product B, while another nation may have to give up more than one product B to produce more than one product A. In economics, a comparative advantage is when a country is able to produce a good or a service at a lower opportunity cost. Opportunity cost is one of the main reasons why it is not possible to use the market. Key concepts in the study of the economy and is prevalent in the various decision-making processes. What another country. The theory of comparative advantage is attributed to the economist David Ricardo, author of the book book of the political economy and taxation (1817). Ricardo used the theory of comparative advantage to discuss against the protectionist laws of Britain, which limited the import of wheat from 1815 to 1846. In the quarrel for free globalization is the unification and interaction of individuals of the world, governments, companies and countries of the world. It was realized through the political economist declared that the countries were better specialized in what they enjoy a comparative advantage and importing the goods in which they lack a comparative advantage. What is an opportunity cost? To understand the theory behind a comparative advantage, it is essential to understand the idea of an opportunity cost. An opportunity cost is the Benefit Forgone of choosing an alternative over others. For example, a worker may use an hour of work to produce 1 cloth or 3 wines. We can think of cost opportunities as follows: what is the benefit forgone by the choice of making a cloth or wine? Therefore: producing a cloth, the opportunity cost is 3 wines. Making a wine, the cost of opportunity is ... " Advantage. It appears, and the free trade advantage is a key principle in international trade and is the basis of why free trade is beneficial to countries. The theory of comparative advantage shows that even if a country enjoys an absolute advantage in the production of benign goods is a type of goods whose demand shows a direct relationship with the income of a consumer. It means that the demand for normal goods, trade can still be useful for both business partners. Practical example: Comparative Advantage Consider Two Countries (France and the United States) using the force of Kpishow labor labor can we monitor the workforce? Governments and economists usually refer to three key performance indicators (KPI) to assess the strength of a nation's workforce as an input to produce two goods: wine and cloth. In France, one hour of the work of a worker can produce both 5 cloths or 10 wines. The United States, one hour of the work of a worker can produce 20 cloths or 20 wines. The information provided is as follows: It is important to note that the United States enjoys an absolute advantage in the production of cloth and wine. With one hour of work, a worker can produce 20 clothes or 20 wines in the United States compared to the 5 clothes of France or 10 wines. The United States enjoys an absolute event in the production of fabric and wine. To determine the comparative advantages of France and the United States, we must first determine the cost of the opportunity for each exit: France: cost opportunity of 1 cloth = 2 cost of wine cost of 1 wine = 1/2 fabric of the United States: cost of the opportunity of 1 fabric = 1 cost of wine cost of 1 wine = 1 When comparing the opportunity cost of 1 fabric for France than for the United States, we can see that the opportunity cost of fabric is lower in the United States. Therefore, the United States has a comparative advantage in fabric production. Also, when you compare the opportunity cost of 1 wine for France and the United States, we can see that the opportunity cost of wine is lower in France. France therefore enjoys a comparative advantage in wine production. Comparative Advantage and its Advantages in Free Trade How do you identify each country's comparative advantage help in understanding its advantages in free trade? First, suppose that the maximum amount of working hours is 100 hours. In France: If all hours of work went into wine, 1,000 barrels of wine could be produced. If all the hours of work went into fabric, 500 pieces of fabric could be produced. In the United States: If all working hours went into wine, 2,000 barrels of wine could be produced. If all the hours of work went into cloth, 2,000 pieces of cloth could be produced. Following Ricardo's theory of comparative advantage in free trade, if each country specializes in what they have a comparative advantage and imports the other good, they will be better off. Let us remember that: France enjoys a comparative advantage in wine. The United States has a comparative advantage in fabric. In France, the country specializes in wine and produces 1,000 barrels. Remember that the opportunity cost of 1 barrel of wine in the United States is 1 piece of cloth. The United States would therefore be willing to accept a trade in 1 wine for up to 1 piece of cloth. The potential gains from trade for Europe by specializing in wine are represented by the arrow: In the United States, the country specializes in fabric and produces 2000 pieces. Remember that the opportunity cost of 1 piece of cloth in France is 2 barrels of wine. France would therefore be willing to accept a trade of 1 cloth for up to 2 barrels of wine. The potential gains from trade for the United States by specializing in fabrics is represented by the arrow: Therefore, using the theory of comparative advantage, a country that specializes in their comparative advantage in free trade is able to make higher production gains by exporting the good in which they enjoy a comparative advantage and importing the good in which they suffer a comparative disadvantage. Related Reading CFI is the Official Provider of the Global Modeling and Valuation Analyst (FMVA)®. Become a Certified Modeling and Valuation Analyst (FMVA)®. CFI's Financial Modeling and Valuation Analyst (FMVA)® certification will help you earn the confidence needed in your financial career. Sign up today! certification program, designed to help anyone become a world-class financial analyst. To continue to promote your career, the additional CFI resources of will be useful: Absolute Advantage In economics, the absolute advantage refers to the ability of any economic agent, individual or group, to produce a greater quantity aggregated supply and demand Aggregate Supply and demand Aggregate offer and demand refers to the concept of the demand but applied to a macroeconomic scale. The aggregate procurement and the aggregation of amonments of the scope economies of scope economies is an economic concept that refers to the decrease in the total cost of production when a range of products is produced together rather than separately. Appleto efficiency efficiency efficiency, a concept Commonly used in economics, it is a economic situation in which it is impossible to let you enter a part better

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