

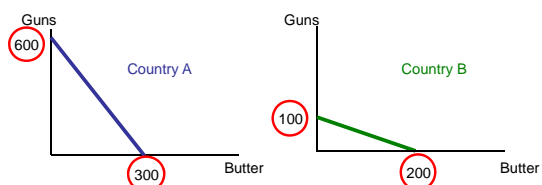
Comparative Advantage

A Foundation for Specialization
and Mutual Gains From Exchange

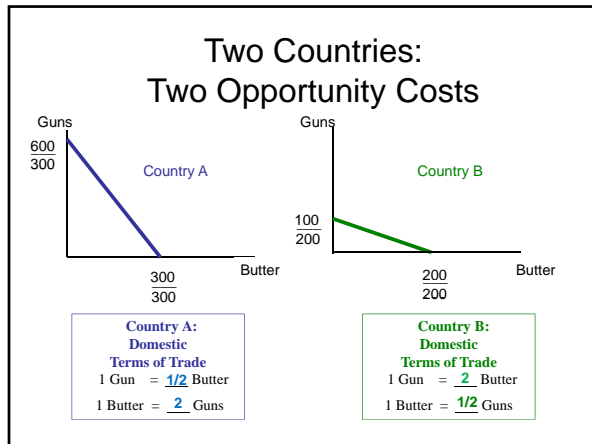
A Key Distinction

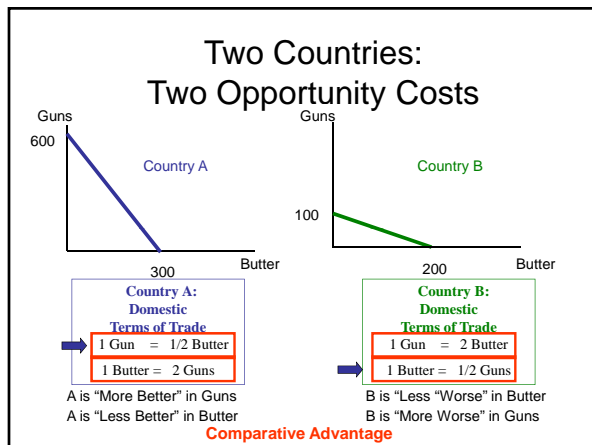
- Advantage → “Better At”
- Two Types of Advantage:
 - Absolute Advantage
 - Comparative Advantage
- Trade Between Countries & PPF Curves

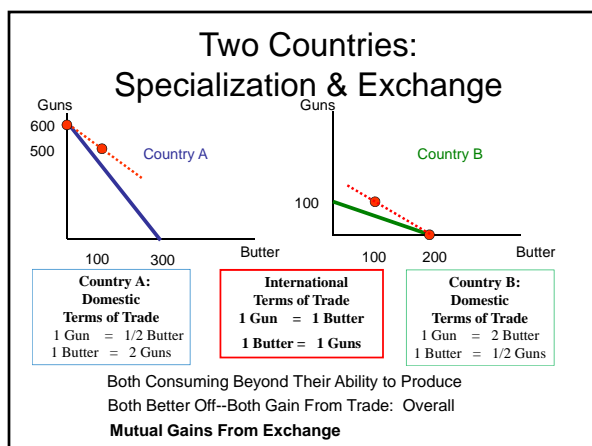
Two Countries: Different PPFs



- A has Absolute Advantage in Guns
- A has Absolute Advantage in Butter
- So A is Better at Both!
- Why Should A Bother with B?







Wrap Up:

- Key to Trade is Comparative Advantage
 - Opportunity Cost Based
 - “More Better” vs. “Less Better”
- Calculate & Compare Domestic Terms
- International Terms Fall In Between
- Mutual Gains: Consume Beyond PPF
- “Net Gain” Doesn’t Mean No Losses

Epilog:

- Comparative Advantage in the Workplace
- Make or Buy Decision: Outsourcing
- Your Role as Manager
