Comparative Advantage

Economics

Why trade benefits both parties even when one is better at everything.

A country gains by specialising where its opportunity cost is lowest, not where it is absolutely best.

Opportunity cost = units of A given up per unit of B

Better at both goods Specialise where the gap is largest.	**Still gains from trade**
Worse at both Specialise where least behind.	**Still gains**
Identical costs	**No gain from trade**

THE COMMON MISTAKE

✗ **Assuming the more productive country gains nothing**

✓ **Both gain if opportunity costs differ**

Trade lets each country obtain a good more cheaply than producing it themselves, measured in what they must forgo.

> The model assumes the gains are distributed. Within a country, trade creates losers as well as winners.