

Comparative / Absolute Advantage Cheat Sheet by Natalie Moore (Natalie Moore) via cheatography.com/19119/cs/2237/

Key terms comparative advantage

Trade Buying or selling Specialis-Everybody gains maximum ation benefit from doing what they do best and then trading Ability to produce more than Absolute advantage competitors using the same amount of resources Compar-Ability to produce at a lower ative opportunity cost than compet-

The basis for trade is comparative advantage not absolute advantage

Keep in mind

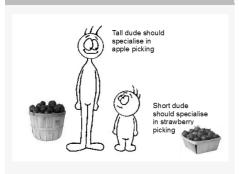
advantage

Don't confuse comparative and absolute advantage

Possible to have comparative advantage with no absolute advantage

Possible to have absolute advantage with no comparative advantage

Specialisation



Do what you do best, trade for the rest

Calculating comparative advantage

Who has the lower opportunity cost?

Can be calculated as

given up / # produced of the alternate

We give up / If we make

Lowest number = highest comparative advantage

Calculating comparative advantage (cont)

E.g. Who has advantage out of 0.16 0.16 and .33

E.g. Who has advantage out of 6 and 3

http://www.youtube.com/watch?v=ghqat-rsHVaA

If asked Who has the comparative advantage in picking strawberries then the # of strawberries is the numerator (top part of the fraction) and apples is the denominator (whole).

Gains from specialisation

Possible gains include:

Higher Total production of goods and output services is raised

Variety Consumers have access to a greater variety of higher quality products. Eating apples and strawberries instead of just apples.

A Specialisation and global trade bigger increase the size of the market market offering opportunities for economies of scale

Compet Increased competition an ition incentive to minimise costs, keep and prices down and therefore lower maintains low inflation. Also prices: promotes R & D in new techs.



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