

Comparative to
produce \$25 in
income from
secretarial



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Comparative advantage is an economic law referring to the ability of any given economic actor to produce goods and services at a lower opportunity cost than other economic actors. The law of comparative advantage is popularly attributed to English political economist David Ricardo and his book "Principles of Political Economy and Taxation" in 1817.

One of the most important concepts in economic theory, comparative advantage lays out the case that all actors, at all times, can mutually benefit from cooperation and voluntary trade. It is also a foundational principle in the theory of international trade. Comparative advantage is contrasted with absolute advantage. Absolute advantage refers to the ability to produce more or better goods and services than somebody else.

Comparative advantage refers to the ability to produce goods and services at a lower opportunity cost, not necessarily at a greater volume. EXAMPLE: To see the difference, consider an attorney and her secretary. The attorney is better at producing legal services than her secretary and is also a faster typist and organizer.

In this case, the attorney has an absolute advantage in both the production of legal services and secretarial work. Nevertheless, they benefit from trade thanks to their comparative advantages and disadvantages. Suppose the attorney produces \$175/hr in legal services and \$25/hr in secretarial duties. The secretary can produce \$0 in legal services and \$20 in secretarial duties in an hour. Here, the role of opportunity cost is crucial.

To produce \$25 in income from secretarial work, the attorney must lose \$175 in income by not practicing law. Her opportunity cost of secretarial

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work is very high. She is better off by producing an hour's worth of legal services and hiring the secretary to type and organize. The secretary is much better off typing and organizing for the attorney; his opportunity cost of doing so is extremely low. It's where his comparative advantage lies.