Article review on theoretical foundations of comparative advantage

Economics, Trade

The Ricardian trade model explains of the home and international labor that is, wine(W) and cheese (C) assist in determining the suitable resources to be used by a country. The following initials are used to denote; aLC = labor units which are recommended for production of cheese whereas aLw = labor units to produce wine. Unit labor for foreing is by (*). Using the world relative supply to expound on the amount of cheese compared to the amount of wine which has been supplied all nations each at a relative price is denoted by RS = (QC+QC*)/(QW+QW*) whereas the vice versa is wine RD = (DC+DC*)/(DW+DW*). The changes in the relative price below the opportunity cost is (PC /PW In the fig. 3-3, the increase in the production of cheese in an hour means that the unit labor requirement is relatively low. The available resources in the economy of a given country are always limited hence influencing or limiting the level or what is to be produced. Therefore, there are introduction of trade-offs that demand for production of one particular product over the others. The economic resources determining the number of goods produced in a one-factor economy. In a business perspective, people try to maximize their profits or earning thus serving as a tool to determine the supply and the relative price of the two goods in a competitive market. this piece of writing distinctively identify the differences in productivity rates between two countries in order to obtain the comparative advantage.

The comparative advantage is a theory that explains how the world economy is affected by availability of productive resources within a country. The interdependence between countries due to lack of adequate resources gives rise to the opportunity cost. It means that when the opportunity cost is low the country has comparative advantages in the production sector. There is an assumption that the comparative advantage of a country takes place in a one-factor economy. The comparative advantage plays a big role in determining the pattern, which is recommended or suitable for the international trade. The work was done pretty well using the academic tone but the clear meaning of comparative advantage, opportunity cost and production possibilities weren't well defined.

Work cited

Hunt, Shelby D., and Robert M. Morgan. " The comparative advantage theory of competition." The Journal of Marketing Ed (2000): 1-15.