

## Absolute v. Comparative Advantage

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Basic Understandings:	People trade because both parties stand to benefit when engaged in voluntary exchange
Absolute Advantage:	One nation can produce more output with the same resources as another.
Comparative Advantage:	One nation can produce a good at a lower <b>opportunity cost</b> than the other.
Why important?	If trade is based on <b>comparative advantage</b> , people gain by having more goods at the same cost or the same goods at a lower cost.

## Determining Comparative Advantage (Output Method)

	CDs	Pounds of Beef
Japan	4	2
Canada	4	6

1. Which nation has an absolute advantage in producing CDs?
2. Which nation has an absolute advantage in producing beef?
3. Which nation has a comparative advantage in producing CDs?
4. Which nation has a comparative advantage in producing beef?
5. Should Japan specialize in CD's or beef?
6. Should Canada specialize in CD's or beef?