# FACULTY OF JURIDICAL SCIENCES

# Lecture-7

# David Ricardo’s Comparative Advantage Theory

comparative advantage, economic theory, first developed by 19th-century British economist David Ricardo, that attributed the cause and benefits of international trade to the differences in the relative opportunity costs (costs in terms of other goods given up) of producing the same commodities among countries. In Ricardo’s theory, which was based on the labor theory of value (in effect, making labor the only factor of production), the fact that one country could produce everything more efficiently than another was not an argument against international trade.

The theory of comparative advantage provides a strong argument in favor of free trade and specialization among countries. The issue becomes much more complex, however, as the theory’s simplifying assumptions—a single factor of production, a given stock of resources, full employment, and a balanced exchange of goods—are replaced by more-realistic parameters.

Comparative advantage is an economy's ability to produce a particular good or service at a lower opportunity cost than its trading partners. Comparative advantage is used to explain why companies, countries, or individuals can benefit from trade.

When used to describe international trade, comparative advantage refers to the products that a country can produce more cheaply or easily than other countries. While this usually illustrates the benefits of trade, some contemporary economists now acknowledge that focusing only on comparative advantages can result in exploitation and depletion of the country's resources.

The law of comparative advantage is popularly attributed to English political economist David Ricardo and his book “On the Principles of Political Economy and Taxation” written in 1817, although it is likely that Ricardo's mentor, James Mill, originated the analysis.

- Comparative advantage is an economy's ability to produce a particular good or service at a lower opportunity cost than its trading partners.
- The theory of comparative advantage introduces opportunity cost as a factor for analysis in choosing between different options for production.
- Comparative advantage suggests that countries will engage in trade with one another, exporting the goods that they have a relative advantage in.
- There are downsides to focusing only on a country's comparative advantages, which can exploit the country's labor and natural resources.
- Absolute advantage refers to the uncontested superiority of a country to produce a particular good better.

In economics, a comparative advantage occurs when a country can produce a good or service at a lower opportunity cost than another country. The theory of comparative advantage is attributed to political economist David Ricardo, who wrote the book Principles of Political Economy and Taxation (1817).

Ricardo used the theory of comparative advantage to argue against Great Britain's protectionist Corn Laws, which restricted the import of wheat from 1815 to 1846. In arguing for free trade, the political economist stated that countries were better off specializing in what they enjoy a comparative advantage in and importing the goods in which they lack a comparative advantage.

## Comparative Advantage vs. Absolute Advantage

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 or quality.