What is Comparative Advantage?

Worksheet

Comparative advantage means producing a good at lower opportunity cost than others. It differs from absolute advantage; you can have comparative advantage even if you're less efficient overall.

Questions

1. Producer A: 10 books or 20 pens. Producer B: 8 books or 24 pens. Who has comparative advantage in books?

A) A
B) B
C) Both equally
D) Neither

2. If Alice has comparative advantage in apples, she should…

A) not specialize
B) specialize in apples
C) specialize in oranges
D) only make apples, never trade

3. Comparative advantage depends on…

A) who's bigger
B) opportunity costs
C) how much each person likes a good
D) geography alone

4. Two traders can both benefit from trade if…

A) one is better at everything
B) their opportunity costs differ
C) they're equally skilled
D) one has no resources

5. Alice makes 10 pizzas or 5 salads per hour. Bob makes 6 pizzas or 4 salads per hour. Who has comparative advantage in salads?

6. Country X: 50 cars or 100 bikes. Country Y: 30 cars or 120 bikes. Comparative advantage in cars?

7. Sam can knit 8 scarves or 16 hats. Dana can knit 6 scarves or 15 hats. Who specializes in scarves?

8. Define: What is comparative advantage?

9. Define: Can you have comparative advantage in everything?

10. Define: Why does comparative advantage lead to trade?

Answer Key

1. A) A — A's OC of 1 book = 2 pens; B's OC = 3 pens. A is lower.
2. B) specialize in apples — Specializing in low-OC goods maximizes total output.
3. B) opportunity costs — It's about OC, not absolute production.
4. B) their opportunity costs differ — Different OCs create gains from specialization and trade.
5. Alice's OC of 1 salad = 10/5 = 2 pizzas Bob's OC of 1 salad = 6/4 = 1.5 pizzas Bob has lower OC in salads → Bob has comparative advantage
6. X's OC of 1 car = 100/50 = 2 bikes Y's OC of 1 car = 120/30 = 4 bikes X has comparative advantage in cars (lower OC)
7. Sam's OC of 1 scarf = 16/8 = 2 hats Dana's OC of 1 scarf = 15/6 = 2.5 hats Sam has comparative advantage in scarves
8. The ability to produce a good at lower opportunity cost than others.
9. No — at least one good will have higher opportunity cost for you.
10. Each producer specializes where they have lowest OC, making both better off.