

Comparative advantages to specialization

Imagine a world in which only England and Portugal exist, and where one could only consume wool and wine. In England, it takes 100 hours of labor to produce a unit of wool, and 200 hours to produce a unit of wine. In Portugal, these proportions are, respectively, 50 hours and 25 hours. [...] Let us consider the production costs of each country: in England, a unit of wool costs half a unit of wine (because it takes twice as many hours to produce a unit of wine); in Portugal, one unit of wool costs two units of wine (because it takes half the hours to produce one unit of wine). We will then say that Portugal has an absolute advantage over England in producing wool [...], but England has a comparative advantage over Portugal in producing wool - because less wine production has to be sacrificed to produce the same unit of wool.

If each country wants to produce one unit of each good, it will take 300 hours of labor in England, and 75 hours of labor in Portugal. If these countries are allowed to trade, each can specialize in the good that costs them the least: England will produce three units of wool (with 300 hours) and Portugal three units of wine (with 75 hours). Thus each country will be able, thanks to the exchange, to consume more of each good (1.5 units instead of 1) for less.



Mathilde Le Moigne, Zoom "What is a comparative advantage? ", Economic alternatives, special issue n ° 117, feb. 2019.

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