

Specialization

 Individuals and countries can be made better off if they will produce what they have a comparative advantage in, and trade with others for whatever else they want/need.

Example

 Assume David Ricardo and Ricky Ricardo are going to throw a party in exactly one hour. They decide on serving homemade pizzas and cakes because when you guys think of a party you always think of pizza and cake. Naturally, right? Also, assume that they have 15 ovens in their apartment and plenty of pots and pans to get all their cooking done. Use the information on the next slide to determine who should produce what.

Exa	ample			
		David Ricardo	Ricky Ricardo	
	Bake Cakes	2 cakes/hr	4 cakes/hr	
	Make Pizza	6 pízzas/hr	8 pízzas/hr	
		ndvantage in ba ndvantage in ma		

Exa	ample						
		David Ricardo 💐	Rícky Rícardo				
	Bake Cakes	2 cakes/hr	4 cakes/hr				
	Make Pizza	6 pízzas/hr	8 pízzas/hr				
why? Well, because 4 cakes > 2 cakes & 8 pízzas > 6 pízzas							

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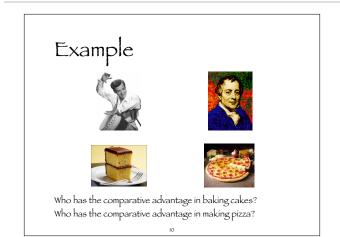
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Example								
		David Rícardo 🍳	Rícky Rícardo 🌋					
	Bake Cakes	2 cakes/hr	4 cakes/hr					
	Make Pizza	6 pízzas/hr	8 pízzas/hr					
Who has the comparative advantage in baking cakes?								

Who has the comparative advantage in baking cakes? Who has the comparative advantage in making pizza?







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