Comparative Advantage: Even if one person is better, i.e., more efficient, at producing all goods than another person, trade can still be profitable for both.

Two goods, wine and cloth

Two people, Fred and Ginger
Production possibilities for Fred: For a 6 week period.

1 week labor = 1 unit wine
1 week labor = 10 unit cloth
Production Possibilities for Ginger: For a 6 week period

1 week labor = 6 units wine
1 week labor = 12 units cloth
Fred must sacrifice 10 cloth to get 1 wine.

Ginger must sacrifice 2 cloth to get 1 wine.

Ginger is comparatively more efficient in making wine than is Fred.

Fred is comparatively more efficient in making cloth than is Ginger.
**Absolute Advantage:** Ginger’s PPC lies outside Fred’s, so Ginger can produce more of both goods with the same inputs.

**Comparative Advantage:** Ginger’s PPC is flatter than Fred’s in (w,c) space.

--> Opportunity cost of 1 wine is lower for Ginger than it is for Fred.

Opportunity cost of 1 cloth is lower for Fred than it is for Ginger.
We know \( 2 \text{ cloth} < \text{price of exchange} < 10 \text{ cloth} \)

If \( 1 \text{ wine} > 10 \text{ cloth} \), Fred will not trade.
If \( 1 \text{ wine} < 2 \text{ cloth} \), Ginger will not trade.

A market can determine the price of exchange.

If the market price is \( 1 \text{ wine} = 4 \text{ cloth} \), then consumption possibilities are:

Fred: Specialize in cloth. Can trade for maximum of 15 wine.

Ginger: Specialize in wine. Can trade for maximum of 144 cloth.