

Absolute and Comparative Advantage: The Island

Two men live alone on a deserted and isolated island. To survive they must undertake basic tasks such as carrying water, fishing, cooking, and shelter construction and maintenance.

One man is young, strong and educated. He is also faster, stronger and more productive at everything. He has an *absolute advantage* in every task the men must complete.

The other man is old, weak and uneducated. He is slow, has little stamina and, although he tries hard, is not very productive. He has an *absolute disadvantage* in everything.

In some of the activities (shelter construction, for example), there is a big difference between the abilities of the two men. In others (such as cooking), there is only a small difference between the two.

Despite the fact that the younger man has an absolute advantage in everything, it isn't in the best interest of either man to work in isolation. They can both benefit from *specialization and exchange*.

The men decide to divide the work according to comparative advantage. The young man will specialize in tasks at which he is most productive (those in which the difference between the two is greatest).

The older man will concentrate on tasks where his productivity is only a little less than the young man's productivity. Compared to the other tasks, the older man has a *comparative advantage* in those. For example, the older man will take over all of the fishing and cooking, leaving the young man more time to concentrate on constructing and maintaining their shelter.

It will take the older man a little longer to cook but it would take him a LOT longer to attempt shelter construction. And the young man's time is better spent constructing than saving a little time cooking.

Such an arrangement will *increase total production* for the same amount of labor and both men will be warm, dry and well fed ... in other words, richer.

Comparative advantage is a wonderful thing!

