produce the same quantity of a good or service per unit of time using a lesser quantity of inputs, than its competitors.

Absolute Advantage vs. Comparative Advantage

Absolute advantage can be contrasted with comparative advantage, which is when a producer has a lower opportunity cost to produce a good or service than another producer. An opportunity cost is the potential benefits an individual, investor, or business misses out on when choosing one alternative over another.2

Absolute advantage leads to unambiguous gains from specialization and trade only in cases where each producer has an absolute advantage in producing some good. If a producer lacks any absolute advantage, then Adam Smith's argument would not necessarily apply.

What Is Comparative Advantage?

Comparative advantage is an economy's ability to produce a particular good or service at a lower opportunity cost than its trading partners. Comparative advantage is used to explain why companies, countries, or individuals can benefit from trade.

What is trade

Trade means the exchange of goods or services between two different parties. Hence, it is a concept where one person sells his goods or services, for which he receives compensation from the other party. The Merriam-Webster dictionary defines it as "the buying and selling or bartering of commodities." Trade can either be domestic trade or international trade. Domestic trade refers to the trade that happens within a nation, and trade between nations is called international trade.

What is international trade

International trade, as the name suggests, is the trade that happens between different nations. Every country is not endowed with all the resources it needs to sustain itself. Hence, trade becomes necessary to ensure that domestic requirements are met. While trading initially happened only with goods, trade in services among nations has also increased by a significant amount in the areas of banking, telecommunications, and information technology, among other service-based sectors.

What are Free trade Agreements?

A Free trade Agreement (FTA) is an agreement between two or more countries where the countries agree on certain obligations that affect trade in goods and services, and protections for investors and intellectual property rights, among other topics. For the United States, the main goal of trade agreements is to reduce barriers to U.S. exports, protect U.S. interests competing abroad, and enhance the rule of law in the FTA partner country or countries.

Advantages of a Free Trade Area

A free trade area offers several advantages, including:

1. Increased efficiency

The good thing about a free trade area is that it encourages competition, which consequently increases a country's efficiency, in order to be on par with its competitors. Products and services then become of better quality at a lower cost.

2. Specialization of countries

When there is intense competition, countries will tend to produce the products or goods that they are most efficient at. Efficient use of resources means maximizing profit.

3. No monopoly

When there is free trade, and tariffs and quotas are eliminated, monopolies are also eliminated because more players can come in and join the market.

4. Lowered prices

When there is competition, especially on a global level, prices will surely go down, allowing consumers to enjoy a higher purchasing power.

5. Increased variety

With imports becoming available at a lower cost, consumers gain access to a variety of products that are inexpensive.

Disadvantages of Free Trade Area

Despite all the benefits brought about by a free trade area, there are also some corresponding disadvantages, including:

1. Threat to intellectual property

When imports are freely traded, domestic producers are often able to copy the products and sell them as knock-offs without fear of any legal repercussions. Therefore, unless the FTA includes provisions for intellectual property laws and enforcement there are no protections for exporting companies.

Basis	Tariff Barriers	Non – Tariff Barriers
Meaning	Tariff Barriers are taxes or fees imposed by the government on imports in order to protect domestic industries and boost revenue for the government.	Non-tariff barriers include all the limitations other than taxes imposed by the government on imports in order to protect domestic enterprises and discriminate against new entrants.
Permissibility	The World Trade Organisation authorised its members to impose tariff barriers but only at reasonable rates.	Import quotas and voluntary export barriers were eliminated by the World Trade Organisation.
Nature	Tariff barriers are explicit in nature.	Non-tariff barriers are implicit in nature.
Form	Tariff barriers are imposed in the form of Taxes and Duties.	Non-tariff barriers are imposed in the form of Regulations, Conditions, Requirements, Formalities, etc.
Revenue	Tariff barriers generate revenue for the government.	Non-tariff barriers do not generate revenue for the government.
Affects	Tariff barriers affect the price of imported goods.	Non-tariff barriers affect the quantity or price or both of the imported goods.
Monopolistic Organisations	As the government charges tariff barriers, monopolistic organisations' prices can be controlled.	The monopolistic organisation charges high rates for low output.
Profit	Profits made by the importers can be restricted through tariff barriers.	Importers can make high profits through non-tariff barriers.
Example	Import Duties, Export Duties, Ad-valorem Duties, etc.	Import Licensing, Foreign Exchange Regulations, Import Quotas, etc.

What is Public Finance?