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|-------|--|--|----|----|----|----|
| Total |  |  | 62 | 16 | 75 | 17 |
|-------|--|--|----|----|----|----|

Through this example we can see that by specialising it can lead to better pay off. As we see that Alice makes 100 sweaters and 20 suits in a week. Bob makes 50 sweaters and 10 suits in a week. When we make a comparison between Bob and Alice we can see that Alice is better at making sweaters and suits than Bob. If we divide the time equally for both suits and sweaters then Alice can make 50 sweaters and 10 suits in a week where Bob makes 12 sweaters and 6 suits. Through this we can interpret that for every 1 suit Alice makes 5 sweaters. Similarly, for every one suit Bob makes two sweaters. When doing a total for GDP we see that total suits are 16 and total sweaters are 62.

To increase the GDP, we can specialise the production of goods between the firms. Using the concept of opportunity cost of capital, we can suggest that Alice should do a trade-off with Bob for suits. We can clearly see that between Bob and Alice, Alice has a comparative advantage at making sweaters than suits. Also, Bob has comparative advantage at making suits. By specialising Alice can spend  $\frac{3}{4}$  of her week in making sweaters and  $\frac{1}{4}$  on suits. Bob can spend the entire week making suits only. Through this trade-off and specialising the GDP would increase as 75 sweaters are produced and 17 suits.

“Specialisation occurs whenever there are differences in the relative efficiency with which different producers make different products.”

#### Comparative Advantage & Absolute Advantage:

- Comparative Advantage looks at one thing that you may be good at. Where as absolute advantage focuses on everything in terms of others.
- By using the concept of comparative advantage the total production and the GDP increases.
- Comparative Advantage occurs for two reasons:
  - 1) Innate
  - 2) Result from investing time: i.e investing my time in particular skills to be at a comparative advantage than other people.
- Adam Smith was the greatest economist who identified with the idea of specialism in 1776. He stated that;
 

“ Every individual ... neither intends to promote the public interest, nor knows how much he is promoting it ... he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.”

- The wealth of Nations (1776)
- Adam Smith stresses the point that no one really plans the economy individuals just happen to help the economy in public interest without any intention.
- Economics involve making statements where some of the statements are descriptive. Descriptive are summary of what is going on rather than a recommendation.