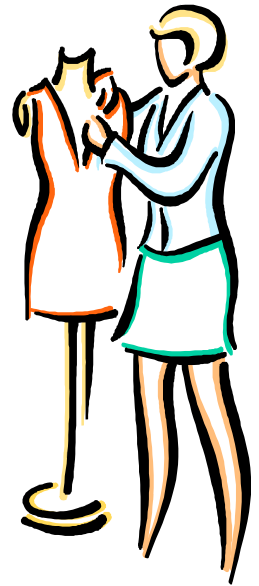


The principle of comparative advantage through specialisation



How it works

Let's say...

Company A can produce 8 dresses per hour
and
10 pairs of trousers per hour

Company B can produce 9 dresses per hour
and
4 pairs of trousers per hour

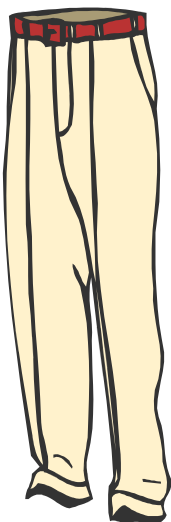
Total production = 17 dresses and 14 pairs of trousers

Company A is more efficient but relatively more efficient in producing trousers (10:4) than dresses (8:9).

So if company A concentrates its efforts on trousers it can produce 20 pairs of trousers per hour.

And Company B concentrates on dresses, it can produce 18 dresses per hour.

For simplification's sake, let's say a pair of trousers has the same profit as a dress. £10.



Company A now has a potential profit of £200 compared with £180.

Company B now has a potential profit of £180 compared with £130.

Assuming other costs remain the same, then both companies make more profit.

If we take one hour to do your book-keeping, that normally takes you three hours. How much profit have you gained; by doing what you are best at doing?