

# 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?



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