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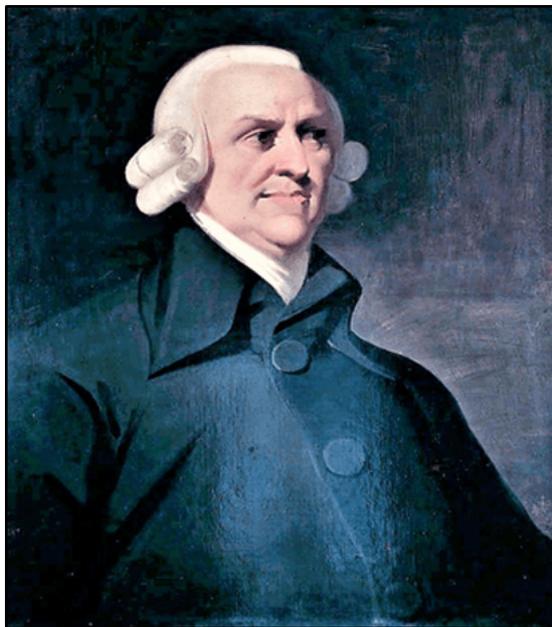
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Theory of Absolute Advantage-International Trade

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[Theory of Absolute Advantage - International trade \(Economics\)](#)

History and Introduction



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- Propounded by Adam Smith (1723 - 1790)
- Adam Smith is regarded as the father of Economics.
- He challenged the then prevailing Mercantilism.
- Mercantilists advocated maximizing exports and minimizing imports by imposing high tariffs on the imports of other countries, which led to rivalries and trade wars.
- Adam Smith opposed Mercantilism and supported noninterference of government, more popularly known as Laissez faire policy.
- According to him, there should not be any government intervention and protectionism apart from defence of the country and free trade should be practiced.
- He postulated the theory of absolute advantage which is a very important theory in international trade.

Theory of Absolute Advantage

- Advantages of division of labour and specialization make free trade possible.
- Division of labour enables each country to specialize in the production of those commodities which can be produced at the least cost possible i.e.. the commodities in which they have an absolute advantage over others.
- For example, a tailor has to go to a shoemaker if he wants to get new shoes and similarly a shoemaker has to go to a tailor if he wants new clothes. This implies that they both have an absolute advantage in their own occupations, and it would be advantageous for both of them to specialize in what they produce most efficiently and cheaply.
- In international trade, two countries should export the commodities they have an absolute advantage in, that is, which they produce most efficiently and cheaply, and import the commodities they have an absolute disadvantage in, that is, which they produce at a higher cost domestically.

Country	Unit cost of production	(man-hour)
	Cotton	Jute
India	05	10
Bangladesh	10	05

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- let's assume that they are two countries – India and Bangladesh and two commodities – cotton and jute. The unit cost of production is measured in terms of man hours, which implies that in India, 5 labourers are needed to produce a unit of cotton and 10 labourers are needed to produce a unit of jute. On the other hand, in Bangladesh 10 labourers are needed to produce a unit of cotton and 5 labourers are needed to produce a unit of jute. So, it is evident that India is more efficient in the production of cotton whereas Bangladesh is more efficient in the production of jute. Therefore, India will export cotton to Bangladesh in which it has an absolute advantage over Bangladesh and Bangladesh will export jute in which it has an absolute advantage over India. In conclusion, through division of labour and specialization, both the countries will gain from trade.

#NETexam

#Internationaltrade

#AdamSmith #Economics

#TheoryofAbsoluteAdvantage

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