

TABLE 2.1  
 Absolute Advantage  
 (output per unit of labor)

	Oranges	Pencils
Canadiana	1	4
Americana	5	3

Our example has shown that by specializing in the production of the good in which it has an absolute advantage and then engaging in international exchanges, a country can make gains. The next important question that comes to mind is, "Should a country trade if it is more efficient in the production of all goods?"

The law of *comparative advantage* states that a country with an absolute advantage in the production of both goods (in a two-good world) should specialize in producing and exporting the good in which its absolute advantage is the greatest—importing the other good. This is numerically illustrated in table 2.2. In this example, Mexicana has an absolute disadvantage in the production of both steel and silver, meaning that Americana is more efficient at producing both goods. Americana is seven times more efficient in producing steel and twice as efficient in producing silver. As its major advantage is in producing steel, Americana's comparative advantage is in the production of steel. Compared to Americana, Mexicana is least inefficient in producing silver, (3:6) versus (1:7), and can be said to have a comparative advantage in silver production.