

### **Absolute Advantage:**

- Idea: Who is faster or better at making everything?

Example:

- Alex can bake cookies in 30 minutes, Bailey in 40 minutes.
- Alex can make lemonade in 15 minutes, Bailey in 20 minutes.

In absolute terms, Alex is faster at both tasks.

### **Comparative Advantage:**

- Idea: Who gives up less to make something? It's about what you're relatively better at.

Example:

- Alex's opportunity cost of making lemonade is giving up 1 batch of cookies (15 minutes).
- Bailey's opportunity cost of making lemonade is giving up 2 batches of cookies (20 minutes).

### **Conclusion:**

- Alex has a lower opportunity cost for making lemonade, so Alex has the comparative advantage in making lemonade.

### **Implications:**

- Specialization and Trade:
  - Alex specializes in making lemonade.
  - Bailey specializes in baking cookies.
  - They trade – Alex gives cookies, Bailey gives lemonade.
  - Both end up with more cookies and lemonade than if they did everything alone.

So, absolute advantage is about being faster at everything, while comparative advantage is about focusing on what you're relatively better at (lower opportunity cost). Specializing based on comparative advantage and trading leads to more goods and benefits for everyone.

**To calculate the opportunity cost**, you compare what you give up to produce one unit of a good or service with what someone else gives up. The opportunity cost is the value of the next best alternative that you forgo in order to choose a particular option.