

Comparative Advantage – Episode 2 Transcript

Narrator: When last we left our story, Andy was befuddled. Thoughts of opportunity cost and absolute advantage blurred the clarity of his future business plans.

Narrator: Miss Information nearly convinced him that he couldn't achieve his goals, but Jack's promise to save Andy from the ravages of Miss Information made him wonder if going into business with Jack might just be the answer. But what was the question? Will Jack and Andy merge forces?

Jack: So, Andrew, my main man, you ready to go into business together? All you have to do is sign on the dotted line.

Andy: There must be a catch. I clearly don't have your superpower panache.

Jack: It's all about comparative advantage. Sure, I have bulging biceps and absolute advantage. But you underestimate your comparative advantage.

Jack: For me, one car repair costs one clean driveway. For you, it costs two clean driveways. I have the comparative advantage.

Andy: See! I told you that you were better at everything!

Jack: Impatient! On the other hand, for me, 1 clean driveway costs 1 car repair, but for YOU, one clean driveway costs only $\frac{1}{2}$ of a car repair. Car repair costs me less but snow shoveling costs YOU less.

Andy (Joking): So maybe you should do all car repairs and I should do all the shoveling!

Jack: That's exactly right!

Andy: What? I was kidding. How is that more efficient than your doing everything?

Jack: Look. In an 8-hour day, I could shovel 16 driveways or fix 16 cars or some combination thereof, such as 2 cars and 14 driveways, 4 cars and 12 driveways, 6 cars and 10 driveways. You get the point.

Andy: In the extreme case that I do all of the work, what gets done?

Jack: (laughing) Oh, you weren't kidding that time. In an 8-hour work day, you could shovel 8 driveways or fix 4 cars or some combination thereof. As you'll see, you could also fix 1 car or

shovel 6 driveways, fix 2 cars or shovel 4 driveways, and so on.

Jack: Let's say in one day I do 10 car repairs and shovel 6 driveways. That's all I could do in one day. Let's also say in the same day you repair 3 cars and shovel 2 driveways. That gives us a total of 13 car repairs and a total of 8 driveways.

Andy: And so the point is?

Jack: If we each specialize in the task in which we have the comparative advantage, I will spend the day doing car repairs; you will spend the day shoveling snow.

Andy: Oh, so by specializing, we'll repair 16 cars, instead of 13. And we will clear the same number of driveways! And you don't have to do all the work, Mr. Jack! Holy, Hijinx! I totally get it! We will get more done if we both work and if we both specialize in the task for which we have the greater comparative advantage; that is, the task in which we have the lower opportunity cost.

Jack: Yessiree, Andrew! If we specialize, we gain three more car repairs without an increase in labor inputs. I don't even have to break a sweat! But I will... just for the fun of it.