

# Absolute Cost Advantage – Definition and Example

## Definition:

The Absolute Cost Advantage theory was given by **Adam Smith**. It states that a country has an **absolute advantage** if it can produce a good more efficiently (i.e., at a lower cost or using fewer resources) than another country.

A country should **specialize** in producing and exporting the goods that it can produce more efficiently, and **import** those goods which other countries can produce more efficiently.

## Example:

Let's take two countries — India and Bangladesh, and two goods — Rice and Cloth.

Country	Rice (units per worker)	Cloth (units per worker)
India	10	5
Bangladesh	6	8

## Analysis:

- India can produce more **Rice (10 units)** than Bangladesh (6 units). So, **India has an absolute advantage in Rice.**
- Bangladesh can produce more **Cloth (8 units)** than India (5 units). So, **Bangladesh has an absolute advantage in Cloth.**

## Conclusion:

India should specialize in producing **Rice** and Bangladesh in **Cloth**. Both can trade to get mutual benefits.

## Key Point:

Absolute cost advantage leads to specialization and trade, increasing global production efficiency and mutual gains for all countries.