Absolute + Comparative Advantage:
Assumptions of the International Trade Model

Webnote 429

Ricardo model has some questionable assumptions but the concept is nonetheless valid: lower opportunity costs for a country than a trading partner can justify why countries **'specialize + trade'.**

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ASSUMPTIONS OF THE MODEL:

1 ALL FIRMS HAVE CONSTANT RETURNS TO SCALE AS OUTPUT CHANGES
2 PERFECT FACTOR MOBILITY WITHIN THE COUNTRY
3 NO TRANSPORT COSTS IN INTERNATIONAL TRADE
4 PERFECT COMPETITION EXISTS IN PRODUCT AND FACTOR MARKETS.
5 NO BARRIERS TO TRADE SUCH AS TARIFFS OR QUOTAS

What is the purpose of the assumptions?

The assumptions allow economists to compare output (productivity) in both countries on the basis that a bundle of factors of production (X) is the same in both countries. The outcome of the comparative model then shows why each country (A) can find a comparative advantage in the production of a good even though the country (A) does <u>not</u> have an absolute advantage in the production of the good.