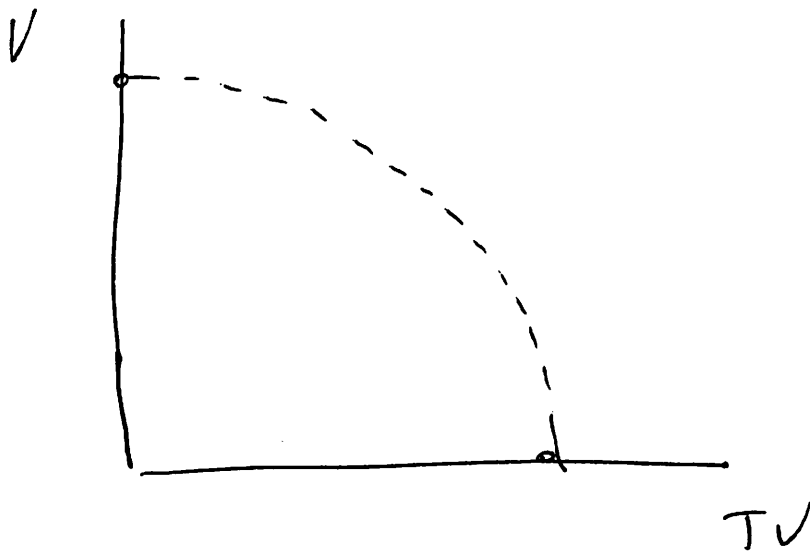


Comparative Advantage: Real world.

In real world opportunity costs tend to increase as more resources are devoted to a specialty good. The PPC will be more like:



Diminishing returns to specialization. It doesn't negate the Law of Comparative Advantage, but specialization will not be complete. The US will still produce a few TVs and Korea a few vaccines using resources

That are poorly suited for
The production of The other good.

Sources of Comparative Advantage

- (1) climate
- (2) Natural Resources
- (3) Relative abundance of Capital
: LABOR.

Heckscher-Olin Model.

Capital Abundant - High level
of Capital / workers

Labour Abundant - ~~A~~ low level
of Capital / workers.

Under This Theory Capital abundant
countries specialize in producing
goods that ~~are~~ require large amounts
of Capital and Labour abundant
countries produce things that
are Labour intensive.