

Adam Smith, the Father of Economics, propagated the theory of Absolute Cost Advantage in 1776 by stating that the basis of international trade was absolute cost advantage. Absolute Advantage can be defined as the ability of an individual, firm or a country to produce more of a good or service than competitors, using the same amount of resources. This theory is based on the principle of division of labor. Free trade among countries based on absolute cost advantage can increase a country's wealth and enable a country to provide a variety of goods and services to its people by specializing in the production of some goods and services and importing others. This theory assumes that labor is the only productive factor and the cost of production are measured in terms of labor time spent in producing a particular good.