The Theory of comparative Advantage

The law states that all countries engage in trade would be better off if each of them specializes in the production of the commodity in which it has the greatest comparative advantage or least comparative disadvantage.

A country will produce and export those commodities in which it has the greatest comparative advantage

Terms of trade

This is the comparison of a country visible and invisible import expressed in price.

$$\frac{\text{Price index of export}}{\text{Price index of import}} \times 100$$

Balance of trade

This is the comparison of a country total visible export with her total visible imports. If visible export is more than visible import, a country is said to have favorable balance of trade

Balance of payment

The comparison of the sum total of country’s receipt her exports and the total payment made for her import is known as balance of payment. In other words, the balance of payment of a country shows statement of income and expenditure from visible imports.

Causes of unfavorable balance of payment

1. Mono-economy
2. Fall in a country
3. Low production
4. High taste of foreign made goods
5. Fall in a country’s export

How to correct unfavorable balance of payment

1. Control or reduction of import
2. Encourage of exports
3. Establishment of import substitution
4. Imposition of tariff that will yield revenue