

Advantages of Specialization and Trade

Suppose an accountant (CPA) is also a skilled house painter and can paint a house in less time than a painter. Suppose the accountant is paid \$50/hour for accounting work and the painter is paid \$15/hour. Further assume it takes the CPA 30 hours to paint the house and the painter 40 hours.

CPA's opportunity cost of painting his own house = $\$50/\text{hour} \times 30 \text{ hours} = \1500

Cost of hiring the painter to paint the house = $\$15/\text{hour} \times 40 \text{ hours} = \600

Suppose the painter needs 10 hours to do his own tax return while the CPA can do it in 2 hours

Housepainters opportunity cost of doing own tax return = $\$15/\text{hour} \times 10 \text{ hours} = \150

Cost of hiring the CPA to do the tax return = $\$50/\text{hour} \times 2 \text{ hours} = \100