

[H.S] EFFECTS OF TRADE

- ABUNDANT FACTOR SEES INCREASED RETURNS $\rightarrow$ MORE HIRING
- SCARCE FACTOR SEES LAYOFFS + DECREASED RETURNS

$\rightarrow$ SHORT-RUN

$\rightarrow$ LONG-RUN

- LABOR MOVES FROM SCARCE FACTOR INDUSTRY $\rightarrow$ ABUNDANT FACTOR INDUSTRY
 - PRICE ABUNDANT FACTOR $\uparrow$
 - PRICE SCARCE FACTOR $\downarrow$
- PRICES EQUALIZE (LAW OF ONE PRICE)
- NET GAIN IN CPF
 - BUT SCARCE FACTOR INDUSTRIES + WORKERS LOSE

STOLPER-SAMUELSON (THEORY)

SPECIALIZED FACTORS IN ABUNDANCE
HAVE MORE TO GAIN (LARGES, RENT)
UNDER TRADE

SPECIALIZED SCARCE FACTORS HAVE
MORE TO LOSE

EXAMPLE: 2 GOODS, 2 COUNTRIES

PERFECT COMPETITION ($P = MC$)

$$P_{\text{MANUFACTURE}} = MC_M = 20r + 10w$$

↓ KAPITAL INTENSIVE

↑ RENTAL RATE
OF KAPITAL

$$P_{\text{CLOTH}} = MC_C = 5r + 20w$$

↓ LABOR INTENSIVE

WAGE OF
LABOR

U.S. : $w=10, r=10 \rightarrow$ KAPITAL ABUNDANT

MEXICO: $w=4, r=20 \rightarrow$ LABOR ABUNDANT

AUTARKY: U.S. $P_M = 20(10) + 10(10) = 300$

$$P_C = 5(10) + 20(10) = 250$$

MEX. $P_M = 20(20) + 10(4) = 440$

$$P_C = 5(20) + 20(4) = 180$$

WITH TRADE $P_M = 360, P_C = 200$

U.S. $P_M = 360 = 20r + 10w$

$$P_C = 200 = \underset{\times 4}{5r} + \underset{\times 4}{20w}$$

$$800 = 20r + 80w$$

$$800 - 80w = 20r$$

$$360 = 800 - 80w + 10w$$

$$70w = 800 - 360$$

$$\frac{70w}{70} = \frac{440}{70}$$

$$w = 6.3$$

$$r = 14.9$$

FACTOR PRICE EQUALIZATION

WAGES, RENTAL RATES CONVERGE
ACROSS DIFFERENT COUNTRIES

ASSUME:

- ① NO BARRIERS TO TRADE
- ② NO TRANSPORTATION COSTS
- ①+② IMPLY LAW OF ONE PRICE
- ③ ALL TECHNOLOGY IS THE SAME
- ④ MOBILE FACTORS
- ③+④ IMPLY CONSTANT + EQUIVALENT
MC CURVES
- ⑤ COUNTRIES HAVE SAME PREFERENCES

FPE PREDICTIONS + DATA

- ① ~~SKILLS~~ OF UNSKILLED WORKERS
WAGES
EQUALIZE ACROSS COUNTRIES
MORE TRUE OVER TIME
- ② WAGES OF SKILLED WORKERS
EQUALIZE ACROSS COUNTRIES
MORE FALSE OVER TIME
- ③ WAGES OF SKILLED AND UNSKILLED
WORKERS DIVERGE WITHIN A COUNTRY
MORE TRUE OVER TIME
- ④ RENTAL RATES AND INTERMEDIATE GOODS
PRICES EQUALIZE ACROSS COUNTRIES
MORE TRUE FOR TRADED GOODS