

# Factor Price Equalisation Theorem

## Part 3

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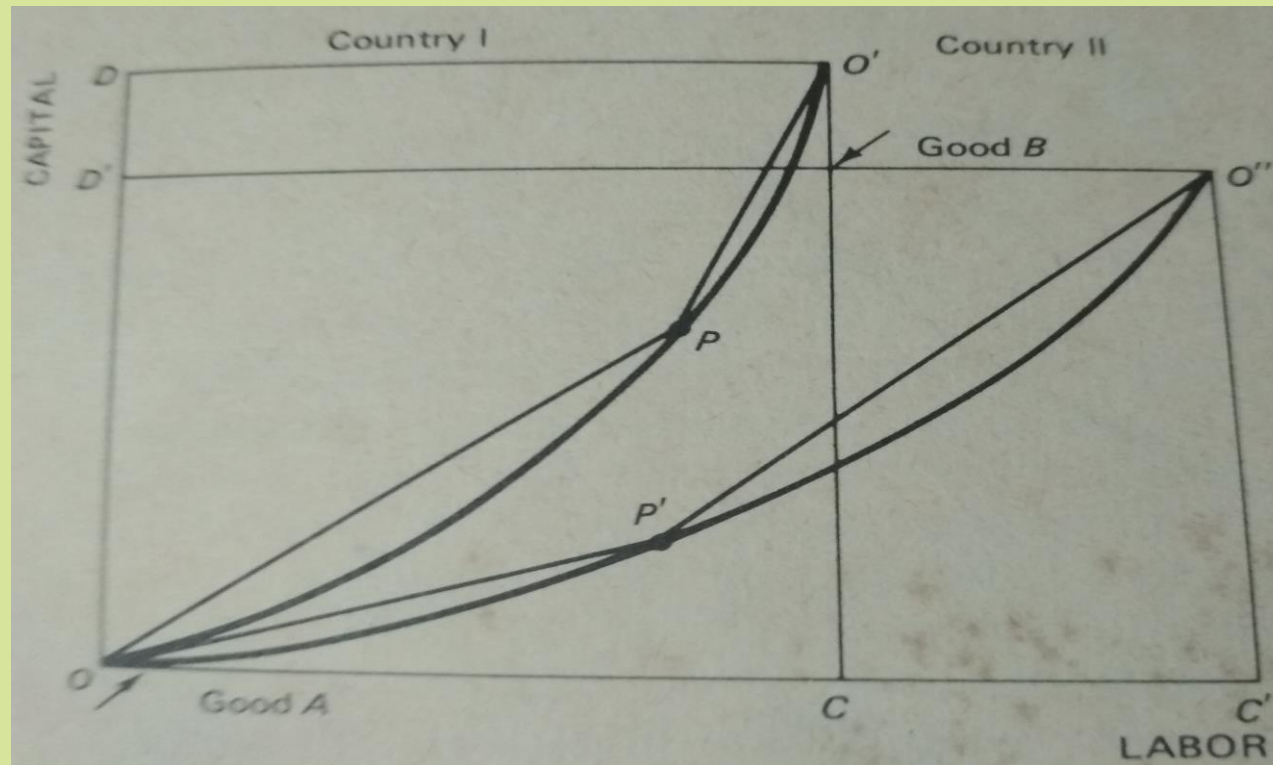


Figure 2

# Factor Price Equalisation Theorem

## ■ Factor Prices under Autarky:

- In figure 1,  $OO'$  is contract curve for country I and  $OO''$  is contract curve for country II. Suppose country I produces at point P and country II produces at point  $P'$ .
- Implications for Factor Prices: Country I uses more capital intensive methods than country II in both the lines of production.
- As marginal productivity depends upon factor intensities, the MP of capital at point P in country I would be lower than in country II  $P''$  and MP of labour in country I would be more.

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- Since factor prices depends upon MP, the relative price of capital would be lower in country I than in country II; and factor price of labour will be more in country I.

**To be continued .....**

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**THANK YOU**