

Factor Price Equalisation Theorem

Part 4

Factor Price Equalisation Theorem

■ Factor Prices under Trade:

- As country I is capital abundant hence will export capital intensive goods under free trade hypothesis and country II is labour abundant so will export labour intensive goods.
- In figure 3, when country starts trade, country I will move along its contract curve from point **P** towards **O** and country II will move from P' towards O'' .
- Possible equilibrium points may as shown in figure 3, where country I produces at point T and country II at T' .

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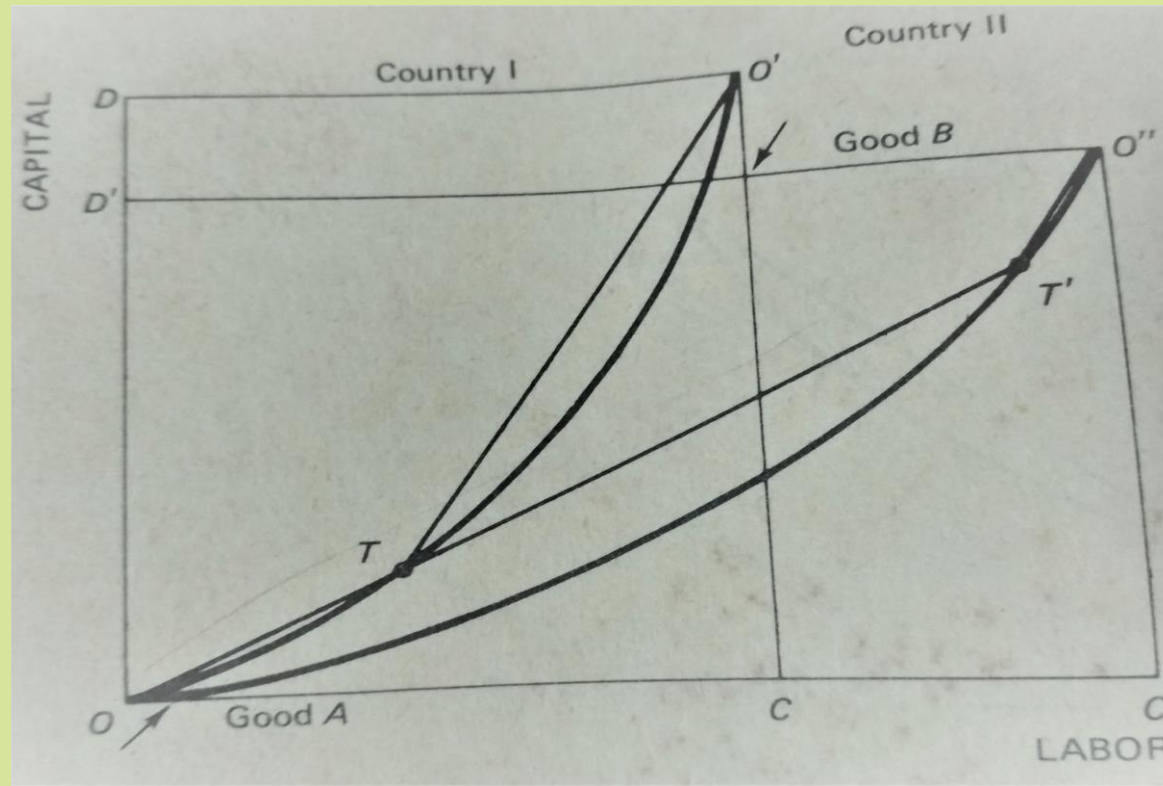


Figure 3

Factor Price Equalisation Theorem

To be continued

THANK YOU