



[Summary]

[Factor Price Equalization Theory]

Subject:	Business Economics
Course:	B.A., 5 th Semester, Undergraduate
Paper No. & Title:	Paper – 541 International Economics
Unit No. & Title:	Unit - 2 Factor Endowment and Heckscher-Ohlin Theory
Lecture No. & Title:	2: Factor Price Equalization Theory

Summary:

The factor price equalization theorem is derived from the Heckscher-Ohlin theorem. Heckscher-Ohlin theory uses general equilibrium approach to analyze the comparative cost advantage. According to H-O theory trade arises due to difference in factor prices. Difference in commodity prices is the result of difference in factor endowments. trade According to this definition of H-O-S theorem, international trade will equalize price of labor i.e. wage rate and price of capital i.e. rate of interest across nations. International will equalize the relative and absolute prices of factor of production across nations.