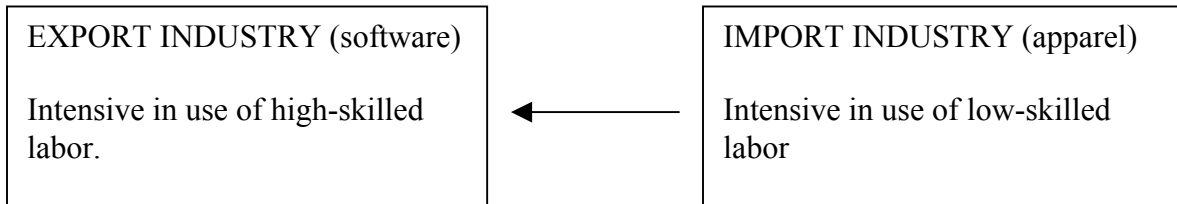


Stolper-Samuelson Approach (mobile factors model) applied to the United States

- Assumes two industries (EXPORT and IMPORT) and two factors of production (HIGH SKILLED LABOR and LOW SKILLED LABOR)
- Assumes PERFECT INTER-INDUSTRY MOBILITY of factors of production. Factors can move costlessly between the two industries.



With move from autarchy to free trade, the PRICE of software increases, enhancing profits for firms in this industry. To expand output, export firms draw in factors from the import industry. The export industry requires more high skilled than low skilled labor.

With move from autarchy to free trade, the PRICE of apparel falls, decreasing profits for firms in this industry. Import firms contract production and lay off workers. The industry sheds more low skilled than high-skilled labor.

In the overall (two industry) economy, the move to free trade produces a SHORTAGE OF HIGH-SKILLED LABOR and a SURPLUS OF LOW-SKILLED LABOR. The shortage of high-skilled labor results from the fact that the export industry needs more high-skilled workers than the import industry is able to provide. The surplus of low-skilled labor results from the fact that the import industry sheds more low-skilled workers than can be employed in the export industry.

Hence, the STOLPER-SAMUELSON THEOREM: Free trade benefits the factor of production that is relatively abundant (e.g., high-skilled labor in United States) regardless of industry, and harms the locally scarce factor (low skilled labor in the United States) regardless of industry.