

The Specific Factors Model

Make sure you read the relevant pages in the Feenstra book (chapter 3). This model is used to think about the impact of trade (or, more generally, changes in goods prices) on factor prices. The main result is that the specific factor in the import-competing industry loses and the specific factor in the export industry gains from trade. You should understand why this happens.

Think also about the generalizations of the Stolper-Samuelson and the Rybczynski theorems. Note that when the price of each final good increases there is a factor that gains and one that loses (the specific factor). This is actually the weak form of the Stolper-Samuelson theorem. It is true that there is no good that is a natural enemy or friend of labor in this model (because the effect of changes in final good prices on *real* wages is ambiguous), but this is not what the weak version of the Stolper-Samuelson theorem says.

In the $N \times N$ case, we can show that it is in fact the case that every factor has a natural enemy and a natural friend by using the weak version of the Rybczynski theorem and the “reciprocity relations.” But what happens with the Rybczynski theorem in the Specific Factors model?

There is a Rybczynski like effect in the SF model in that when K_i increases, y_i increases and y_j decreases. This is different from what happens in the $N \times N$ case with diversification in that there the change in endowment has no effect on factor prices, whereas here it does. But note that when L increases the output of both final goods increases, so this is not like the Rybczynski theorem. This is precisely why labor does not have an enemy or a friend in this model.